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Devo 2.0

The Case for Counties

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The views and statements expressed in this publication are those of the authors only.

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As part of this research project, Oxford Economics were commissioned to undertake a study exploring industrial strategy, devolution, economic growth and governance. Analysis contained in this report on county economies and the benefits of fiscal and economic devolution are also included in the recently published Oxford Economics report Understanding County Economies: Analysis to inform the industrial strategy and the devolution debate. The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report, estimates and forecasts in good faith. Any subsequent revision or update of this data will affect the assessments and projections shown. The Understanding County Economies report is available through CCN at http://www.countycouncilsnetwork.org.uk/download/901/.

Separately, further analysis and modelling was undertaken for CCN on the potential additional growth and reform savings from the reinvestment of reorganisation funds. The headline findings from this are included within this report.

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About ResPublica

The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

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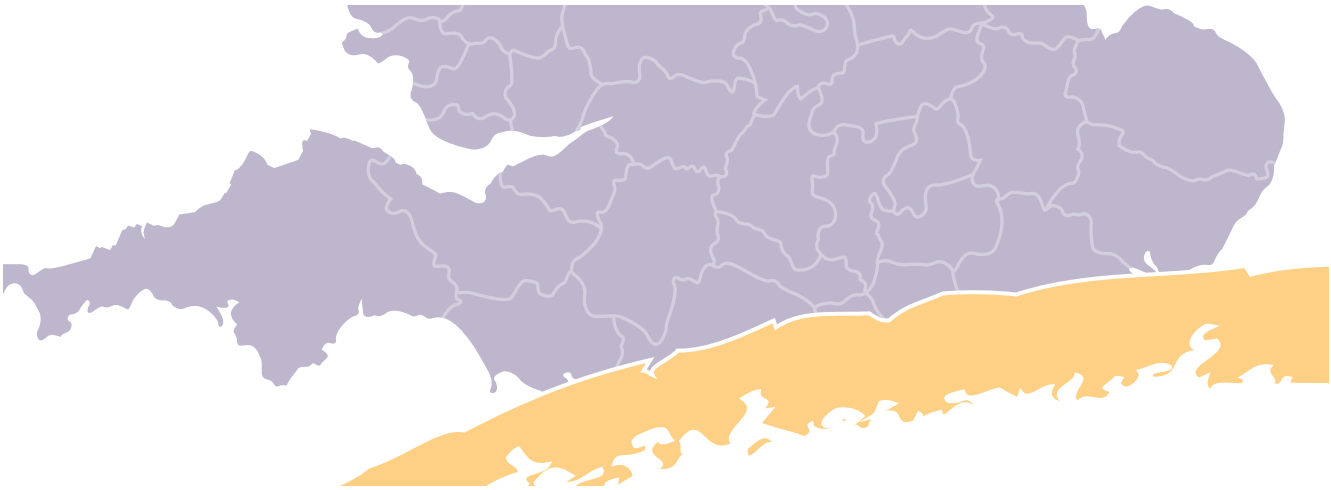


Foreword

Baroness Jane Scott OBE
Reform Spokeswoman for the County Councils Network (CCN) and Leader of Wiltshire County Council

County councils are synonymous with English history. In many cases, their boundaries date back for centuries, steeped in history. With that comes a strong sense of local identity and pride.

But for all that continuity, local government in England has always strived to evolve to ensure it is capable of meeting the needs of the day. That's as true of the counties within those historic boundaries as it is of the cities.

If we look back as to the reasons to instigate change the answer is the recognition that old approaches will not work to fully deal with the difficult problems. And in the present day, there are plenty of difficult decisions that need to be made.

We need to decide how to make local government more effective, more efficient and more accountable at a time when counties face a funding gap of £2.54bn by 2020/21. We need to decide where and how to build the hundreds of thousands of homes this country needs, with the correct infrastructure and economic foundations for a post-Brexit economy. And we need a sustainable social care system to meet the ever-changing needs of our growing elderly population.

A decade ago, I was faced with a host of challenges not too dissimilar to issues of today. The answer, in my mind, was clear; that we needed to radically reform two-tier local government. But I and many others put our political reputations on the line to change in the face of fierce opposition, not least vested local and national interests.

Abolishing the four district councils and the county council in Wiltshire and replacing them with a single county unitary was a huge decision that, with the benefit of hindsight, looks even shrewder.

In Wiltshire, we have saved more than £120 million since 2010. Duplication and bureaucracy has been reduced, the property estate has been rationalised, services and staff levels have been reviewed and reduced, contracts have been renegotiated, and, working closely with 18 local communities we have devolved services, facilities and budgets closer to local residents than was ever the case under a two-tier system.

The decision was the right and only one given the context of the economic downturn, on-coming austerity and the rising demand on services. In fact, all elected councillors and local MPs, would agree that the move to unitary for Wiltshire has been a huge success. But the real winners were our residents, who continued to receive excellent public services.

That's why this report from ResPublica is so important. It shows practical and logical pathways to delivering the powers counties want and need to make a difference during what is a hugely important period for the nation.

The report puts together a truly persuasive case for single county unitary status. As we and several others have shown, it can save a lot of public money, it can bring together disjointed functions such as housing and planning, and most of all, provides the platform to bring better services and more effective decision making.

But it takes the case even further in the context of today, providing a compelling narrative on how reformed governance can be a catalyst to reboot the stalled devolution agenda in county areas, delivering billions in additional growth and public sector savings.

Our residents want powers driven down to their communities so they feel closer to decisions, county leaders want to unleash the potential of their shackled authorities, and the country needs local government to step up to the plate and tackle some of the biggest challenges England faces over the next few years.

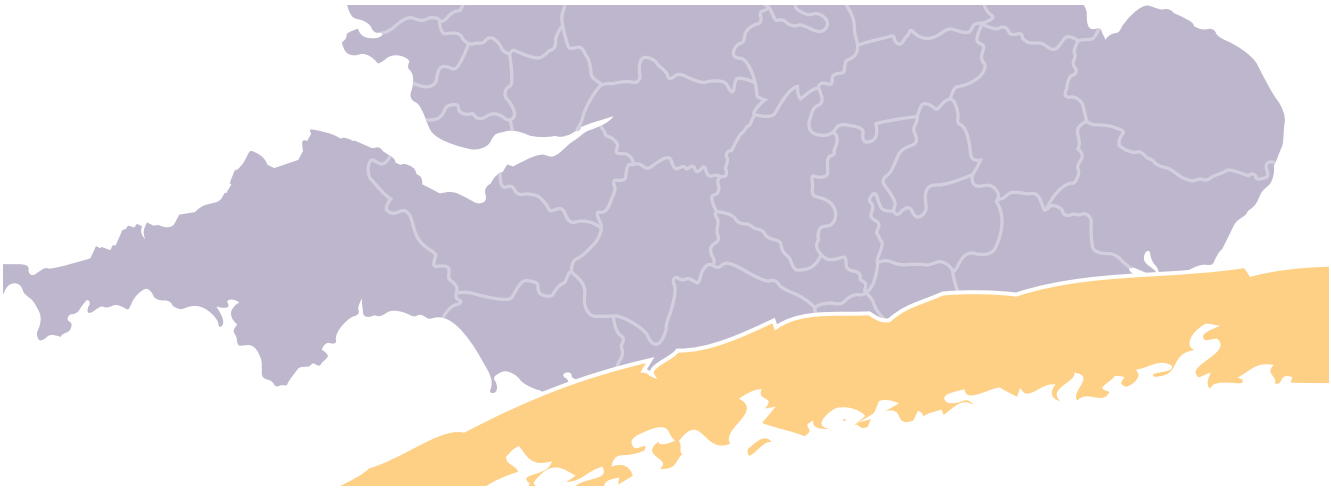
But I know unitary isn't for everyone. This report illustrates how reformed and retained two-tier arrangements could be the driver real change too.

This model, with counties cast in the role of 'strategic authorities', could bring together existing councils to offer some of the benefits of unitarisation and devolution as a viable alternative to existing models; most importantly, building on county geographies and the scale offered by upper-tier counties.

Change should not be for the sake of change. But where something can be done better, more effectively or more efficiently, you need a very good argument to stand in the way.

The report highlights the importance of a 'clear direction' from central government, something that has been lacking from both the reform and devolution agendas. This is crucial, as is the recommendation for government to release a 'menu' of devolved powers depending on devolution bid and council structure. A common devolution framework, building on the findings of this report, is absolutely crucial.

I know first-hand that change can sometimes be difficult. But if they put themselves at the heart of it, the opportunities for counties are limitless.



Executive Summary

"This report looks to offer an alternative. The pathway to reform that we advocate can be the vehicle for transformative devolution to the counties – Devo 2.0"

Introduction

This is a tumultuous time for British politics, national and local. Central Government finds itself struggling to deal with the complexity of the demands placed upon it, hemmed in by limited resources and national difficulties of unprecedented scale. Local government offers an alternative, but is being called on to take up roles unforeseen and unsuited to its current structure and design.

Partly as a consequence, the reform that is essential in facing up to England's economic and political challenges has stalled. Devolution and implementation of local industrial strategies are advancing in city-region areas but have made almost no progress in the counties, hampered by the current governance system.

This report looks to offer an alternative. The pathway to reform that we advocate can be the vehicle for transformative devolution to the counties – Devo 2.0. We argue that existing county council geographies are the essential building blocks. Through them, we can allow for both reformed and retained authorities in the existing two-tier County/District system; and reorganisation in its purest form – single-tier unitary authorities for those areas that want to pursue it. Doing so, we believe, will begin to unlock the devolved powers that counties want and need, including their role in the wider industrial strategy.

If realised, it could help to transform the UK's economy, working in closer partnership with communities, as well as wider towns, cities and metro-areas. This could enable counties to bypass the complexity of current shared functional arrangements between different tiers of local government. Importantly, it could provide greater autonomy and self-determination in the face of a weak Parliamentary government that is preoccupied with the demands of negotiating Brexit.

Background

Debate about the powers and structure of local government has been a continuing feature of British politics spanning several decades. The process of place-based devolution in England, combined with the impact of financial and service pressures on local authorities has renewed these discussions. Plans for unitarisation have been reignited in a number of two-tier county areas, with the additional goal of new powers and financial independence. Questions of geography, structure, population and governance have thus taken centre stage in the discussions about choosing the most effective and sustainable units of local government.

The history of local government in England is one of gradual change and evolution. It

Figure 1. Population, Economy and Employment in the Counties and City Regions

Source: ONS, Oxford Economics *Note: Some counties are part of combined authorities, so figures are not additive.*

is also a story of centrally-imposed dictates, with various institutions created, merged, and abolished over successive waves of reform. Consequently, England remains a complex arrangement of differing models of local governance.

The Government currently has an open invitation for unitary bids, but has stopped short of stipulating clear criteria, leading to jockeying and uncertainty between different levels of government. At the same time, Government has indicated that it intends to continue the process of devolution in England which has sought to rejuvenate local economies, improve the delivery of services and enhance democracy.

Policy context

The Brexit vote has focussed attention on the increasingly divergent nature of the UK's economy. Prosperity is concentrated in the South-East and there is a sense that many parts of the country have become 'left-behind'. At the same time, the UK's productivity gap is very significant, with some county economies more comparable to Eastern Europe than the rest of the country. In 2017, for instance, workers in Surrey produced around 55 per cent more output per hour than their counterparts in Cornwall.[1]

In response, there is a growing consensus among civil society, businesses, universities and the major political parties that a modern industrial strategy is needed to identify gaps, boost the UK's advanced industries, and increase R&D activity. With many businesses operating locally and regionally, local government has a vital role in providing for their needs and creating the physical and social infrastructure to enable and shape growth. Both businesses and citizens are also aware of the need to reduce inequality in skill levels, social outcomes, and employment. Too many areas of the country have skills and social problems that both contribute to, and are caused by, poor local economies.

With central Government occupied with Brexit negotiations, local government faces the challenge and opportunity of leading change on the major issues affecting its territories. The devolution agenda has provided a partial answer, with recognition that unlocking growth will require a greater role for the state at the local level in areas such as transport and infrastructure investment. However, this agenda has to date focussed disproportionately on urban economies. Only two counties have been able to agree deals to receive additional powers.

Councils are already moving of their own accord towards being much more active agents in place-making, driving local economies and tackling their social issues.

Local government's ability to act is hindered, however, by a severe resource crisis as a result of austerity budgets – with a 37 per cent spend reduction between 2010 and 2015.[2] In the face of failing national solutions, local government is therefore fighting on two fronts, attempting more ambitious change than ever before with much fewer resources.

The current system appears to be unable to deliver the transformative change needed and probably never will. The incentives within it lead to diverging, not converging, interests. A new model of local government is needed that enables both bringing together strategic decision-making functions and leadership across a county area, and a route towards a new devolved settlement that extends beyond the cities.

Looking at the English counties

There are at present 37 county councils in England, 27 of which are part of a two-tier system. The remainder are unitary (single-tier) authorities. Together, they account for 44 per cent of jobs and 41 per cent of Gross Value Added (GVA) in England. They are a net contributor to the public purse, producing a surplus of £54bn – 30 per cent more than they receive in spending.[3]

Perhaps surprisingly, all but one of the counties do not count as 'rural' in nature under EU and OECD classifications[4]. They fall instead under 'urban' or 'intermediate' categories, due to their polycentric makeup with a number of large towns. The county authorities are diverse in nature, varying greatly in size, both by population - from 156,000 to 1.5m,[5] and by land mass, as well as by their economic and social characteristics. See figure 1.

The industrial composition of the county economies also varies, some hosting just 6 per cent manufacturing industry and others up to 30 per cent.[6] In general, they lack jobs in the higher value-added sectors, which explains their lower productivity growth than the England average (0.3 per cent to 0.5 per cent).[7] The employment rate is in line with the England average, and is 3 per cent above the metro-region average.[8] However, the number of high skill-level workers (NVQ4+) also varies widely, from 51 per cent to 28 per cent[9]. Counties face serious inclusion problems, with average house prices nine times higher than UK average earnings. This is higher than both England, at eight times, and the metro-regions, at six times.[10]

Key findings

Advancing the devolution agenda beyond the cities must be the next priority for Government. It could create both direct and indirect gains to economic growth, maximising the potential of local industrial strategies and public service transformation. Unlocking devolution, however, will require embracing reform of local government in the counties as it currently stands.

Financial imperative

The urgency of the issue is driven by an expected local government funding gap of £5.8bn by 2019/20.[11] At the same time, councils are moving towards retaining all business rates receipts. Resolving the funding gap will require using this increased local discretion to address the root causes of expenditure. In a world of greater exposure to tax risk, local government needs control over the connected policy levers in order to form a coherent strategy.

Previous arguments for changes to local government have largely focussed on the financial benefits derived from greater economies of scale, where larger authorities can demonstrate a good record of achievement. Of the different types of reorganisation available, county-scale single unitaries offer the highest savings, and avoids cost and disruption from fragmentation.

However, the real benefits from reforming governance in the manner we suggest are in the economic and service outcomes for citizens. At-scale authorities can adapt to changing conditions, act enterprisingly to invest and use assets creatively, and try new methods of delivery.

Creating growth

Economically, counties reflect England's regional divergence, with a wide range of outcomes, driven by their widely differing productivity. International evidence suggests less fragmented governance is better at creating growth.[12] This is visible in practice in the current operation of the two-tier division of powers in the counties. Many sub-optimal outcomes are currently being created, particularly in housing, planning, and development policy, due to responsibility being split between different layers of government. Difficulty in supporting growth due to the small scale of some authorities has also been a barrier.

Future growth in the UK will depend on the extent to which areas can respond to Brexit, tackle fragmented governance, invest effectively at scale, make the most of devolved powers, and have the capacity to develop a modern industrial strategy. Other countries have been able to 'catch up' their laggard regions, using decentralisation accompanied by comprehensive regional policies, but the UK now lacks either a European or a domestic over-arching regional policy. Looking forward, the county scale offers the most capable bodies to meet these challenges.

Sustainable public services

In terms of public services, the counties pay their way, generating 30 per cent more revenue than the public sector spends overall in their areas, although with significant variation.[13] With both efficiency and responsiveness important, making room for diversity and experimentation in their approaches is key. Public services suffer from an excessively siloed and reactive focus, preventing integration and continuity while often promoting wasteful duplication. Fragmentation of public services is already pronounced in some areas where multiple service delivery bodies overlap across multiple council borders. Any future reform that divided up existing service units would exacerbate the problem. This is particularly the case in social care, where the diversity of a large commissioning authority is needed to maintain specialist units.

Figure 2. Reform Savings and the Economic Gain from Reinvestment

Source: EY, Oxford Economics

In housing, the two-tier system leads to houses in the wrong place to access services, and councils attempting to prove that they need to build less houses than their populations demand. As a result, only 30 per cent of two-tier areas are delivering houses to meet at least 95 per cent of new population growth, compared to the 60 per cent of unitary counties are successfully doing so.[14]

Strengthening and unifying county local government, through either unitary status or a retained and reformed two-tier arrangement, could enable it to serve as a vehicle to extend devolved public services powers from central Government akin to city regions. Using devolved powers for a more localised, integrated approach to public services could result in savings of £6.2bn to £11.7bn per year across all the counties.[15] See figure 2.

These savings, both from the integration of public services, and from devolving to and reorganising two-tier authorities, can be reinvested in projects to grow the local economy. Approximately £5.8bn would be available to invest from savings from devolution and integration of public services, resulting in an increase in GVA of £26.3bn over approximately 5 years. Additionally, if local areas also took the opportunity to reorganise local structures, an additional £1bn over five years would be available from the efficiency of reorganising to unitary counties, which if invested locally could raise overall GVA in the counties by a further £4.8bn.[16]

Reforming governance

Realising these benefits will depend on a new approach to governance, that learns from past experiences. It is not clear there is a 'ceiling' to council size for good governance, but there is evidence that a population floor of around 300,000 or less is undesirable. Below this, diseconomies of scale occur and the functional capability of strategic decision-making in economic development and wider public service reform are reduced.

Regional partnerships are a possible solution, but overlapping structures have created wasteful political tension and uncertainty as lower-tier authorities 'shop around' for different options. Partly as a result, the current system is poor at providing an equal partner to Westminster or businesses – a partner that can co-create national policies and growth with real input.

Popular support is also vital. Given the emergence of Metro-mayors, the relational benefits of directly-elected County leaders should be very carefully considered. The comparative evidence from other nations indicates that directly-elected leaders can make a functional difference in highly rural communities, and they offer a profile,

influence, and mandate that indirect election does not. Popular support is also linked to the identity and history of a place, where recent (19th Century onwards) local government units have often been arbitrary and frequently changed. Simplifying the current system would provide the opportunity for genuine 'localism', transferring decisions down to community areas and parish and town councils.

The way ahead – guiding principles

Current models for devolution in the county areas have proven difficult to implement to date. Some proposals have sought to leave the existing two-tier structure as-is and simply add another element – usually a Combined Authority. However, the additional complexity has meant local partners have not been able to agree. Emerging proposals for 'District Clusters' have a similar problem - adding complexity to the existing arrangements without the benefits of scale. Past initiatives such as the 2006 Pathfinders attempted to replicate the advantages of unitarisation by partnership working, but required significant resource commitment with relatively small gains. On the whole, attempts to provide outcomes through upper and lower tier partnerships have not delivered because of insufficient incentive for the significant input required.

In deciding between different propositions to alter local government structures and devolve additional powers we identify five key principles that Government should consider:

- Strategic consolidation - Reorganisation should look to consolidate, rather than break up, strategic level authorities
- Industrial policy/planning potential - Embed commercial and innovation capacity
- Coterminous bodies - Aligning/nesting public service boundaries within each other
- Accountable leadership - Making leaders more visible, closer to voters, able to deliver
- Popular legitimacy/inclusivity - Appeal to civic identity, build trust with citizens.

Government needs to set a clear direction and indication that it wants reform, and prefers county-scale, strategic-level authorities. But it must remain flexible about how this is implemented in each area. The 'devolution deal' process should be built on, retaining the opportunity for the fastest movers to go first, and keeping experimentation with learning through peer networks. However, a 'menu' of possible powers for reformed authorities, (which already de facto exists inside Government) should be published, alongside the 'common framework' for devolution promised in the 2017 Conservative Manifesto. A degree of asymmetry should be accepted between county and city-region areas as Combined Authorities between neighbouring counties are not necessarily the answer when individual counties already have coherent geographies at scale, covering significant territory.

The proposition – a flexible pathway to reform

No change is not an option. New forms of local government are required to resolve the stasis in the existing system. But the precise form of change need not be prescribed by central government. Local government must own and shape this agenda.
We propose a pathway to reform that allows for different models of sub-national government, and which can provide the platform for the devolution of new powers. The flexibility of this pathway permits the accommodation of both reformed and retained existing two-tier authorities as well as new unitary authorities.

Alongside the option for unitary counties, we propose what we term a 'Strategic Authority', to allow counties and districts to jointly exercise strategic functions. Based on existing county council geographies and led by the upper-tier county council, this would absorb the strategic decision-making functions of the current two-tier system, specifically those relating to: Economic Development; Planning; Housing; Council Tax and Business Rates. With either option, other powers and assets should be delegated downwards, where appropriate, to parish and local town councils.

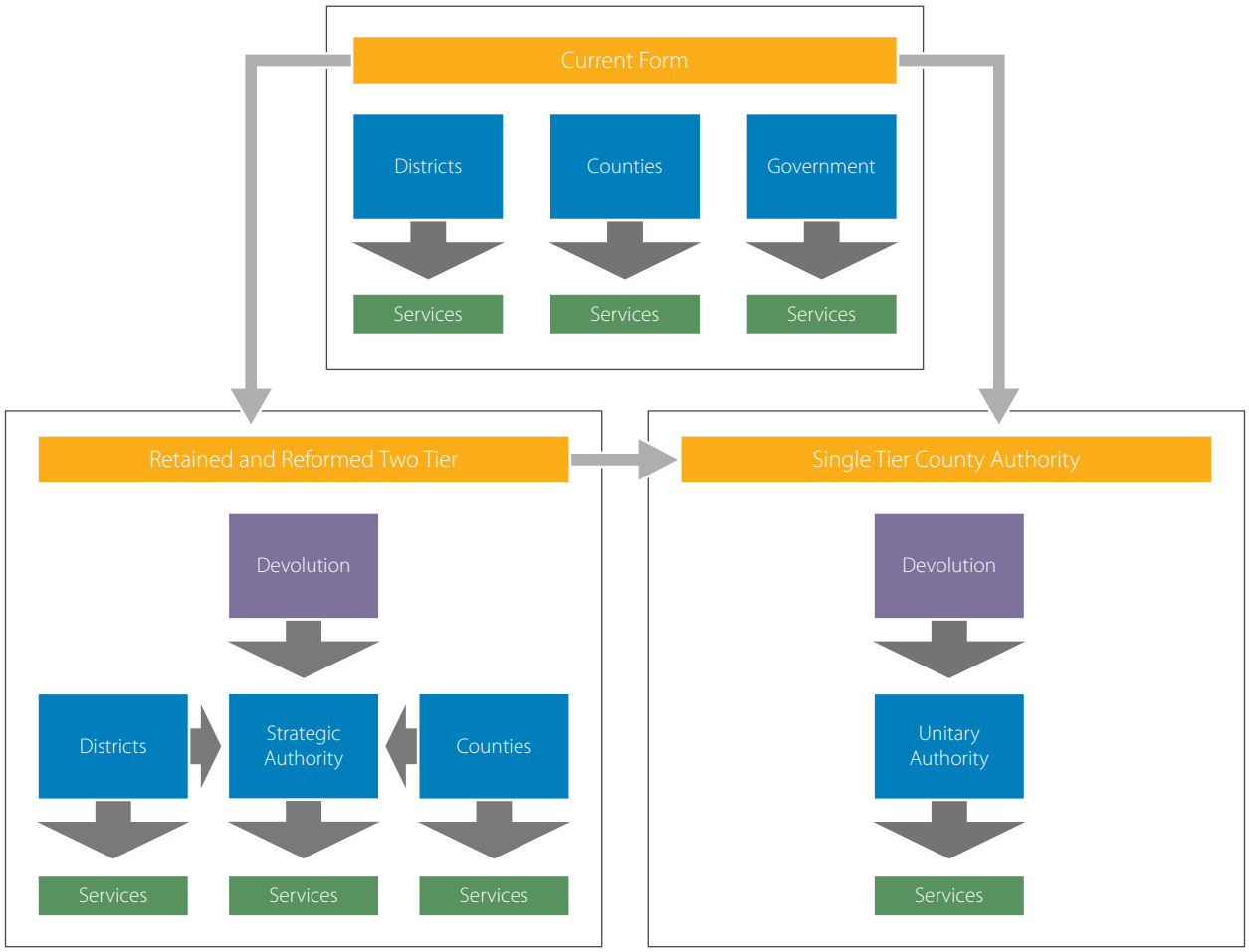
Arrangements for a new 'Strategic Authority' would be voluntary where possible, with a gradual transition towards greater integration of district and county functions. This would enable a variety of legal statuses to achieve the same thing - either non-statutory partnerships, strengthened county/district 'federations', combined or unitary authorities. The new 'Strategic Authority' would not, therefore, be a 'third tier' of local government.

Powers would be explicitly promised by Government to councils who became unitary or adopted Strategic Authority features, providing a real incentive for reform. As they evolve, over time these entities would accrue more powers from central Government. Eventually, this could provide a smooth transition into full unitary status, with powers equivalent to those available to Metropolitan Combined Authorities, including skills and transport. In recognising the different needs of larger settlements that lie within counties, these could receive special delegated powers, while the county continues to operate other strategic functions on its behalf.

To achieve this proposal Government is required to take the following actions:

- Provide a clear indication of direction for reform
- Allow for greater flexibility in providing new and transitional models for local government, including single Strategic Authorities
- Set a new framework and 'menu' for reorganisation and devolution to local government with clear incentives and 'rewards' for reform
- Compel reorganisation where local stakeholders are uncooperative
- Invest in growth through reform
- Align public service bodies to form contiguous boundaries to simplify joint working and ensure these are updated over time in future boundary changes.

Figure 3. A Pathway to Reform



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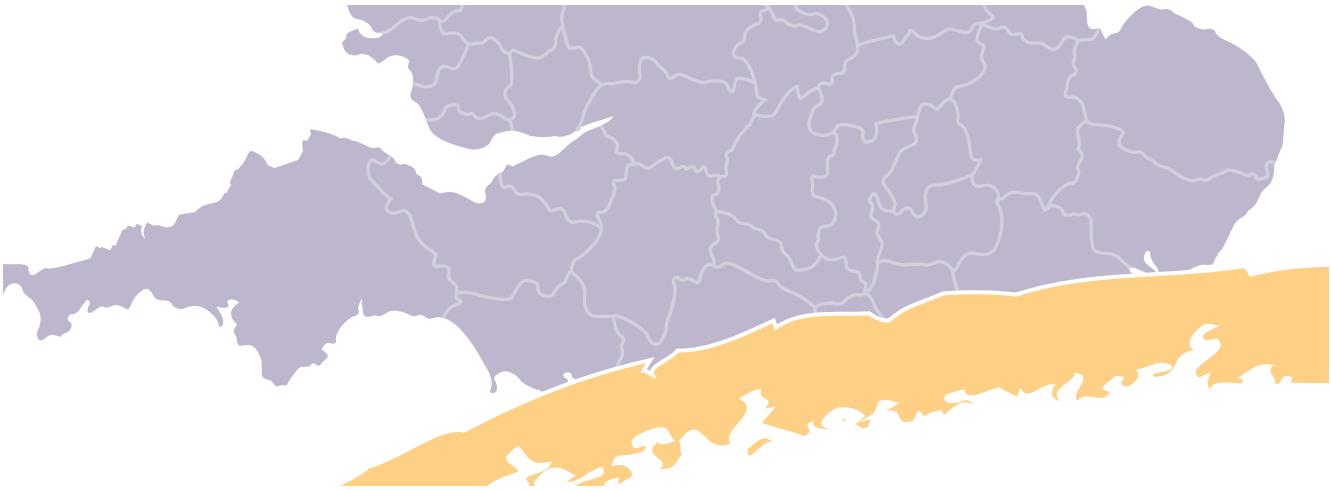

1. Introduction

"Accepting the cost of problems with the current system is no longer an option. Inaction could see the withdrawal of frontline services, failure to deliver more homes and opportunities for business growth and job creation lost"

1.1 Uncertain times

The unexpected outcome of the 2017 General Election signalled a new chapter of political and economic uncertainty in the UK. The subsequent Queen's Speech set out a legislative agenda narrowly focused on Brexit and revealed a stripped-down programme for government, which wholly ignored dealing with the consequences of austerity and the challenges facing public services.

With a minority Government and divisions among both main parties over Brexit, uncertainty is likely to persist. But this does not mean business as usual. Since the Brexit vote, political debate has increasingly centred on fundamental questions about the fairness and effectiveness of Britain's economic and social model.

Among the many challenges facing Government are the questions of: how to rebalance the economy so that all parts of the country share in the benefits of economic growth; how to boost productivity with a modern industrial strategy; how to invest in public services in the face of growing demand; how to develop great places in deprived areas and harness local initiative; and how to do all this in the context of spending restraints, while achieving a lasting settlement.

Local government is playing an increasingly important role in resolving these issues by creating new visions for the future, designing effective institutions for growth, and tackling long-running social problems. In the cities, a new place-based settlement is emerging with new governance structures. In the county areas, however, the devolution project has stalled. Here, there are increasing concerns that the two-tier system of local government presents a structural barrier to both dealing with the political and financial demands placed upon it and maximising the opportunities from devolution.

1.2 An appetite for change

Following the 2017 local elections, which strengthened the political control of the Conservative party in the counties, there was potential for an emboldened local leadership with appetite to tackle the policy and funding priorities facing the sector. The hung parliament following the snap 2017 General Election put paid to that, with widespread speculation amongst local government commentators that both devolution and reform in county areas would be side-tracked.

By the summer of 2017, there were already signs of delay in the local government

reform agenda, with the government legislation for 100 per cent business rates retention dropped from the calendar. Reports suggested that England-wide introduction, planned for April 2019, had been 'suspended indefinitely'.[17] But this agenda cannot wait. Accepting the cost of problems with the current system is no longer an option. Inaction could see the withdrawal of frontline services, failure to deliver more homes and opportunities for business growth and job creation lost.

Many stakeholders, from the private sector to civil society, are calling for a better form and scale for local government. But despite the recognised problems with the current system, local government reform is not an immediate priority for Government. This means that local government must look to itself for the will and drive to change. Our report therefore aims to speak not just to Central Government, but to Councillors and Members of Parliament across all parties. Its recommendations are non-partisan and do not assume any political agenda, other than securing the best economic and service outcomes for people in the places where they live.

1.3 A way ahead

In these chapters, we identify the economic and institutional challenges facing local government in the county areas. We argue for integration of two-tier government at the county level. To smooth the path to reform, we propose a new institutional arrangement which we call a 'strategic authority'. This type of authority, we contest, can harness the capability of a single, well-resourced organisation while allowing existing structures to retain and advance local input into service priorities and delivery, evolving over time into a single tier.

Our approach starts with an analysis of the current two-tier system. It considers how it is currently performing, and which aspects can and should be improved, while recognising that radical change is not desired by all. This report sets forth in its recommendations a flexible path to reform which counties can adopt.

This, we hope, will move beyond the destabilising competition in local government and deliver a new institutional model. If realised, it could help to transform the UK's local economies, working in closer partnership with their communities, as well as wider towns, cities and metro-areas.

It would enable counties to speed up the decision-making process and bypass the relational complexity of shared functional arrangements, between different tiers of local government. Finally, it would provide greater autonomy and self-determination in the face of a minority Government inherently limited by it's 'confidence and supply' agreement and occupied with the demands of negotiating a successful Brexit.

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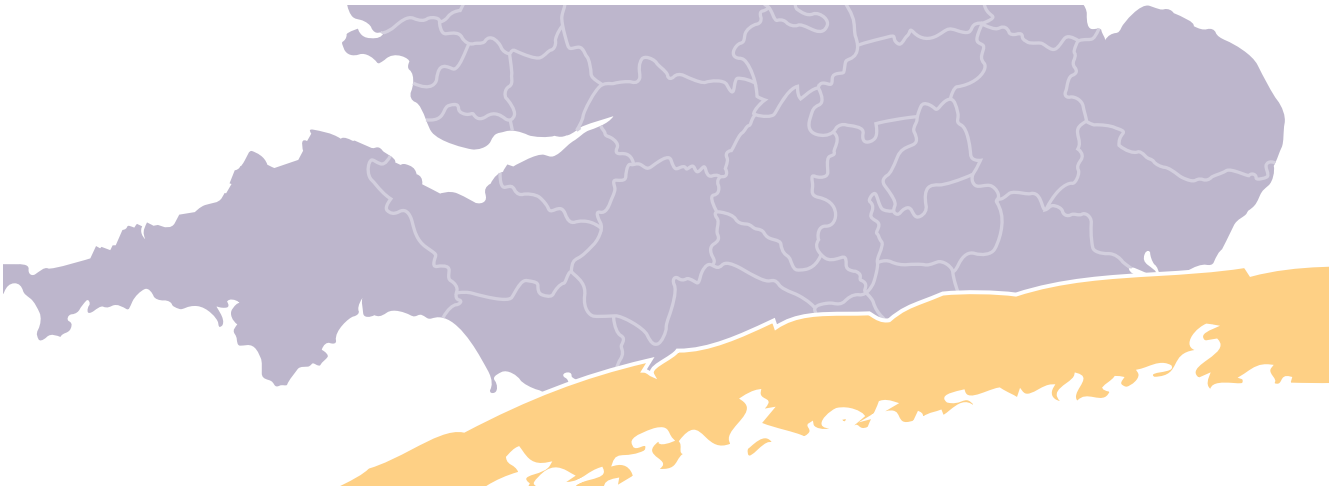


2. About England's Counties

"County councils collectively run a fiscal surplus of £54bn generating 30 per cent more tax revenues than they receive in public expenditure"

Understanding county councils, their geography, diversity and scale is instrumental in assessing the very different challenges they face as well as the governance and institutional arrangements they need.

2.1 Geographies

There are 37 county authorities in England, 27 of which are currently part of a two-tier system. The remainder are unitary authorities. These county authorities vary greatly in size (by population and land mass) as well as by economic and social characteristics. The administrative boundaries of county councils account for the vast majority of England's total land mass.[18] See figure 4.

County councils vary in terms of their urban and rural mix which has implications for their growth, connectivity and sense of place. They also vary greatly in terms of their geographical scale, which has implications for how counties function as coherent economic geographies and how public services are delivered. While counties are perceived to be predominantly rural,[19] according to Eurostat only Herefordshire amongst all English county council areas is defined as mainly rural in terms of population. The remainder are classified as either urban or partly urban.[20]

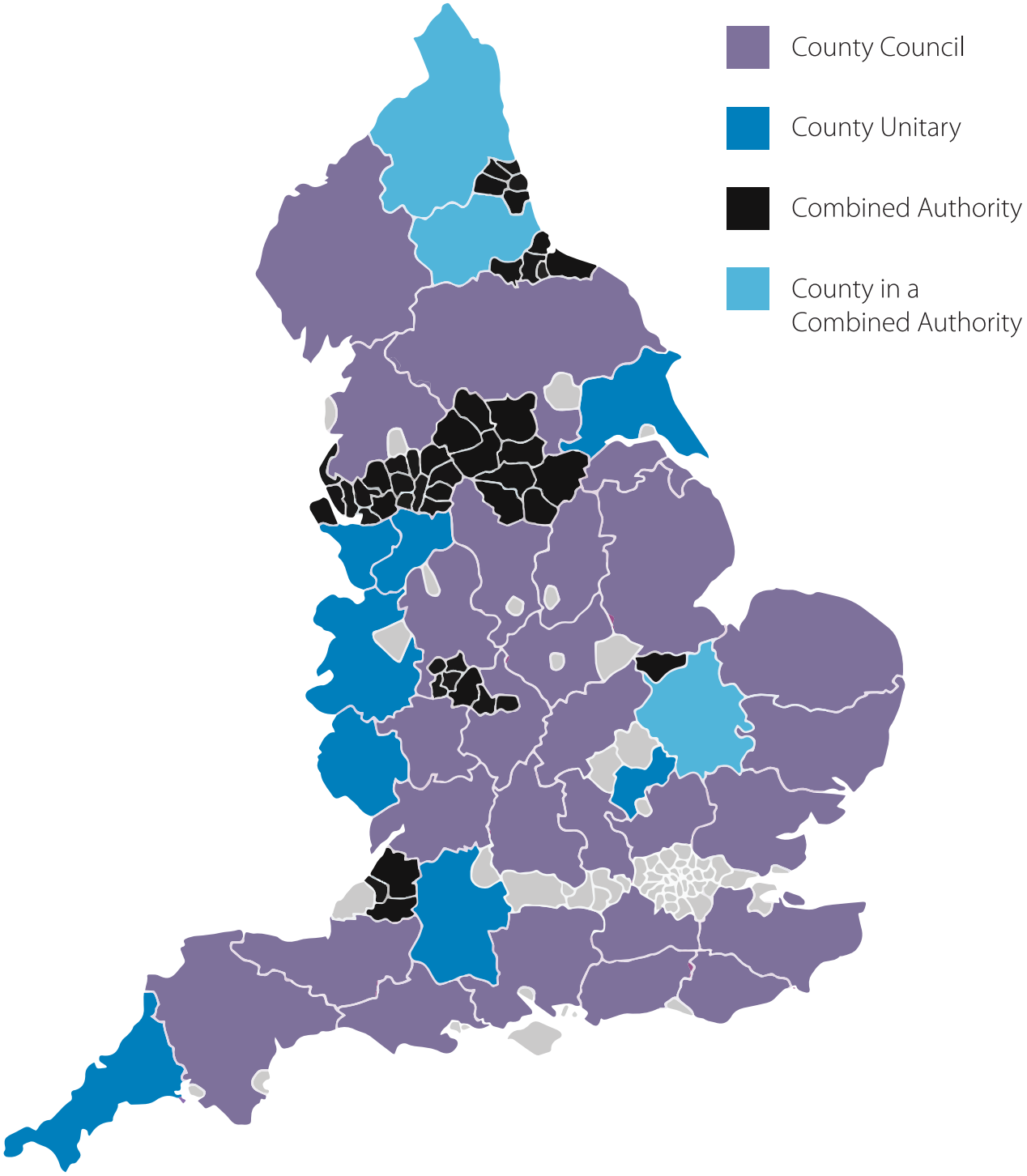
This is partly accounted for by the effects of urban sprawl of cities and their wider conurbations as they spill-over into adjoining county authorities. It is also due to the high average density of England, with a polycentric landscape of many towns, cities and expanding urban settlements that exist within the counties. The urban population in England and the rest or the UK is increasing in line with global trends, and this includes the urban population in counties.

2.2 Demography

The total population of all the English county councils is estimated to be approximately 26 million. This is almost half the population of England (47 per cent) a proportion that has risen consistently throughout the past decade. There is, however, significant variance in population between counties in terms of:

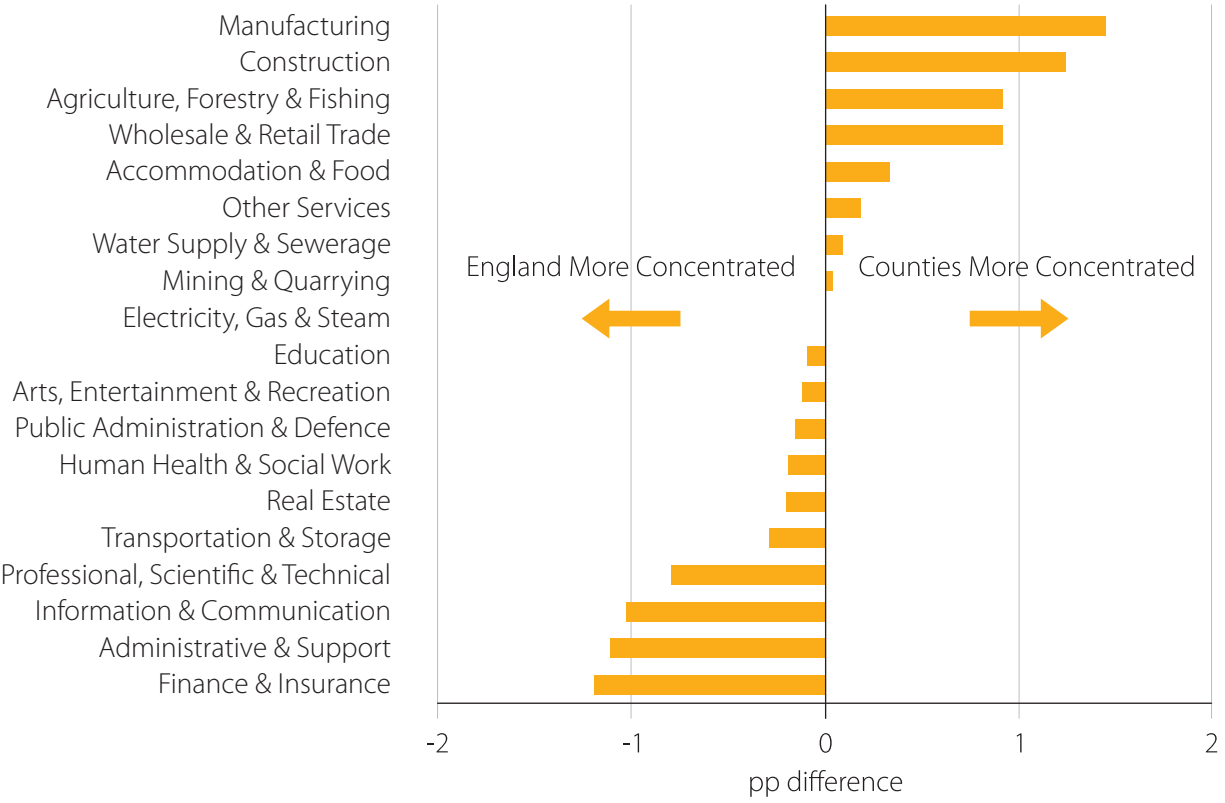
- **Size:** The largest county is Kent with a population of 1.5m compared to Herefordshire with a population of 189,300.
- **Growth:** Since 2007 only 13 of the county authorities are growing above the national average, with Central Bedfordshire recording the fastest rate of growth (1.2 per cent) and Cumbria the only authority where the population

Figure 4. The County areas in England



Source: CCN

Figure 5. Concentration of Employment by Sector



Source: ONS, Oxford Economics

fell, (by 0.04 per cent). Population growth is forecast across the counties by an average of 0.5 per cent per year over the decade to 2027, equating to around 1.4 million additional people.

- **Age structure:** The working age population (16-64) is growing at a much slower rate (0.16 per cent per year) than the total county population, of which 41 per cent of residents are aged over 50 compared to 36 per cent across England.

The population profile in counties has significant implications for the sustainability of local government in terms of economic activity, the supply of labour and the tax base, as well as spending patterns and levels of dependency on public services not least in relation to social care and the challenges which a steadily ageing population presents.

2.3 Economy

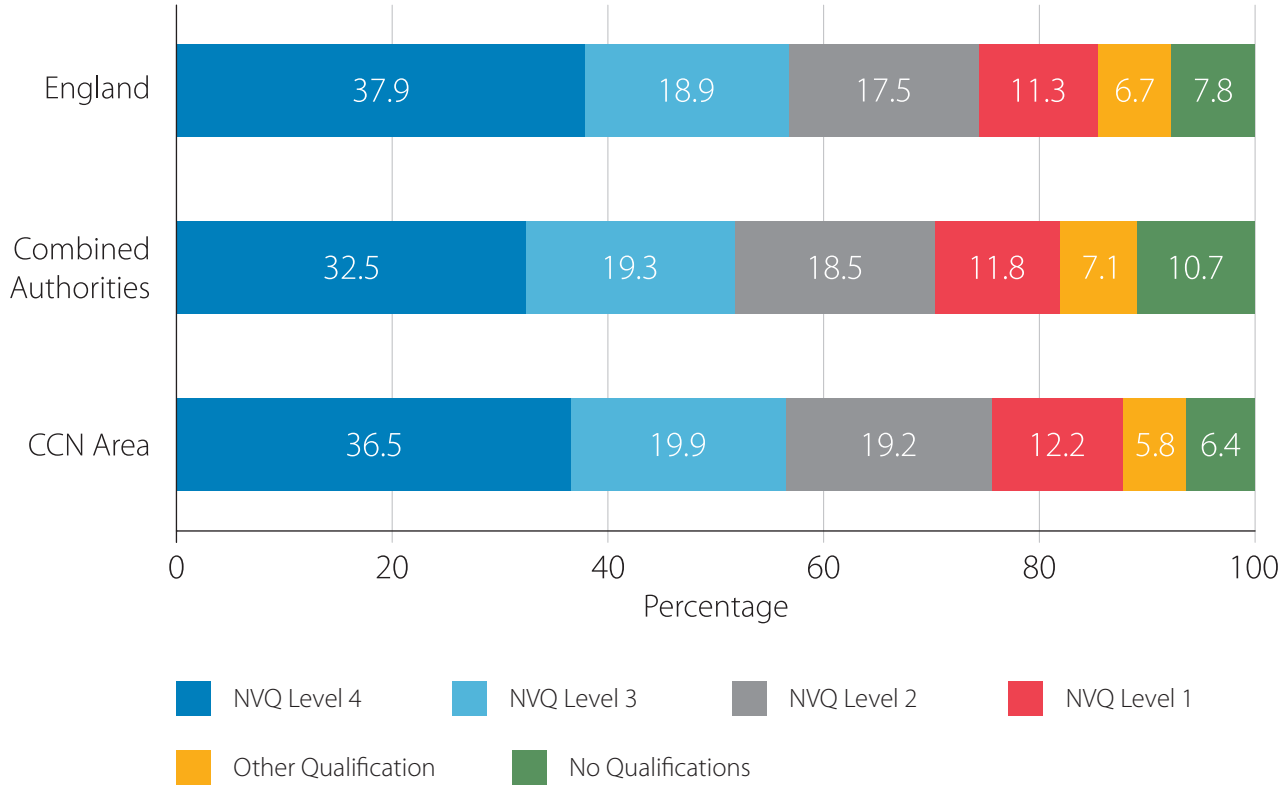
Overall, county economies differ from England and the UK as a whole. Purely rural economies do tend to be less productive and have lower levels of GDP per head of population than urban areas, but this is not necessarily the case amongst English county councils. A number of county areas have higher productivity levels than the national average and although counties as a whole perform below the English average they are still nonetheless outperforming the metro-areas. See Appendix 1 for a summary table of county economies.

Business structure, growth and productivity

The main difference between the counties and England as a whole can largely be accounted for by the effect of the financial sector and associated business services. These industries are clustered in London and under-represented in the counties which have a higher concentration of employment and GVA in manufacturing, construction, agriculture, wholesale and retail sectors than is found across metro-regions and England as a whole. See figure 5.

However, there are marked variations between counties. The manufacturing sector contributes just under six per cent of GVA to the economy in Buckinghamshire, and 30 per cent in Cheshire East (with strong automotive, biotechnology and pharmaceutical sectors). Cumbria, Cheshire West and Chester, and Derbyshire also have manufacturing shares above 20 per cent of their total GVA. Conversely, there are counties such as Buckinghamshire, Cambridgeshire, Hampshire, Hertfordshire,

Figure 6. Qualification Levels, 2016



Source: ONS, Oxford Economics

Oxfordshire and Surrey that specialise in certain sectors like professional services and information communication which account for around 20 per cent of total GVA— significantly higher than both metro-regions and England averages.

Overall the counties account for 41 per cent of total GVA, and 40 per cent of all exports in England (compared to 20 per cent of total exports from metro-regions). However, the counties have lower productivity growth (0.3 per cent) compared to the England average (0.5 per cent). This productivity gap, as well as the gap between counties, can be explained in terms of the composition of county economies, with lower employment levels in sectors with the highest productivity, and over-representation in some of the lower value-added sectors, such as agriculture. The gap between counties has not narrowed in recent years. In 2017, workers in Surrey produced around 55 per cent more output than their counterparts in Cornwall.[21]

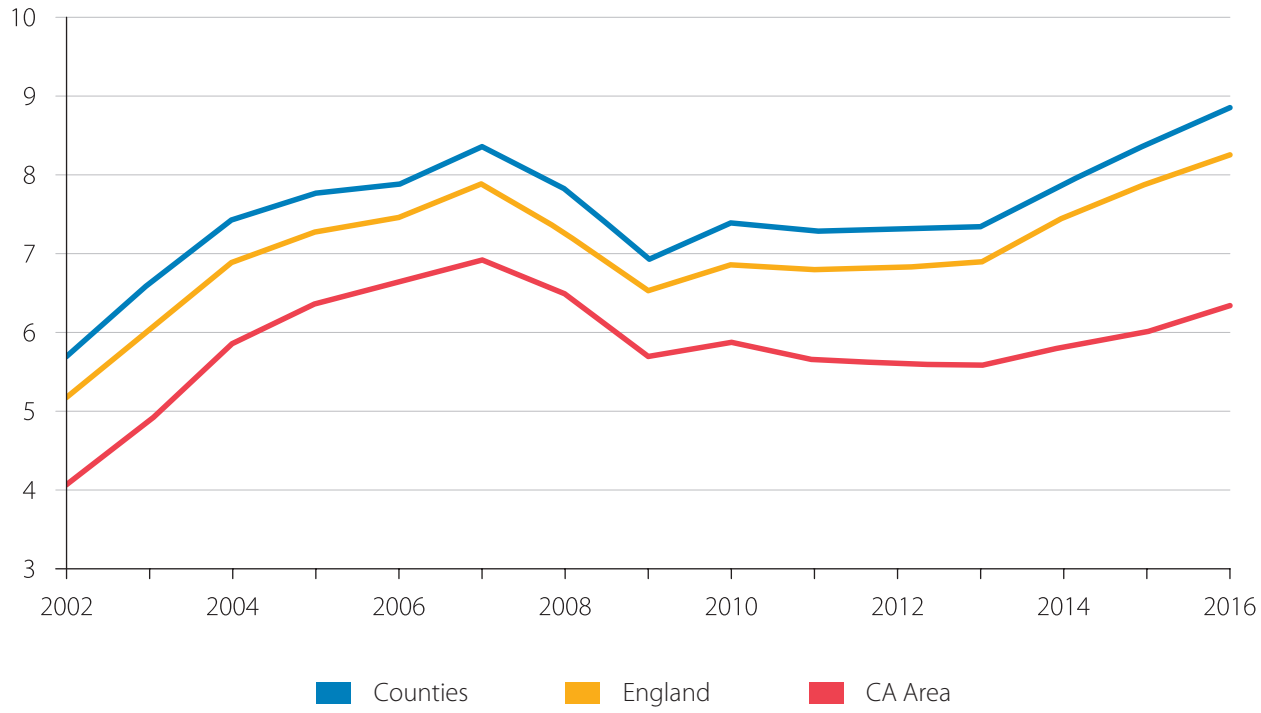
In terms of business performance, the number of active VAT/PAYE registered businesses in the counties (1.1million as of 2015) has increased sharply in recent years – by 8.8 per cent since 2012. However, levels of entrepreneurial activity, measured in terms of new business start-ups, although in line with new business formation in the metro-regions are lower than the national average.[22] This is a key factor underpinning the low levels of active businesses in the counties and a reason for economic development to attract both inward investment and indigenous business growth.

Employment, income and skills

The labour market in the counties has proved to be more resilient than England as a whole with almost one million jobs created since 2007. The counties currently account for 44 per cent of total employment in England, equivalent to just over 13 million jobs. Oxfordshire has enjoyed the fastest rate of job creation over the past decade, with an increase of 65,000 jobs (1.6 per cent per year) while Hertfordshire and Buckinghamshire also saw substantial employment growth over this period. Northumberland and Durham are the only county council areas where employment levels are currently a little below those recorded a decade ago.

The employment rate for the counties (61 per cent) is broadly in line with the English

Figure 7. House Price to Annual Earnings Ratio, 2002-2016



Source: ONS, Oxford Economics

average, and despite a proportionally smaller working age population, 3 percentage points above the average for the metro-regions. The variation in employment between the counties is, however, stark. Central Bedfordshire has the highest employment rate at 68 per cent, closely followed by other Southern counties. In contrast, Norfolk and Durham have the lowest employment rates (56 per cent) in part reflecting their older demographic profile, but also lower skills profile and lower job density.

Despite a relatively high level of employment across all counties, earnings growth has been weaker compared with England and the metro-regions. This relates to the distribution of lower value industries and occupations within county economies, a position which is maintained despite a skills profile which is in line with the national average and higher skilled than metro-regions. Across the counties 37 per cent of the working-age population are qualified to NVQ level 4, compared with 38 per cent nationally and 32 per cent in the metro-regions. See figure 6.

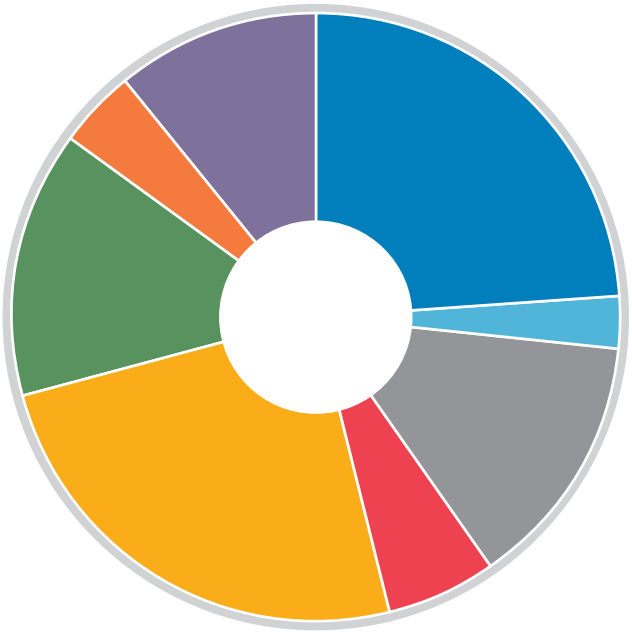
Again, there are marked differences between counties, with the highest skilled populations in Buckinghamshire (48 per cent), Cambridgeshire (44 per cent), Oxfordshire (51 per cent) and Surrey (48 per cent). In 18 counties the proportion of the population with higher skills is lower than the national average, including Lincolnshire 28 per cent; Durham 30 per cent; and Suffolk 31 per cent.

Affordability and inclusion

Affordability issues in relation to housing costs (both private sector renting and home-ownership) are particularly pronounced in the counties. This is visible in the graph below. The ratio of house prices to earnings has been growing since 2013 and is now almost nine times the average UK annual earnings. This is higher than England, at eight times, and the metro-regions, at six times. Issues relating to over-demand and housing supply are placing particular pressure on prices. See figure 7.

Within the affordability issue, there is a clear divide between prices in the South of England and other counties. This 'south-other' divide is mirrored across a broad range of indicators for economic deprivation and equality including income and employment rates; education, skills and training attainment; health and disability; crime; barriers to housing and services; and quality of life.

Figure 8. Public Spending in the Counties by Services



Source: ONS, Oxford Economics, UK Government

2.4 Public Sector Expenditure

The distribution of tax revenues and public spending across all county councils has been estimated by Oxford Economics.[23] This study found that in 2015/16 total public expenditure across all county councils was approximately £201bn, accounting for 44 per cent of all public spending in England.

Local government, with a total spend of £38bn in 2015/16, represents less than one-fifth of this sum. The other four-fifths, of approximately £163bn, come from central Government. This gives an indication of the amount of public services within counties that are not controlled locally. It also points to the scale of efficiencies and potential savings that could be realised if place-based integration and reform could be achieved.

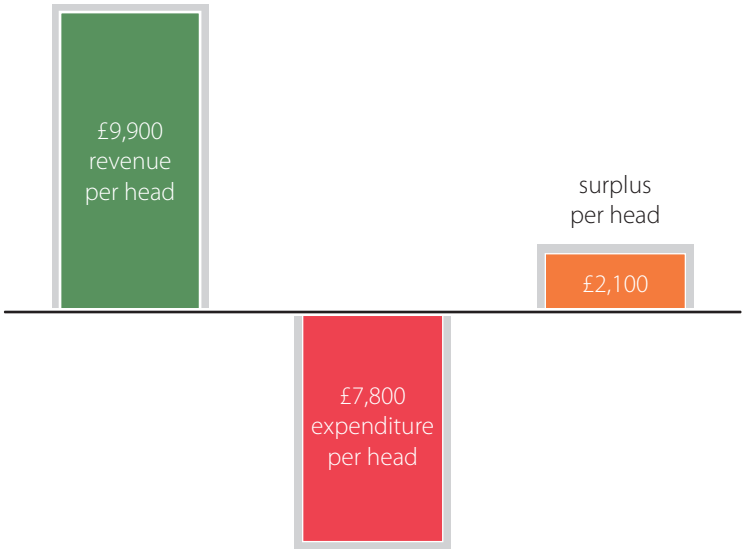
On a per capita basis, the average public expenditure in counties is below the national average and considerably below that of city and metropolitan areas. Total public expenditure per person in the counties was £7,800 in 2015/16, over 6 per cent lower than the England average of £8,310. This difference is indicative of the overall prosperity of county councils, which collectively run a fiscal surplus of £54bn generating 30 per cent more tax revenues than they receive in public expenditure.[24] See figure 9.

But while the large majority of county councils have lower levels of spending than the national average, there are some significant differences between counties. Spending per head is lowest in Oxfordshire at just £7,115, almost 15 per cent below the national average; and highest in Northumberland at £8,970 where it is 8 per cent above the national average.

Public services face different challenges in the counties, primarily due the problems of an ageing and more geographically dispersed population. However, in line with the national average, welfare and health represent by far the largest components of public expenditure in the counties. Social protection accounts for £93bn or 46 per cent of total spend, of which pensions represent more than half, with the remaining allocated between welfare benefits, social care and family credits. As a whole, pensions represent a higher proportion of total social protection expenditure in the counties compared to England as a whole, with welfare, social care and family credits providing a relatively smaller share.

Health is the next largest function of spending. With £50bn spent in the counties, it represents just under a quarter of all public expenditure, broadly in line with

Figure 9. Tax, Spend and Surplus in the Counties.



Source: Oxford Economics

the national share. Education accounts for a slightly lower share of total spending compared to the national average with £28.6bn allocated across all areas, representing approximately 15 per cent of all expenditure. See figure 8.

In looking to improve the economic and social situation of the county areas, successive governments have sought at different times to act centrally or devolve powers to local authorities. In the next chapter, the success and failures of these attempts at reform to date are analysed.

18 UK National Ecosystem Assessment, 2011

19 There is no internationally agreed method for defining the urban-rural typology. Different international organisation such as the OECD; The World Bank, The United Nations Department of Economic Affairs; and Eurostat use different methods for calculating rural and urban populations. The urban-rural typology used by Eurostat, for comparison across Europe, is based on a classification of grid cells of 1 km^2 as either urban or rural. To be considered as urban, grid cells should fulfil two conditions: a population density of at least 300 inhabitants per km^2 and a minimum population of 5000 inhabitants in contiguous cells above the density threshold. The other cells are considered as rural.

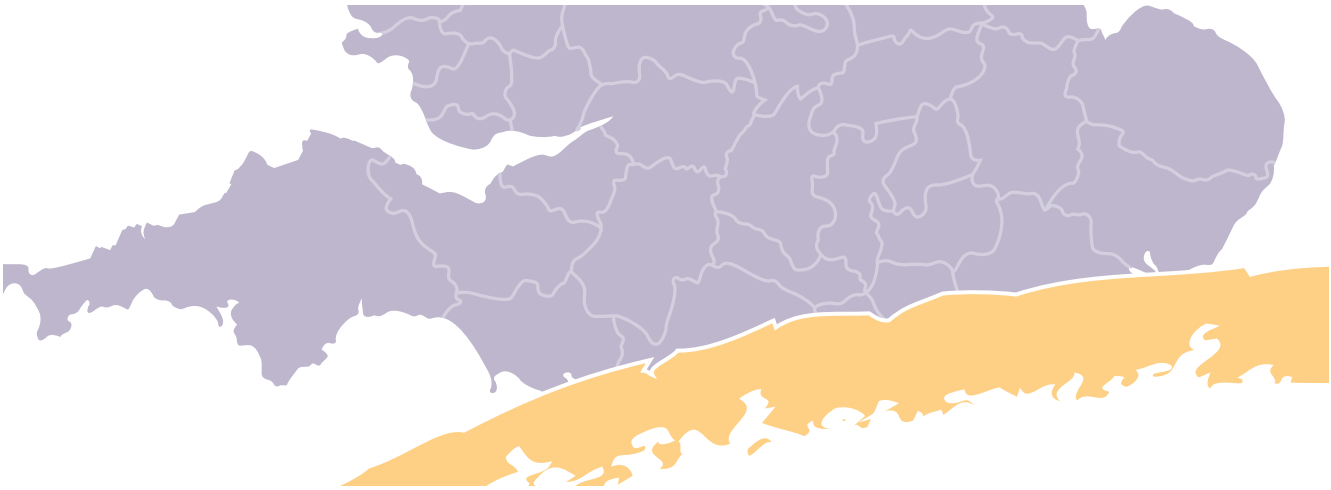
20 Eurostat have aligned the English counties with NUTS 3 classifications which identifies 3 groups: Predominantly urban regions/urban regions, where the rural population is less than 20 per cent of the total population; Intermediate regions, where the rural population is between 20 and 50 per cent of the total population; Predominantly rural regions/rural regions, where the rural population is 50 per cent or more of the total population.

21 P 9, Understanding County Economies: Oxford Economics, 2017 for County Councils Network (http://www.countycouncilsnetwork.org.uk/download/901/)

22 The ratios of net enterprise births per thousand of population in 2015 were 1.6 in the counties and 1.7 in the metro-regions compared with 2.2 nationally. *Ibid, p40.*

23 Understanding County Economies: Oxford Economics 2017, p54 (http://www.countycouncilsnetwork.org.uk/download/901/)

24 P 54, Understanding County Economies: Oxford Economics 2017 for County Councils Network (http://www.countycouncilsnetwork.org.uk/download/901/)



3. Devolution in the Counties - The Story So Far

"Changing the dynamics of local government towards a more strategic, less adversarial system could move beyond the devolution impasse and command cross-party political support"

Debate about whether changes in the powers and structure of local government could improve outcomes has been a continuing feature of British politics spanning several decades. The more recent process of place based devolution in England has renewed these discussions and has led to a period of radical reform in City-Regions.

In contrast the pace of change has been slow in county areas, despite growing evidence on the benefits of devolution and attempts by Central Government to instigate county deals. With progress hindered by questions of geography and governance structures, combined with the impact of financial and service pressures on local authorities, the issue of unitarisation has been reignited in a number of two-tier county areas, as a solution to the county devolution conundrum.

Understanding how the pursuit of powers and financial independence in counties has been held back is crucial to understanding how governance reforms in two-tier areas could enable government and county areas to reap the benefits of reform.

3.1 The devolution process

The process of devolution in England can be seen as part of a longer term 'localist' theme in British politics, aiming to renew democracy and repatriate powers from a highly centralised state to a more appropriate and accountable level of local government. However, the timing and realisation of this policy, initiated during the coalition government of 2010-15, should also be understood in the context of public sector austerity following the 2008 financial crash and the unprecedented levels of public spending cuts, particularly to local government.

In the aftermath of the financial crisis and subsequent economic downturn the focus on achieving both increased economic growth and greater efficiencies in public services centred on the failing competitiveness of the UK's metropolitan regions. Globally, cities are recognised as the drivers of national economic growth. In the UK however, with the exception of London, our largest urban centres are performing below the national average, combining high levels of dependency on public services with low levels of productivity. Devolution to date has therefore been

directed at city-regions, based partly on the Treasury's endorsement of the economics of 'agglomeration', but also because authorities in these metro-areas had already established some level of joint working relationship. Between 2011 and 2014 five of these city-regions had formed combined authorities under the Local Democracy, Economic Development and Construction Act 2009.[25]

The experience for counties – challenges and difficulties in agreeing a deal

The devolution deals which the then Chancellor, George Osborne, offered prior to and following the 2015 election were decisively focused on the metro-regions, with a 'take it or leave it' condition based on the adoption of a combined authority and an elected metro-mayor. Of the nine deals that have been agreed to date, six have complied with the condition of a mayor. Sheffield and West Yorkshire could not agree and have arguably fallen behind other improved city-regions in what is beginning to look like a two-track devolution process, with the North East deal having fallen apart, as have other 'counties+cities' deals.

Of the devolution deals agreed to date, only two have been struck with Counties. The first, agreed with Cornwall (2015) is, as already mentioned, an exception in every respect. As a standalone unitary council the county has become a case apart and a possible exemplar for other county devolution deals. The second, Cambridgeshire and Peterborough (2017), was eventually settled on the condition of adopting a combined authority and elected mayor.

Further proposals from local areas were invited by Treasury ahead of the Autumn Spending Review in 2015. Counties responding to this call included: Hampshire; Lancashire; Dorset; Gloucestershire; Cheshire and Warrington; Cumbria; Leicestershire; North and East Yorkshire; Surrey and Sussex; Greater Essex; Devon and Somerset; Derbyshire and Nottinghamshire; Norfolk and Suffolk; and Greater Lincolnshire.

A number of these proposals have run into obstacles since their initial discussions with the Government and as a result have not proceeded. These difficulties have tended to relate to similar issues:

Mayor: In most cases, though not all, problems have centred on local reactions to the creation of directly-elected mayors.

Geography: Achieving agreement about the appropriate geography for combined authorities has also been challenging for many areas. In some instances, district councils have chosen to align with authorities outside of their country boundaries. For instance, Derbyshire County Council launched a judicial review of Chesterfield's participation in the Sheffield deal. The high court ruled that where district councils are full constituent members of Combined Authorities then County Councils are in law also full members and therefore unable to be full members of other Combined Authorities. In late 2017, most authorities had pulled out of the Sheffield City Region deal. Other propositions have collapsed due to a perceived lack of integrity in the economic geography, which was in part responsible for a number of districts pulling out of the failed Norfolk-Suffolk deal.

Type of integration: With the addition of a 'combined' layer of strategic government, devolution deals have attempted to join-up strategies and service delivery between

The Cornwall Devolution Deal[26]

A devolution deal with Cornwall was agreed in July 2015. This is the only deal so far to be agreed with a single unitary authority – not requiring a combined authority or elected mayor. Under the deal, the following powers will be transferred:

- Devolution of local transport funding and of power to franchise bus services, and the introduction of a smart ticketing system.
- Alignment of the Adult Skills and Adult Community Learning budgets with local funding for further education to "reshape further education training and learning provision for adults".
- System redesign to improve outcomes for Employment and Support Allowance claimants, and new apprenticeship opportunities.
- Intermediate body status for EU Structural Funds, giving Cornwall County Council the power to select projects for funding.
- A devolved approach to integrate local and national business support services.
- Proposals for a low carbon enterprise zone related to geothermal energy and joint working with the Government on home energy efficiency and community energy.
- Cornwall Council and local health bodies to accelerate the integration of health and social care provision.
- Enhanced joint working regarding land and buildings owned by the public sector in Cornwall, including the NHS and the Homes and Communities Agency, building on the work of the Cornwall Property Board.
- Establishment of a Cornish Heritage Environment Forum.

metropolitan authorities with the same powers. However, in two-tier counties integration has centred on the creation of a 'third tier of government' operating between authorities with different powers, responsibilities and resource capacities. This raises the question of whether integration should be 'horizontal' or 'vertical'. Horizontal structures could see more joint working or merged functions agreed between organisations within counties and neighbouring areas whereas vertical might see priorities set at a higher level to be implemented locally.

System of Governance: Combined Authorities, to which powers have been devolved, must have a workable system of governance, in practice often granting each member one vote. But this may be unworkable where large counties and small authorities are given equal voting power despite the more extensive powers, expenditure and capacity of upper-tier councils.

3.2 Unitary authorities as a path to devolution

Interest in local government reform was revived during the 2010-15 parliament, partly in response to the financial pressures on local government and in the interest of greater efficiency savings, but also in recognition that unitary government could offer a more effective driver of local economic growth.

The 'Heseltine report', *No Stone Unturned in the Pursuit of Growth*, proposed a fully unitary system of local government for England in late 2012. However, the Government rejected this recommendation, preferring "authorities not to be distracted by structural change".[27] Consequently any moves towards unitary authorities up to 2015 were operating in the knowledge that Government was not actively encouraging such propositions and within the complicated framework of pre-existing legislation and process.

As devolution deals stalled or failed to get off the ground, unitary proposals became regarded as one means to overcome the barriers to reform in two-tier areas. The Cities and Local Government Devolution Act 2016 gave the Secretary of State general powers to override the provisions of the 2007 Act in respect of boundary changes and to provide an advanced procedure for creating unitary authorities. Where a new combined authority is to be created, this would allow the simultaneous creation of unitary authorities, if this was desired locally. Importantly, under section 15 of the 2016 Act, a move to unitary local government could take place without the consent of one or other of the affected tiers of local government – county or district.

These legislative changes gave rise to a wave of sector activity. Firstly, by district councils in Oxfordshire, Northamptonshire and Gloucestershire, which proposed a cross-border arrangement and the creation of four 'district unitary authorities' supported by a combined authority. At the same time other proposals for 'district clusters' and sub-county unitary proposals were rumoured in places such as Kent and Lancashire.

Proposals for unitary local government in Dorset, Oxfordshire, and Buckinghamshire are currently with Government. Elsewhere, proposals for 'merged districts' in Suffolk and Somerset have also been taken forward. In Buckinghamshire competing proposals, one from the county and one from the districts, were submitted in late 2016. Other counties including Hampshire, Lincolnshire, Warwickshire, Nottinghamshire and Leicestershire have been reported to have either considered or developed proposals for the future establishment of unitary authorities in their areas.[28]

Before the 2017 election the Government indicated it was in favour of further, although insisting that the process was 'bottom up' and would not be imposed. The 2017 Secretary of State for Communities and Local Government, Sajid Javid, highlighted how authorities such as Wiltshire and Durham have demonstrated the benefits of transitioning to a new model of local government which can address the problems of fragmentation and 'save a lot of money'.

"When something can be done better, more effectively, more efficiently, you need a very good argument to stand in its way".[29]

Unlocking devolution by changing relationships

The dynamics and incentives will need to change and the issues blocking progress in the current system will need to be removed if the devolution and reform agenda is to be advanced. Responsibility for delivery should be clarified, decision making streamlined, accountability strengthened, and opportunity for dysfunction reduced. Government needs to set out a pathway to deliver the change it clearly desired before the 2017 General Election.

All the major political parties made commitments to further devolution in their manifestos for the 2017 election, although with scant detail on the proposed form and scale. However, the Conservatives did make explicit commitments to 'give local government greater control' and to 'consolidate their approach' to devolution with a 'common framework'. They also pledged continued support for 'those authorities that wish to combine to serve their communities better' and the adoption of elected mayors but significantly 'not for rural counties'.[30]

An official change in position on elected mayors for rural counties, which has previously been a major stumbling block for devolution, would undoubtedly assist in the restructuring of proposals. While there were no explicit references to local government reform, the support for authorities wishing to 'combine' could be interpreted to include county and districts in a two-tier setting. However, the new Government's programme does not include proposals to implement this section of the manifesto, although this does not mean that deals could not be enacted using the existing legislative framework.[31]

The national public policy landscape and the role of local government is also shifting, but is not yet settled. Relationships have been strained by the Government's need to focus on national-EU relations and corresponding reduction in capacity to deal with sub-national issues. There is nevertheless recognition that unlocking growth will require a greater devolved role for the state at the local level in areas such

as transport, infrastructure investment, and place-making. The potential for more localised integration of health and social care to achieve better outcomes for citizens and to realise potential efficiency savings remains still unrealised.

Changing the dynamics of local government towards a more strategic, less adversarial system could move beyond the devolution impasse and command cross-party political support. The opportunity is there for change, but the debate lacks form at the national level, while the debate within the sector has been bogged down by inherent self-interest and competing proposals.

First, change must stabilise the finances and sustainability of local government, and move beyond the 'salami-slicing' austerity regime. It must meet the ambition of Whitehall for resilience and the capacity to cope without frequent interventions from central government.

Second, there is a clear desire among policymakers and the public for more inclusive models of economic growth and to rapidly increase the provision of housing within England to tackle a crisis that has been mounting for decades. Rebalancing the geographic and productivity imbalances in the country, and delivering more homes and vital infrastructure, is no longer just economically desirable, but politically necessary.

Third, it must address the growing demand on public services from an ageing population, increasing inequality, in-work poverty, wage freezes, and rising public expectations.

Fourth, it must make proposals that will stick, building consensus from across the political spectrum, encouraging and incentivising local buy-in. Proposals must appeal to central Government in making its job easier. They must allow faster policy implementation and appeal locally to civic identity and loyalty, but also recognise that change should be undertaken in the national, not party interest. A desire for an approach that puts policy above politics has been highlighted by the vote to leave the EU, and by the unexpected hung parliament produced by the 2017 General Election.

The most important element is that the resulting relationships between all levels of government work. Whichever arrangement is created may change over time as councils find that working as one leads them towards full unitarisation or Combined Authority governance arrangements. The political difficulties in achieving such change are real, but facing up to them means being realistic about the problems inherent to the current two-tier system.

3.3 Dealing with scale, geography, and place

A central question for local government is how it can meet the needs of its area given its form and size. There are 3 dimensions to consider – scale, geography, and place.

Questions of scale

Scale is important in its own right. But any changes to local government must be assessed by the degree to which they can overcome the problems of both under-bounded geographies (which can also compound demographic and financial pressures, for example creating concentrations of older people and low income and low skilled households) and overlapping administrative boundaries.

Larger strategic-level authorities covering bigger geographical areas can be better placed to take the decisions affecting the full range of council services including economic development, housing, planning and transport, health and care and children's services.

Joint working between smaller units of government – or entirely new authorities resulting from sub-county level unitary proposals - can provide a way of managing these issues, but this necessarily takes significantly more investment in time, effort and scarce corporate and political capacity.

Geographic boundaries and jurisdictions

Irrespective of their relative size or scale most county authorities are subject to the multiple boundaries of various administrative bodies. This includes the economic functions of Local Enterprise Partnerships (LEPs) and sub-national Transport Bodies. Many LEPs cover a wider economic geography which can include more than one county council, forming part of a travel to work area with other counties, cities and combined authorities (e.g. The North East LEP; D2N2). Indeed, LEP areas are allowed to overlap such that local authorities are permitted to be part of more than one LEP, as the example illustrates. See figure 10.

Most county councils will contain parts of several travel-to-work areas, although where job concentration is lower and travel-to-work flows lower, it is less true to say that a defined 'boundary' exists to distinguish between different real economies. Major infrastructure therefore necessitates joint working at a regional level, a situation which is made more challenging in a two-tier setting.

Additionally, the counties are also overlapped by many different public service footprints for welfare benefits, health, police and crime, fire and ambulance. Many services are delivered by national organisations, established by Government to carry out functions and/or distribute funding, but not accountable to local government. Examples include: Jobcentre Plus, the Environment Agency, Natural England, the Homes and Communities Agency, Highways England, the Arts Council, the Skills Funding Agency and the Education Funding Agency. These agencies are accountable to their sponsoring central government department, although local government will have established working relationships.

The geography for health and care is particularly complex with some counties crossed by multiple boundaries for various Clinical Commissioning Groups (CCGs) and Sustainability and Transformation Partnerships (STPs) neither of which align with each other or local authorities. This can

Figure 10: Overlapping Jurisdictions

Greater Cambridge, Greater Peterborough LEP	New Anglia LEP	South East LEP	Hertfordshire LEP
Essex (part): Uttlesford		Essex (all)	
Norfolk (part): King's Lynn and West Norfolk	Norfolk (all)		
Suffolk (part): Forest Heath, St Edmundsbury	Suffolk (all)		
Hertfordshire (part): North Hertfordshire			Hertfordshire (all)

Source: ResPublica

create a complicated patchwork of different commissioning and delivery roles for different services aiming to more effectively integrate health and social care.

Multiple boundaries, and corresponding misalignment between partners and agencies, are not effective in securing the best outcomes for people and communities. Collaboration is undoubtedly easier where the boundaries of the relevant organisations are the same. To some extent, the long-running existence of counties has encouraged a co-evolution of other boundaries along their borders, with institutional, cultural and physical boundaries growing over time alongside county ones.

This issue points towards a 'path-dependency' which the existing county boundaries have created. Research commissioned by the County Councils Network (Swann 2016) found a high degree of support for boundaries that reflect local identity – 'how people live their lives', including where they work and spend their leisure time. These impressions are real – often linked to local economies - but they can also be subjective. An emphasis on a 'sense of place' can be highly localised and lack the appropriate scale to provide efficient coordination of some functions and services. Evidence also suggests that in some cases partner organisations operating across smaller geographies can suffer from a lack of capacity and critical mass.

Place-based governance

The two tiers of local government in England have functions, which in most instances are distinct and separate between county councils (the upper tier) and district councils (the lower tier). However, some responsibilities are 'concurrent' and may be undertaken by either tier of government. Under section 101 of the Local Government Act 1972, counties and districts can agree to undertake functions for one another. If they do so, the responsibility for the functions remains with the council to which it belongs in law. Approximately 80 per cent of local authority spending in two-tier areas is by the county.

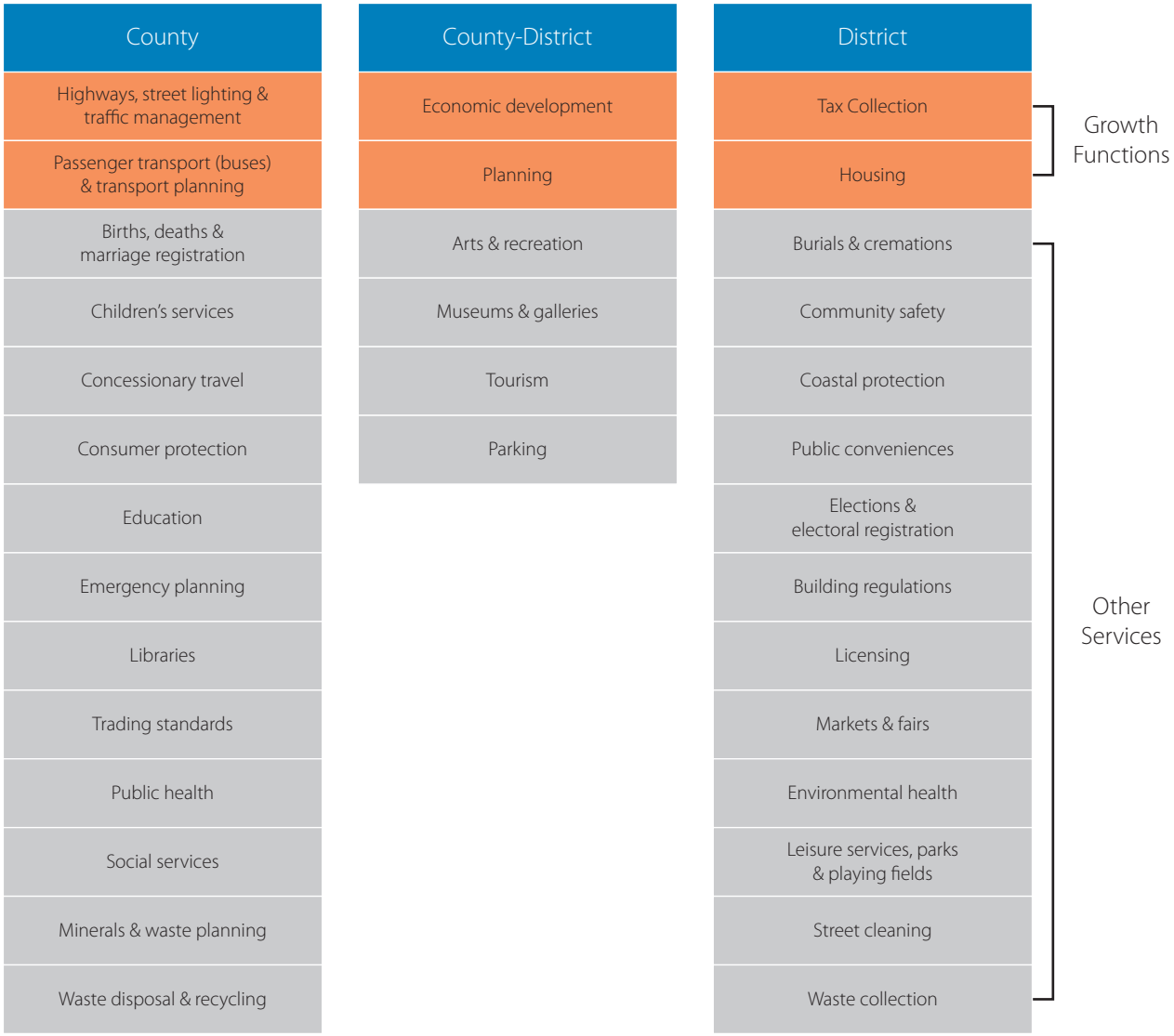
A breakdown of the functions of county and district councils in two-tier areas is provided overleaf.

In terms of the strategic place-making role of local government, those functions relating to economic development and spatial planning are complicated by separation in a two-tier system. This is particularly the case with land use and the designation of employment and housing sites, with its implication for transport connections and wider public service delivery.

The current system can work well in the right conditions. However, too often the ability to meet the multiple demands of counties and citizens – to achieve sustainable finances, better outcomes, economic growth and good governance – is constrained. Many of the causes of these constraints lie in the statutory arrangements that establish local government - divergent incentives, multiple layers of responsibility and slow, sometimes obstructive, decision making processes between tiers with different or overlapping roles. These are very difficult to solve in an informal way.

With increasing demands on local government, the need to strengthen county governance is pressing. But the solution must start from where we are today. In Chapter 4, we set out why reform should be based on a single tier of local authority, at the county level and at a county geography.

Figure 11. Two-tier Division of Powers



Source: ResPublica

25 These included Greater Manchester (April 2011), Liverpool City Region (April 2014), The North East (April 2014), Sheffield City Region (April 2014), West Yorkshire (April 2014), Further combined authorities followed the 2015 election: Tees Valley (April 2016), West Midlands (June 2016), Cambridge and Peterborough (March 2017).

26 HM Treasury, Cornwall Devolution Deal, July 2015

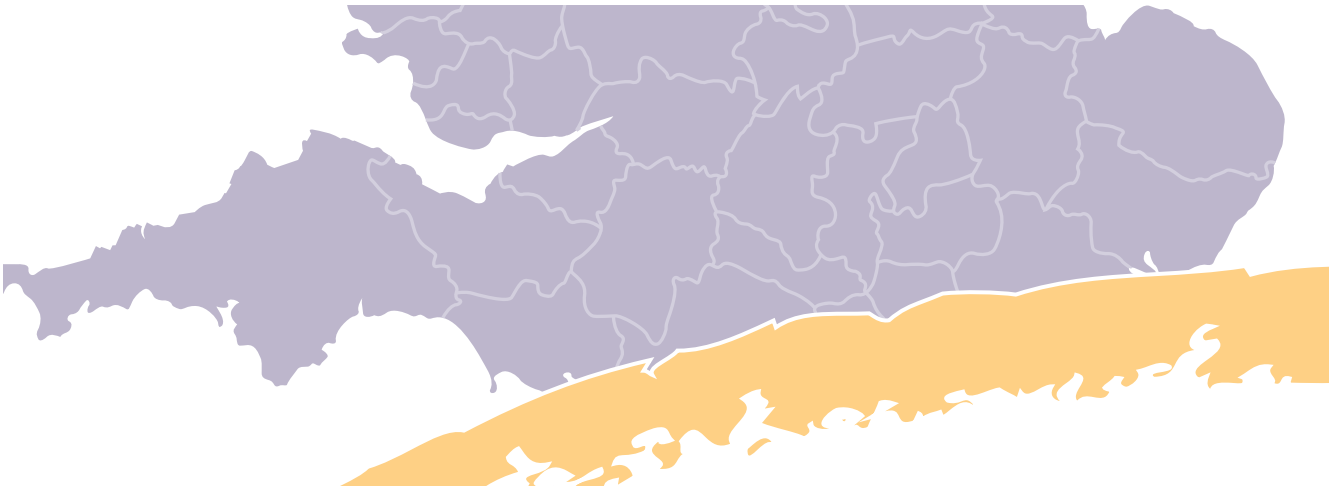
27 DCLG, Government response to the Heseltine Report, Cm 8587, 2013, p.54; HCDeb 12 Nov 2012 cc7-8

28 BBC: "Bid for councils in Nottinghamshire to be 'scrapped'" http://www.bbc.co.uk/news/uk-england-nottinghamshire-35310042

29 Sajid Javid, Speech to CCN Conference, 8th November 2016. Available online at http://www.countycouncilsnetwork.org.uk/ccn-conference-2016-videos-presentations

30 Forward Together, Our Plan for a Stronger Britain and a Prosperous Future, The Conservative and Unionist Party Manifesto 2017, p32.

31 A fast-track path towards unitary status has been enshrined in law. The Cities and Local Government Devolution Act introduced an expedited procedure for creating unitary authorities, and for reviewing ward boundaries and councillor numbers within local authorities, or for the review of local authority areas. It permits reorganisation without the consent of all councils involved through a provision which is time limited until April 2019. Where a new combined authority is to be created, this would allow the simultaneous creation of unitary authorities, if this was desired locally. Where previously the government had to invite or instruct reorganisation proposals, the latest legislation acts as a standing invitation for proposals to the Secretary of State.



4. The Case for Counties as Strategic Bodies

"On each measure, although they start from different considerations, all point towards a need for unified authorities with sufficient scale, that can command popular support, in a way the current system is inherently challenged to do"

The previous chapters examined the story of local government changes and devolution within England, and looked at the situation in England's counties. Advancing the devolution agenda beyond the cities must be the next priority for government. It could create both direct and indirect gains to economic growth, and transform public services.

Unlocking devolution and industrial strategy will require embracing reform of local government in the counties as it currently stands. An analysis of the themes concerned demonstrates that reform should be towards a single-tier of local government with responsibility for all policy areas, and that the county council boundaries are the best scale at which to create these.

The questions confronting county local government can be divided into four themes, which this chapter addresses in turn:

- Sustainable finances
- Economic growth
- Public service reform
- Governance structures

Part 1: *Delivering sustainable finances*

The financial situation of local government in England has been in a constant state of retrenchment since the 2008 financial crisis. This has called into question the ability of councils to fulfil their statutory responsibilities. If it is to embrace the opportunities from devolution and the industrial strategy, local government will have to cope with its ongoing funding gap in the context of eventual full Business Rate Retention (BRR), an ongoing drive for efficiency, and the challenges of having capital to invest but shrinking revenue. Taking these issues in turn, it is apparent that a sustainable council is one which has a resilient and diverse tax base, can make intelligent economies of scale, and has the capacity and instinct to act entrepreneurially.

4.1.1 The funding gap and the need for change

The local government sector continues to experience very severe funding pressures, with an estimated 37 per cent real terms reduction in core government funding between 2010 and 2015. In addition to this, the OBR forecast a further 6.7 per cent reduction in local government spending between 2015/16 and 2019/20. With social care and waste spending absorbing a rising proportion of the resources available to councils, funding for other council services will drop by 35 per cent (£9.3 billion in real terms) by the end of the decade, from £26.6bn in 2010/11 to £17.3bn in 2019/20.[32] As a result, local government as a whole faces a funding gap of £5.8 billion by 2019/20.[33]

The funding gap falls particularly hard on upper-tier councils, who are responsible for Children's Services and Adult Social Care.[34] Together, these make up the largest components of the funding gap, £1.9bn and £1.3bn respectively, as they represent ongoing increases in the volume and complexity of cases.

Pressures on social care will increase in the years ahead due to demographic shifts in the population of the county areas. Overall the counties have an increasing older population with 41 per cent of residents aged over 50, compared with 36 per cent across England. A slower rate of growth for the working-age population (0.16 per cent per year over the last 10 years) has sharply increased the dependency rate in county areas.[35]

This convergence of trends-reduction in revenue, increasing demand, increasing costs and demographic change is clearly financially unsustainable. Local government in the county areas cannot afford to continue with 'business as usual'. Even with a long-term solution to social care funding, there will still be a need for counties to decrease costs and/or increase revenues. However, a new funding question has also arisen over the delay to full Business Rate Retention. The government had announced that it would like to move to 100 per cent BRR, and as a result, between 2016 and 2020 counties will see a reduction of 93 per cent in revenue support grant. BRR was intended to start replacing this lost income, but has been indefinitely deferred, creating an additional short-term pressure.

4.1.2 Two-tier sustainability and Business Rate Retention

Even without BRR, tax incentives are complicated and diluted by the two-tier system. Local government already retains 50 per cent of business rate growth (40 per cent by districts and 10 per cent by counties). This means that much income from growth goes to lower-tier authorities, even though it is upper-tier authorities who are responsible for most growth-linked policy areas.

The division of taxes may change under full BRR, to something closer to an 80:20 split between counties and districts, as counties are responsible for 80 per cent of spending in their areas. New responsibilities will also be devolved to offset the surplus created by eventual full BRR. It would be preferable to match these new responsibilities with tax revenue that can be increased by good growth policy.

To enable and incentivise growth, strategic growth responsibilities and infrastructure funding should logically go to the tier with the most exposure to revenue risk – the county level. The simplest way to resolve the issue of dividing business rate growth would be to have a single entity for each area, responsible for all policy and revenues.

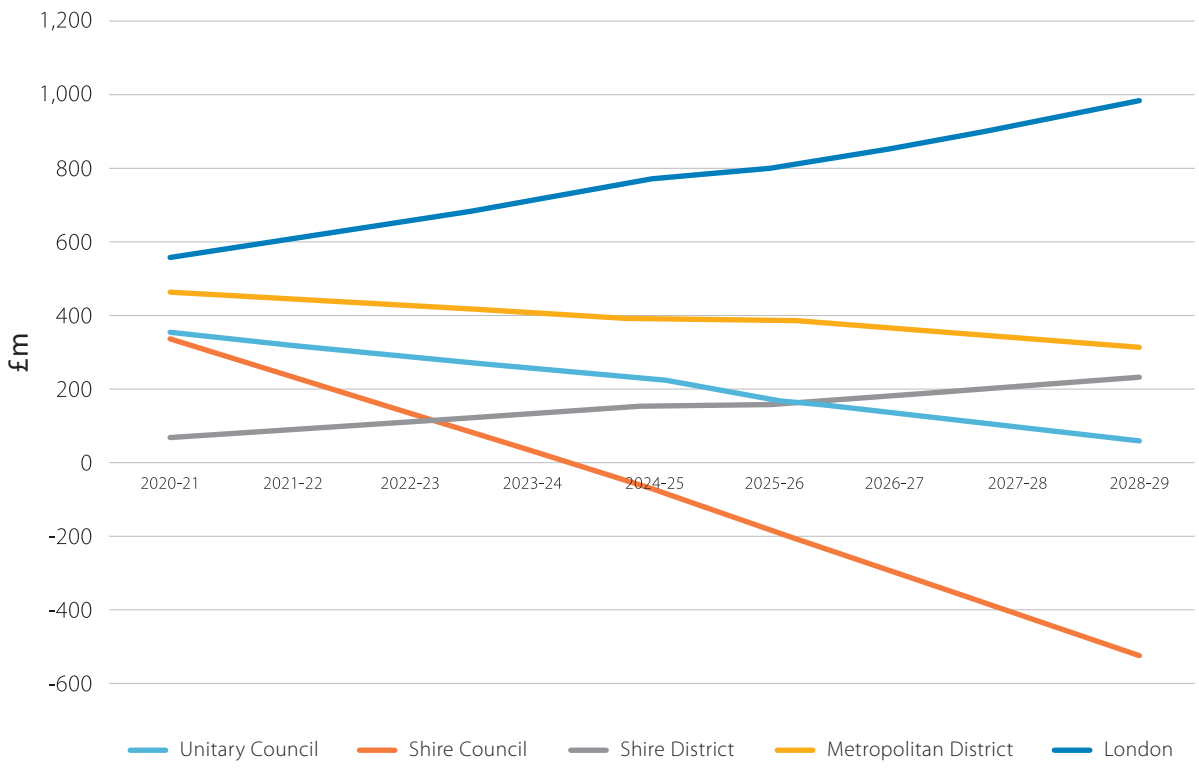
In the event that BRR does go ahead (applications for pilots close in November 2017), the new system should be designed to avoid excessive divergence between councils. It should ensure counties – which are responsible for 80 per cent of spending in their areas – are adequately funded. However, there are large variances between high-growth and low-growth districts[36], meaning even with an 80:20 split, some districts would gain an increasing share of revenue.

The graph below demonstrates that this would mean a growing county funding gap as demand for services outpaced business rates growth. Conversely, district authorities would see continued surplus over time, as they have much less costly service responsibilities. See figure 12.

To meet this gap, additional solutions that deal with the root causes of growing expenditure are therefore needed alongside funding reform. Where continued support grants are required, central Government will want to know it is being spent in the most efficient way possible.

The eventual outcome of full BRR will mean that by 2019/20 three quarters of County Council funding would be raised locally. After such time as it is introduced, county

Figure 12. Variance Between Growth in Expenditure and Growth in Retained Business Rates



Assumptions: County Share - 80%, National Growth Deduction - 0%, Baseline Reset (2019-20) - 100%, Subsequent Reset - 50%, Redistribution of Surplus - Baseline Funding Levels, Levy - none

Source: Pixel Financial Management

finances will depend much more on local decisions than national changes. But rather than acting in a piecemeal fashion, the space exists for county areas to rethink their role, and embrace the opportunity for change to fundamentally reshape their relations with citizens and with central Government.

4.1.3 The importance of a diverse tax base

To the extent that councils will be responsible for retaining taxes and growing the tax base, setting and collecting taxes efficiently and consistently is vital to financial sustainability.

The local property taxes are a key part of forming a coherent growth strategy, which can align tax, housing, and business policy. However, this process is more complicated when all local authorities in a two-tier system are able to set their own levels of reliefs, requiring time-consuming and resource-intensive agreement between parties.

Divergence in business rates between high and low growth districts threatens high rises in some areas in the long term because it creates a mismatch between need and resources. For example, Redditch, in Worcestershire, saw a 4 per cent reduction in the rateable value of properties compared to Bromsgrove, which saw over a 20 per cent increase in value from 2010/11 to 2014/15. Areas with populations that require high social spending by councils may not have a wide business rate base, which could be a problem at small geographies. Equally, for Council Tax, smaller areas contain concentrations of high and low wealth, meaning potentially relatively high bills for some areas and low bills for others.

The burden of both Business Rates and Council Tax can best be spread fairly in areas with a range of premises and wealth. The county scale offers a large base to balance taxes across areas and demographics, and a larger overall revenue to absorb the impact of changes.[37] Additional tax flexibilities and fiscal powers could also be devolved in the future, as the London Finance Commission and others have argued.[38] These could include additional bands of council tax or different types of business tax, such as Land Value Tax. These will also need to be balanced across a wide area to moderate between high and low revenue places.

Figure 13: Savings from Different Types of Reorganisation

Scenario	Cumulative net saving/cost (five years)	Annual saving (post implementation)	Reduction to spend (excl. Care and Education)**	Implementation costs	Payback period	FTE reduction***
Single Unitary	£2.37-£2.86bn	£621-781mn	6.0-7.5%	£277-393mn	Two years, two months	7,085-8,594
Two Unitaries	£1.17-£1.70bn	£361-520mn	3.5-5.0%	£371-519mn	Three years, two months	5,011-6,299
Three Unitaries	(£33mn)-£526mn	£98-266mn	0.9-2.6%	£401-585mn	Seven years	2,542-3,751
Shared Support Services	£160-568mn	£63-205mn	0.6-2.0%	£84-173mn	Four years, eleven months	655-2,280
Merged Districts	£531-839mn	£165-266mn	1.6-2.6%	£188-325mn	Three years, eight months	1,442-2,269
Three Unitaries and a CA*	(£36mn)-(£366mn)	£87-257mn	0.8-2.5%	£680mn-£1.10bn	Seven years plus	2,448-3,764

*CA=Combined Authority
**Annual saving (post implementation) as a percentage of the total county spend, excluding Social Care and Education expenditure
***Does not include any reduction in members

Source: EY

To meet the need for a diverse, robust tax base, the Government has proposed business rate 'pools' between authorities. These pools would be accompanied by alignment of business rates in the pool area to equalise growth incentives, providing a single point of liaison for businesses as they make decisions about their tax liability. However, because business rates, growth, and planning are closely linked, aligning these functions will require some political integration across pool areas. While Combined Authorities are suited to this in metro-regions, in county areas this co-ordinating function will require a strengthened top-tier governance. Integration to deal with the new business rates system may therefore be a necessity, rather than a 'nice to have'.

Reforming local tax need not mean abolishing all options for sub-county variance. Parish/town councils are precepting authorities and may, where citizens choose, increase their precept to pay for additional facilities. Politically, provision for local taxes and a degree of self-government may be necessary to enable any wider reorganisation to proceed. Enhancing localism is covered in more detail in the Governance section of this report.

4.1.4 Reducing costs through increasing scale

Councils also have the option of reducing costs to become financially sustainable. Previously, changes to the form and structure of local government have been strongly motivated by a desire for greater efficiency.

Councils who previously reorganised have been most successful when they can achieve economies of scale. Larger unitary councils were most likely to generate these, and as a result be resilient in the context of continued budget and service pressures. The larger unitaries created in 2008/9 have been able to spend a bigger proportion of resources at the front line, with their back-office costs decreasing from 7.2 per cent to 6.8 per cent between 2009/10 and 2013/14. Meanwhile, the small 1990s-era unitaries saw back-office costs increase from 10.1 per cent to 10.6 per cent over the same period.[39]

Looking at potential future reforms, a study by EY of six different reorganisation scenarios found that where there are larger and fewer organisations, the efficiency savings are greater. The result is that the highest available annual saving comes from moving to single unitary councils. This is largely driven by economies of scale from the larger size of the organisation, consolidating resources and staff, using fewer assets to produce the same output, and bringing together previously separate functions to allow teams to work more effectively. Having single contracts for services such as waste, highways and procurement allows significantly reduced duplication.[40] Full results are in the table. See figure 13.

The single unitary option saves 6.0-7.5 per cent per year on average, well above other reorganisation options. The total savings from all 27 county unitary authorities would be 68 per cent more than alternative reform scenarios. Merging districts would only save 1.6-2.6 per cent per year. However, if merged districts were combined with shared support services between counties, the average savings would equal or surpass that from

splitting counties into three unitaries. Three mini-unitaries with an overall Combined Authority saves just 0.8-2.5 per cent per year and takes seven years to pay off. The low savings in this case are because multiple service delivery organisations are maintained, and there would not be any significant release of funds for reinvestment.[41] This illustrates that unitarisation is only worth pursuing at the right scale.

The evidence from both previous rounds of local government reorganisation and more recent projection of potential savings is clear. Councils which reorganise up to the county scale are consistently able to deliver economies of scale and significant savings but smaller reorganisations do not. As the above table illustrates, if all 27 two-tier areas were converted to single unitary councils, £2.9bn in national savings could be achieved over 5 years.

4.1.5 Avoiding the costs of fragmentation

Scaling services up to the county level can also be better organisationally than district mergers at the sub-county level because of the organisational dynamics involved. This accounts for the long payback times for reorganisations that involve splitting up larger bodies, reflecting the disruption to budgets and services.

Councils that divided into multiple unitaries in the 1990s faced a long period of adjustment after splitting up functions from the former county council. Underpinning this is an apparent difference in the dynamics involved in scaling down, as opposed to absorbing other functions into a larger entity, with resulting impacts on service performance and their capacity to respond to mounting service pressures.[42]

This potentially increases risk and decreases efficiency in the long term. A council with struggling service performance will have less ability to respond to challenges or change. It may incur large remedial costs as a result of having to deal with problems more than once and not tackling problems upstream. Service problems will also have wider financial impacts, as the financial risk from future unplanned expenditure means councils may have to set aside resources to deal with potential problems. These 'cost of risk' resources are funds that could be better and more productively invested elsewhere.

4.1.6 Adapting and innovating

While there are certainly efficiency benefits to be had from scaling up, the potential gains from enabling a more strategic approach to services, growth, and policy are much greater.

As well as offering economies, scale enables councils to adapt and respond to changing circumstances. This is because the scale of a local authority dictates its ability to build up the expertise, capacity, and flexibility to innovate and react. Research conducted by Shared Intelligence found that even the best-performing small unitary councils struggle to marshal the capacity to, for example, participate in devolution opportunities, engage in cutting edge partnership working or think creatively about the next round of savings. The effectiveness of councils of all shapes and sizes hinges to a significant extent on the quality of their managerial and political leadership, and larger councils are more likely to be able to offer a better compensation package, varied career opportunities, and retain a larger group of core research staff.[43]

There are interactions between organisational scale and the ability of councils to respond to the challenges of strategic development across their functional economic geography, as well as the capacity of larger authorities to manage political decision making and effective governance.[44] This adaptability enables them to engage with new agendas and act in an enterprising fashion to secure council revenue and efficiency.

4.1.7 Opportunities from investment and creative use of assets

Larger councils benefit from having the capacity to innovate in their ability to use capital effectively. This is particularly relevant given that while local authorities are revenue poor, capital spending has risen.

The New Local Government Network (NLGN) found that council investment spending rose by 5.3 per cent between 2010/11 and 2014/15, while central grants rose by 0.2 per cent once education is excluded. This reflects increases in spending through the housing revenue account, increased reinvestment of capital receipts and the investment of spare revenue from elsewhere in the council. With other sources available, the use of prudential borrowing has been somewhat scaled back.[45] Within the counties, county unitary councils were able to increase their budgets the most, by 60 per cent over the five years from 2010/11 to 2015/16.[46] This is in part due to the use of capital receipt investment from disposing of surplus assets after unitarisation.

At the same time, councils are reappraising the role of capital spending. Whereas previously capital spending has been seen primarily as a means to achieve social policy goals, or as part of corporate asset management, councils are now investing in assets for revenue generation, investing to save, and delivering social value alongside.[47]

The strength of a capable, adaptable, strong core team is vital in enabling councils to secure revenue through use of investment and local assets. However, NLGN found that many councils still lack the skills they need to manage a substantial and successful commercial programme. Local government has not historically invested in building these capacities in-house, and councillors are often reluctant to bring in expensive private sector professionals and the commercial arrangements this entails.[48] Compounding this in county areas is the disparity between the depth of experience and, as previously mentioned, compensation available to Chief Executives and officers in the upper and lower tiers. The budgets and projects managed are at significantly different levels. This means that lower-tier councils can have real difficulty recruiting and retaining staff with the right investment and commercial skills.

Councils which have poor balance sheets or weak local property markets will not be in a strong position to support their public services through smart investment, especially in property.[49] Nonetheless, the bringing together of different powers at a level with sufficient scale enables councils to use other creative means to unlock investment. For example, where councils will receive the business rates from a project in the future, they can invest today in the knowledge that they will receive their investment back over time.

4.1.8 New ways to deliver and commercial awareness

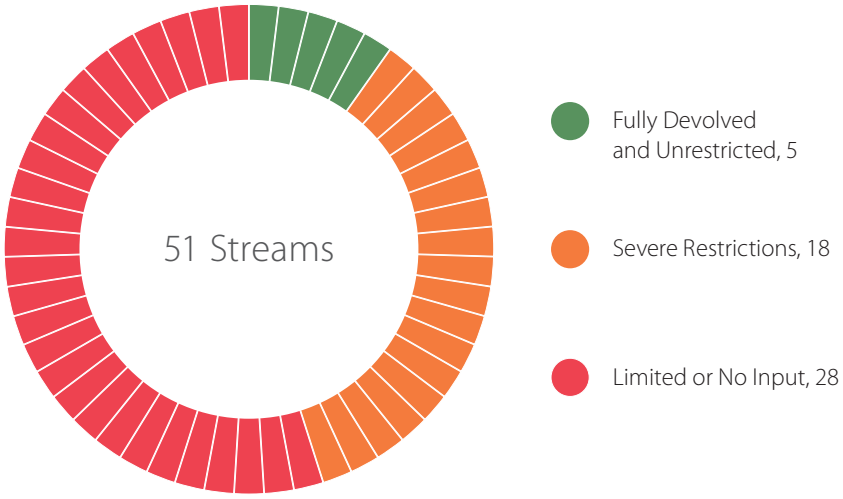
The capacity and scale offered by a strong corporate core team offers councils the opportunity to restructure themselves into a more intelligent customer with greater commercial awareness. New ways to deliver services and sharing of functions with other councils or agencies has been a key way for councils to reduce costs – but relies on the corporate capability to do so.

For example, Cornwall Council, since unitarisation, has gathered all transactional services and processes together in a Shared Services function to handle at scale the routine interactions that most citizens encounter the council through. The Shared Services function includes HR transactions, taxes, assessment, contact, face to face, and support. Since 2011, £5.2m savings have been made and £1m above-target council tax has been collected.[50]

4.1.9 Boosting revenue using localised funding streams

Ultimately, the best route to financial stability and local prosperity is developing a productive local economy that will produce a high tax yield for the council. The adaptable, capable leadership that only teams in councils of sufficient scale can provide would enable smarter use of existing funding streams from central government.

Figure 14. Restrictions on Growth and Infrastructure Funding Streams (Non-devolved areas)



Source: Shared Intelligence

There are many potential funds that could benefit from local discretion but are currently controlled by central government. Out of a total of 51 government funding streams for growth and infrastructure, 28 give councils limited or no input and there are severe restrictions on 18 further streams that prevent integration or pooling. Only 5 such streams are fully devolved and unrestricted.[51] These are the Pothole Action Fund, Broadband Delivery UK rural roll-out, Community-led housing, City deals, and the Rural Services Delivery Grant. See figure 14.

Local discretion would enable investment in projects that would grow the local economy and potentially increase tax take. As well as government confidence in the ability of authorities to manage funding sensibly, this would also require a smart investment capability to ensure strong due diligence and good returns to projects. In the next section, we will outline why and how boosting local economic growth requires reform.

Part 2: *Creating a Platform for Economic Growth*

The strong overall performance of the county areas masks significant differences both within and between regions. Growth is driven more widely by macro-economic conditions. The impacts of local policy and governance arrangements however are significant determinants, and when misaligned or wrongly implemented, can act as a drag on growth potential. Our analysis shows that the prospects for overall future growth will depend on the extent to which counties can respond to the challenges of Brexit; tackle fragmented governance; invest effectively at scale; make the most of devolved powers and embed local industrial strategy. It is vital that their form of governance is the one that best meets these challenges. While the evidence points towards unified local government at a larger scale, the barriers are often political in nature.

4.2.1 The economic geography of the counties

The economic geography of county areas is complex and varied, with distinct high and low growth areas. For many, the need to rebalance the economy and redress areas left behind by globalisation is particularly pressing.

Regional divergence between the counties

The main regional difference can be broadly characterised as a divide between the Greater London/South East economy and all or most other counties in England, with the exception of Cheshire East. This growing disparity in regional inequality across England and the UK has been shown by the economic geographer Philip McCann to be especially large by international standards. London and the South East are effectively decoupled from the rest of the UK economy. McCann argues that there is little evidence that other regions have benefited from London's growth, which distorts the national average while disguising a productivity failure in the regions (England, Wales and Northern Ireland) that have an economic output akin to Central and Eastern Europe, or the southern states of the US. See figure 15.

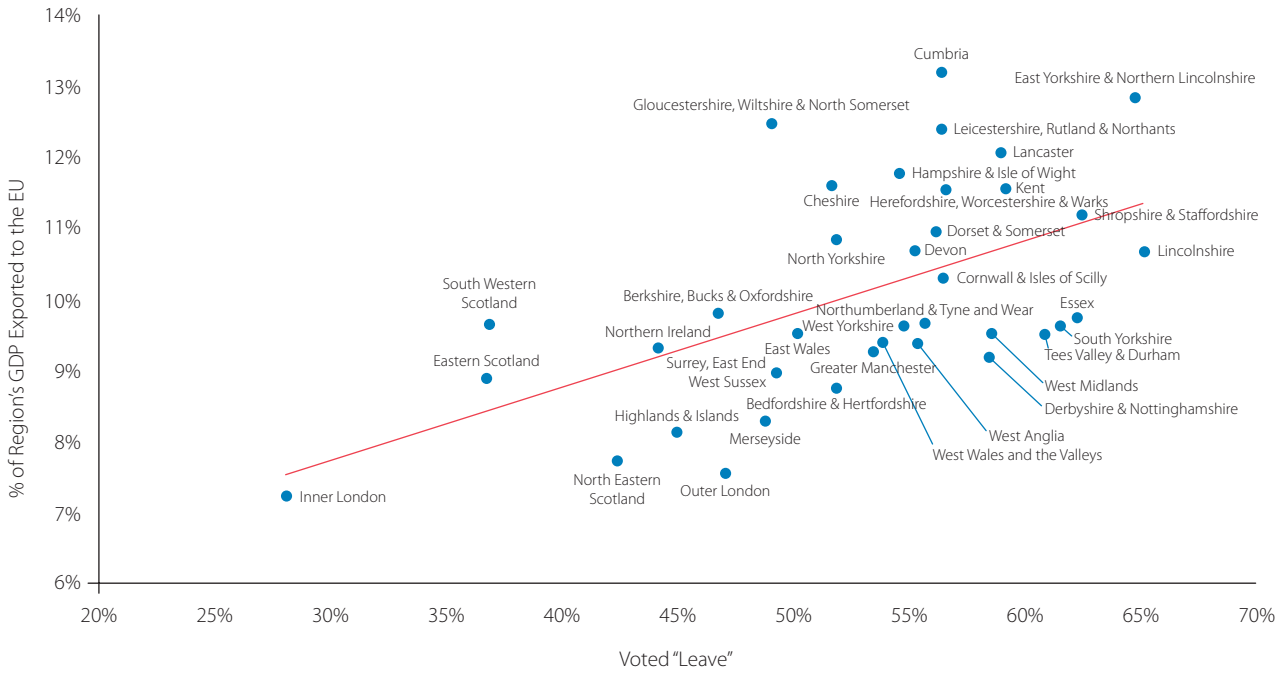
One of the most striking features of this analysis is the extent to which the economic geography of regional 'winners' and 'losers' is reflected in the European referendum and the decision to leave vote.[53] A greater number of English counties, beyond the South East, were pro-Brexit, despite greater trading links with the EU than many other areas which voted to remain. This indicates that areas more likely to vote for Brexit

Figure 15: Productivity of the Counties per Job

Top Five Performing Counties	Productivity per job 2017	Bottom Five Performing Counties	Productivity per job 2017
1. Surrey	£57.7k	1. Cornwall	£37.2k
2. Cheshire East	£57.2k	2. Staffordshire	£38k
3. Buckinghamshire	£54.5k	3. Devon	£39.5k
4. Cambridgeshire	£52k	4. Shropshire	£40.1k
5. Oxfordshire	£52k	5. Lincolnshire	£40.4k
All Counties			£46K
All Combined Authorities			£43.7K
England			£49.7K

Source: Oxford Economics 2017 using ONS data. £=2013 value[52]

Figure 16. EU Referendum Results in Relation to EU Trading



Source: adapted from Los et al. (2017)[54]

are paradoxically most likely to be hit hardest by any disruption of trade with EU regional economies. See figure 16.

In addition to the potential damage from reduced trade, the countervailing force of European funding for deprived areas will likely be withdrawn after Brexit. During 2014-2020, the European Structural Fund and European Redevelopment Fund will invest around £10bn across the UK, with £250 per head in the North East and South West.[55] Certainty would be created by a direct replacement with a UK-only regional development fund, but questions of how to approach geographical imbalances are only now being asked. Further, given the position of central government finances, it is possible replacement funding will not match the previous level of EU funds.

Meanwhile, the UK's policy response to these regional disparities has been centred on 'city growth' and the underpinning theory of agglomeration. This emphasises how the dense clustering of businesses in key sectors can create spillover effects, a key source of productivity growth. Urban areas are growing faster than their hinterlands, but not uniformly and not at the levels which are needed to rebalance the UK economy.

This policy paradigm is, however, less applicable to the counties, where the economic geography is less urban and less centred. Many counties have a strong economic relationship to and dependency on large metro-areas, but they are fundamentally different. Counties do demonstrate agglomeration effects, but their economic geography is more disparate and less well defined. Counties have multiple centres, often pointing in different directions and with much out-of-county demand and travel to work flows. This requires a more strategic and polycentric approach to governance arrangements and economic policy that can help to better connect places within counties and regions to invest in growth and capture the benefits.

While the current growth model is premised on cities achieving productivity gains, it is worth noting that some county areas have significantly higher productivity levels than the national average and on aggregate counties outperform the metro-areas (excluding London). Most developed-country rural economies do tend to be less productive and have lower levels of GDP per head of population than urban areas, but this is not the case for English counties.

The city growth hypothesis, with its accompanying governance arrangements, cannot be simply transferred to the counties. And yet, there is no alternative currently on offer. With the abolition of the UK's Regional Development Agencies (RDA), the drivers of sub-national development have fallen to LEPs and local government. Bodies such as the Northern Powerhouse or Midlands Engine are positive developments,

but focus on transport and do not fit within a clear country-wide plan. Consequently, reformed counties have a potential role in providing a comprehensive framework for growth in the regions.[56]

Divergence within regions and counties

There are clear pockets of deprivation in all counties, with some significant concentration in parts of even the most prosperous authorities. The causes of inequality vary, but these patterns further highlight the complexities of economic geography within counties. An economic strategy that can connect growth to dispersed populations and between disparate settlements must avoid replicating the existing constraints of misaligned and fragmented governance.

Many counties contain relatively large urban areas, including cities and towns that have become detached from their wider county economy and hinterlands, where previous industries have either collapsed or declined. They may still be the places where businesses and employment are concentrated but they are also where economic activity rates and income levels are low, where dependency on welfare benefits will be significantly higher than the county average, and where health inequalities are most pronounced.

Connectivity to county-wide growth opportunities may be constrained by several factors, including skills mismatch between job markets and people, or physical barriers such as local transport connections. This has further implications for investments in wider infrastructure requirements, including a balance of appropriate employment sites and related housing development. Not all of these factors which impact upon local growth can be effectively resolved on an authority-by-authority basis and will require strategic interventions between multiple partners at scale. See Case Study: Divergent Growth Requirements in Kent.

This analysis of both inter and intra regional divergence is linked to a growing body of evidence from the OECD and IMF, among others, on the causes and consequences of inequality. This body of work concludes that, in general, inequality is the cause of slow growth rather than its outcome. Inequality itself is closely tied to the structure of the economy, levels of investment, and the governance arrangements that set the 'rules of the game'.

4.2.2 Fragmented governance constraining growth

Local governance structures can impact on economic performance, depending on the characteristics of the region. The OECD have identified that after controlling for factors such as skills, and industrial structure, large metropolitan areas with highly fragmented local government tend to have lower levels of productivity than those with fewer units of local government.[57] Doubling the number of local governments within a metro area reduces productivity by six per cent - although providing an over-

Case Study: Divergent Growth Requirements in Kent

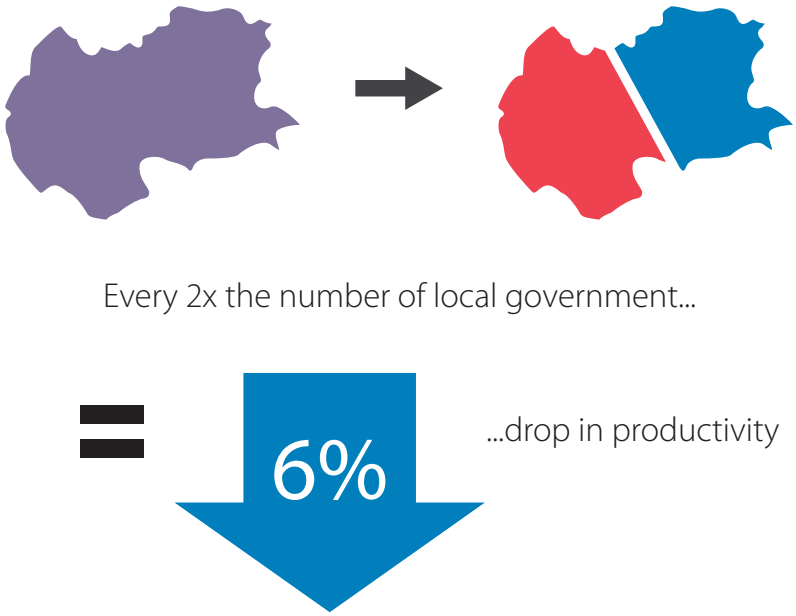
Overall economic performance is strong and quality of life is generally high across Kent. However there is a clear West/North East variation with high levels of deprivation (low incomes and high levels of inactivity and benefit claimants) in certain urban areas such as Chatham, Gillingham, Gravesend, Folkestone and Dover as well as peripheral coastal estuary areas including the Isle of Sheppey and parts of Thanet.

Economic activity is currently clustered in and around these main towns, a legacy of the county's industrial heritage and past reliance on traditional industries. Despite their proximity to London, Gross Value Added (GVA) indicators remain low, employment is less 'knowledge-intensive' and workforce skill levels continue to lag behind the county and national average. This contrasts with more affluent parts to the west of the county, where income levels are higher, smaller employment sites tend towards higher value and knowledge-intensive businesses (including hi-tech sectors such as life sciences, creative and media industries, and green technologies) and where commuting patterns to London are stronger. Overall Kent is a net exporter of labour, with 80 per cent of all out-commuting trips heading to London.

Infrastructure investment is required to support economic growth in more marginal areas and address imbalances across the County but this requires consideration of all growth factors across the county as a whole and a single strategic-level authority for economic development. Current projections for population growth in Kent suggest significant variations across the county in terms of housing needs. However, the degree of fragmented administration between the districts means that current housing trajectories are considerably higher in Canterbury, Dartford and Dover where delivery is above demographic need as opposed to considerably less delivery in Sevenoaks, Swale and Tunbridge Wells where demand is highest.

Source: Kent and Medway Growth and Infrastructure Framework

Figure 17. Penalties from Fragmented Government



Source: OECD

arching governing body, with the purpose of coordinating policy, can reduce this penalty by a half.[58] See figure 17.

However, in the most sparsely populated and 'extremely' rural areas of the OECD this negative impact of fragmentation decreases.[59] This suggests that the relationship of governance to growth varies between rural and urban environments. There are clear implications in these findings for counties in England. As we have previously noted, most counties are not rural by EU definitions, being either wholly or partly in the urban category in terms of their density and distribution of populations. In fact, only one county (Herefordshire) is identified as mostly rural. Therefore, while counties cannot copy the 'city growth' model wholesale, governance lessons still apply from the need for less fragmented governance and fewer units of government to the need for strategic-level authorities to coordinate growth.

County councils have a complex relationship to other administrative boundaries, including sub-national transport bodies and LEPs. Many counties have established strong relationships with LEPs, and support the development of their Strategic Economic Plans. There are, however, instances where counties are crossed by numerous and sometimes divergent economic interests, with multiple strategies and plans for different economic geographies beyond the scope of the counties decision making function.

Stronger more empowered counties could have greater influence over wider regional development and infrastructure investment decisions. This would not only encourage central government to devolve more powers to local government but also allow regions to pull down functions from government departments and via national bodies such as the National Infrastructure Commission (NIC) to authorise greater decision-making responsibilities over matters such as transport.

In practice, this is already happening in the Economic Heartland Strategic Transport Plan, where upper tier counties (Buckinghamshire, Cambridgeshire, Northamptonshire, Oxfordshire) and neighbouring unitary councils (Bedford, Central Bedfordshire, Luton, Milton Keynes, Peterborough) are driving this agenda at scale, seeking to become a Sub-National Transport Body (SNTB).

This is also reflected in the operation of Transport for the North and equivalent developments for the 'Midlands Engine' where the Leader of the new Conservative administration in Nottinghamshire has publicly called for ambitious plans for county unitaries across the East Midlands as a means to effective regional development.

"If East Midlands counties [were to become unitary authorities] we could then have a combined authority to deal with transport infrastructure and so on, which the [unitary] city councils [Derby and Nottingham] could join if they wished."[60]

The key argument for advancing this type of regional development is to consolidate and reform local government to provide, as the NIC have suggested, 'a step change in strategic leadership'.[61] Crucially, it is driven by empowered counties coming together, rather than a new layer imposed from above.

Reducing the negative impacts of policy fragmentation could create numerous benefits for economic development in terms of improved spatial planning – for housing, infrastructure, transport and connectivity; enhanced conditions for growth and public service delivery; and solve the problems of under-bounding housing affordability. It would enable empowered authorities to agree deals with neighbors, firms, and government on a direct and transparent basis.

The current two-tier system impedes this strategic decision making at the wider regional level. It creates an environment that incentivises district authorities to pursue interests in conflict with wider policy goals, or align more closely with potentially competing agendas in neighbouring authorities. This can result in fragmented infrastructure strategies and substantial funding gaps for counties.

Resolving fragmentation challenges therefore also requires resolving the political and governance challenges that are currently an issue in two-tier areas. See Case Study: Staffordshire County Council.

4.2.3 Scale matters when it comes to economies

The relationship between the size of local government and local economic performance are difficult to determine since the predictors of growth are likely to be dominated by other characteristics such as macro-economic policies or structural differences in regional economies. However, there is modest evidence that larger counties in England tend to have higher income levels – GDP per head.[62] Insofar as English counties tend to be at least partially urban and not predominantly rural, this broadly accords with the OECD research evidence from metro-areas.

There is a possibility that some counties have larger populations because they are more prosperous and that the relationship between scale and economic performance may be in part because of the migration of people and businesses, with success being self-reinforcing. This may also relate to how counties tend to be at least partially urban and not predominantly rural as well as issue of agglomeration and the extent to which this effect may apply in counties as well as in cities.

This suggests that the issues of size and scale are significant factors in facilitating economic development, and where there is fragmentation of two-tier government into smaller competing units, this may reduce the effectiveness of county councils in supporting growth. Small under-bounded unitary authorities are certainly less able to affect their wider economic geography, constraining potential and saving up problems for economic and population growth later down the line. It is also true that the economic leadership role of councils – making and shaping markets – requires commercially-minded leadership and effective business planning. Larger counties with more financial weight have more room in their budget to offer attractive salaries for experienced talent.[63]

Operating at scale across a county footprint can also help capture the benefits from a diverse range of localised economies, including both the more prosperous and the endemically deprived, so they are able to cross-subsidise and invest between areas of higher and lower growth in a way that smaller units cannot. For businesses, county-wide Business Rate Retention would minimise complexity and enable a coherent strategy across the functional economic area. If the multiplier varies across small geographies then this could create a sense of unfairness and confusion for local businesses and distort business location (although exceptions may have to be made for larger urban areas, see the finance section).

Regardless of size, not all counties can make claim to a single and coherent economic geography, especially where travel to work and housing markets operate across county boundaries. Nonetheless, it is the counties that have the administrative scale to accommodate growth, and ensure that infrastructure is properly designed and future-proofed, and where necessary to work with city neighbours to accommodate expansion. There are benefits of size and scale in decision making and where working commercially, to achieve the best use of public and private investment.

Case Study: Staffordshire County Council

Staffordshire County Council lies to the north of the West Midlands conurbation consisting of the Black Country, Birmingham, Solihull and Coventry. The metropolitan district authorities of these areas are all constituent members of the West Midlands Combined Authority (WMCA), whilst there are also a number of non-constituent members of the combined authority including the Staffordshire districts of Cannock Chase and Tamworth. These two Staffordshire districts, along with East Staffordshire and Lichfield, are members of the Greater Birmingham & Solihull LEP (GBSLEP), whilst the GBSLEP is also a non-constituent member of the WMCA. This means that East Staffordshire and Lichfield are also covered by the WMCA. The whole of Staffordshire is also covered by the Stoke-on-Trent and Staffordshire LEP (SSLEP) of which Staffordshire County Council is a member.

The overlapping and differing boundaries of the various bodies involved in the delivery of economy, planning and transport projects and functions have greatly complicated the delivery of associated schemes. As an example, some local transport funding that was distributed through the Local Transport Bodies divided a proportion of the funding for the Staffordshire districts between the two LEPs, despite Staffordshire County Council being the Local Transport Authority for the area.

The confusing governance landscape has also resulted in a situation where the outcomes from funding are not always clear and there is undoubtedly an element of double-counting. For example, a scheme that is delivered using funding secured from SSLEP but is within the overlap area will be counted towards the overall growth targets of the GBSLEP and WMCA.

4.2.4 Devolution and growth (from a low base)

Between 2000 and 2015, less prosperous regions across Europe grew at a faster rate than those that were already economically successful, in terms of GDP per head.[64] This includes rural areas, where growth rates are more varied, but particularly intermediate areas (neither urban nor rural) which account for a disproportionately large part of overall growth. This suggests that smaller, less dense places, with low and middle incomes are 'catching up'. If the conditions are right, even places that appear to be lagging can grow very fast. They could, therefore, be further helped to make an important contribution to national growth, with the right policy interventions that do not exclusively focus on large conurbations or high productivity areas.

There is evidence to support the positive relationship between the autonomy and power of authorities and the rate of growth in their economies.[65] Research suggests that the more centralised a nation is to start with, the more it has to gain from decentralisation, but it also suggests that the benefits from devolution accrue mainly through greater freedoms to generate revenue and set policy agendas, rather than greater control over devolved spending powers.

This analysis implies that broad generalisations about what sort of places succeed and which are bound to struggle are not possible. It also implies a need for more targeted policy-making to allow different models of devolution and governance arrangements in counties, that are tailored to help places improve their economic performance.

4.2.5 New institutions for growth

It is in the context of unequal economic geography, fragmented governance arrangements and the centralised nature of the British state that a consensus is emerging about the need for new economic thinking and practice. Political parties, policy makers, academics and businesses all agree that industrial strategy must play a central role in the UK economy. Further, that such a strategy must revive local economies and incentivise economic activity in all parts of the country, including those deemed to have been left behind by globalisation.

Modern Industrial Strategy (IS) remains a central plank of the Government's programme, as its prominence in the 2017 Queen's speech indicated. The 2017 IS Green Paper placed particular emphasis on the need to create new institutional arrangements at the local level.[66] Similarly, the Labour Party in its own Industrial Strategy policy has emphasised the need to extend the rights of local authorities in left-behind areas, in order to empower local economic development.[67] See 'The Voice of Business'.

Efficiency is very important to business, and they rightly think that public institutions should deliver the best possible value. Large county councils can demonstrate this track record for efficiency due to the scale

The Voice of Business

Businesses have long called for a clear commitment to minimise the bureaucracy and complexity of local government. The view that there are too many units of local government for business to engage with is well recognised. The British Chamber of Commerce, in advocating their principles for better business engagement have previously proposed a sub-regional or regional body for business representation in decision making processes. The CBI has also made its position clear on devolution; that local authorities wanting enhanced powers, must commit to structural reform.[68]

It is easier for businesses to deal with larger and fewer units of local government. Smaller and fragmented counties cause confusion and complexity for businesses and developers who can find business frustrated by parochial decision making on important strategic issues, especially when working across a broader geography. A single tier means businesses looking to invest have one point of contact, a consistent framework for regulations, and clear input to strategic planning.

EEF, the sector body for manufacturing, have indicated their support for greater devolution and local government reorganisation in the counties. They state their conviction that through scaling up and merging with other councils, local government can create a stronger base with the capability, capacity and financial security to entertain the risks of taking on more responsibilities.

"Perhaps the strongest argument for the ending of the two-tier structure is the simple question – if it didn't exist, who would argue for its creation?"[69]

More recently, businesses in the Cambridgeshire and Peterborough combined authority expressed disappointment about local government reorganisation being absent from Mayor Palmer's 100 day plan.[70]

and practices in their organisations. Any propositions for new institutional models must harness these benefits to maximise local growth potential.

Delivering a new Industrial Strategy is also likely to require strategic interventions to 'fill in the gaps' where institutions are missing or to provide specific functions where the market has not done so. This requires a body with strategic economic delivery capability, which Counties already have. While LEPs are likely to play a role, it is counties which have built up experience acting commercially and are able to marshal actors across their wider geography. This makes counties the obvious level for local implementation of Industrial Strategy.

Part 3: *Public Service Reform*

Beyond the stewardship of local economies and local interests, the ability to deliver public services has been a key function of local government since the social reforms of the mid-19th century. But while this role has changed over time and is sometimes seen as little more than an agency of the central state, it is nevertheless an essential relationship that is more than the sum of its statutory functions. Regardless of whether or not local government is the direct provider of services, it has a central interest in the wellbeing and welfare of its citizens and how service outcomes can be improved.

Our analysis has already shown that there are unique challenges facing counties in the realm of public service reform. Public finances are struggling to keep pace with the mounting costs of increasing demand for public services. This is particularly the case for counties where the pressures on health and social care, from an increasing and ageing population, will continue and intensify; and where dependency on social security is inflating the costs of public services.

This section outlines the factors to consider in how reform can tackle these issues. We show that reform at county level is required to minimise disruption in existing services and improve cross-sector partnerships, and increase housing delivery. The county scale provides, on balance, the best available geography for co-terminosity – aligning public sector boundaries to deliver integrated policies. Creating stronger governance arrangements could provide a platform for devolved public services at the county level to improve outcomes and drive efficiency.

4.3.1 Local government reform: the benefits of integration at scale

The role of public services was not central to debates and public consultation about the size and functions of local authorities during previous rounds of local government reform, although it was clear that reorganisation provided new opportunities to draw together policy and planning across social services, housing and public health.[71] Now, the devolution agenda has turned to how governance change can aid innovation in public services. Pressure to resolve the housing and social care crisis is demonstrating the inability of central government to deliver. Providing responses to these challenges nationally will need to consider the effectiveness of two-tier governance; the costs of fragmentation; and arguments for scale.

Identifying the most appropriate scale for the delivery of different public services is nonetheless difficult given that the arguments can work in both directions. If we accept that efficiencies can be achieved by maximising economies of scale we very quickly arrive at national institutions like NHS England. At the same time if we contest that large departmental silos do not allow for the level of integration that is necessary to deliver better outcomes for people and places we must accept the opposing view that there are disadvantages to increases in size and that there can be benefits to outcomes in the diseconomies of scale.

Public policy in the UK has yet to determine the point at which costs or benefits accrue to size, or where on the curve towards diminishing returns the ideal scale of operation is to be found, although there is some evidence about where localised delivery works best[72]. In these circumstances, the approach to local government and public service reform should therefore continue to be an iterative, asymmetric one, which can test in different localities and situations different arrangements, to optimise efficiencies and outcomes.

However, in considering how reform could impact on statutory services delivered via local government, analysis undertaken elsewhere has demonstrated the benefits of scale. This includes the potential negative effectives of disruption, in moving to either larger geographies, for example on a combined authority model, or provision by more, smaller units. These contrast with the benefits of scaling up to the county level, which already account for as much as 90 per cent of local expenditure.[73]

The arguments for scaling-up include the ability to streamline services and remove duplication; to improve the co-operability of staff and premises; and to increase the scope for contracting and commissioning, all of which can generate efficiencies that can be reinvested in the frontline.

Health & Social Care

The impact of fragmented services across multiple, particularly small, organisations is borne out by the experience of the unitary councils created in the 1990s, where the disaggregation of social care functions was particularly disruptive.

The implications for impending reforms to social care are crucial in tackling the underlying financial pressures facing counties, but also ensuring reforms provide a solution to growing pressures in care markets.

In this context, recent research by LaingBuisson has warned against reforms that seek to fragment social care commissioning arrangements in county areas.[74] After analysing care market sustainability within county areas at district level, they argue there is a high degree of intra-county variation and large cross district flows of care home residents within large counties. Demand generated in one district with relatively low capacity is very often fulfilled in another with higher capacity. In short, districts are rarely self-contained care economies.

The research concludes that when considering structural reform in counties, fragmenting county geographies could generate a relatively limited level of demand, which may make it uneconomic for a district sized unitary authority to employ the full range of commissioning and market management skills. Inter-district resident flows would make it more difficult to pursue 'place-based' market management policies,[75] further weakening markets in county areas.

While much of the focus centres on new funding arrangements to address funding shortfalls, the Social Care Green Paper is expected put forward wider system reforms to enable areas to better integrate services and take underlying barriers to integration. LaingBuisson's analysis argues that the creation of additional unitary authorities would make it more complex to pursue health and social care integration initiatives involving collaboration between a multiplicity of health and local authorities.

Instead of reducing scale and increasing complexity, one area of focus should be the interconnected nature of housing and health services, where responsibilities are again split between county and district councils. In their analysis of previous reforms, Shared Intelligence identified that the scale and geography of an authority can determine the extent to which it can actually exploit the advantages of unitary status and having all services in one organisation. See Case Study: Disabled Facilities Grant (DFG) and Preventable Health.

The housing challenge

There is evidence that the separation of development functions and responsibilities between district and county councils has resulted in a disconnection between planning, infrastructure funding and delivery. This is particularly salient in the context of the current affordable housing crisis and the wider implications for the provision of public services.

The evidence is clear that this planning disconnect is having a real impact. The table below shows that 6 out of 10 county unitaries are delivering houses for at least 95 per cent of new households formed from population growth projections.

Case Study: Disabled Facilities Grant (DFG) and Preventable Health

Cornwall is a large county with almost two in every five households containing at least one person with a long term health problem or disability. A few years ago DFG services were fragmented between the County Council and six districts and were extremely slow. Cornwall is one of the first wave of 'super-unitaries' which has brought together the district and county services into one unitary authority.

This new structure has allowed them to develop a multi-skilled and integrated service with pooled budgets called Cornwall Home Solutions. It has amalgamated the DFG and occupational therapy teams with the previously external home improvement agency and handyperson services and they now operate out of three area offices. The service offers a range of housing solutions for older and disabled people including minor adaptations and equipment, major adaptations, handyperson services, access to grants and loans, energy efficiency advice, winter wellness campaigns, support to relocate including financial assistance, and housing options advice to enable people to plan for future needs.

This new integrated structure has reduced costs, speeded service delivery, resulted in greater innovation, and is already having a strategic influence - informing policies such as the local plan and the Housing Strategy.

Source: Foundations UK[76]

Figure 18: The Housing Challenge

	Number of authorities meeting 95 per cent of population growth	Total number of councils	Proportion of authorities meeting 95 per cent of population growth	Average numbers of population growth in period
County Councils	8	27	30%	13,040
County Unitaries	6	10	60%	5,119
Shire Districts	60	201	30%	1,766

Source: ResPublica calculations using DCLG data

However, in District councils, only 60 of 201 are building enough new houses to meet 95 per cent of projected new household demand, and only eight full counties are reaching the threshold. This is despite the fact that average population size and growth is clearly much smaller in the districts, only one-third of that in the unitary counties.

The current system is leading to developments that are not strategically aligned with projected population or economic growth and with local public services. In two-tier areas the district is the planning authority, and also sets and collects the Community Infrastructure Levy (CIL), which is designed to support housing development. However, it is the county council that is responsible for the essential infrastructure which supports housing growth, major infrastructure schemes to stimulate economic growth, transport, and road maintenance – which are partly funded by CIL, over which the county council has no control. See figure 18.

This means that there are split incentives. County councils bear most of the new costs arising from development, and receive 75 per cent of council tax proceeds. But since it is the districts who have 100 per cent of responsibility for planning permission, their decision-making – somewhat rationally - puts less emphasis on the wider benefits and costs and more on local impacts.[77]

The fragmentation of responsibility for housing between county and districts can lead to dispersed, and in some instances rapidly growing but asymmetric developments. This can have a negative impact on both the potential for local economic growth and the improved effectiveness of public service delivery. Where local authorities are under-bounded, this is a significant problem with no available land in one council and an unwillingness to grant permissions in another. Such issues occur in small, under-bounded unitaries and in some districts in two-tier areas. See Case Study: Housing, Planning, Economic Development in Northamptonshire.

Case Study: Housing, Planning, Economic Development in Northamptonshire

Northamptonshire, as is the case with other two-tier areas, experiences a fragmented strategic planning system, which has affected development. Two joint planning committees have been created for the two halves of the county for the strategic elements of the local plan, although that in the western half is currently being wound up. The county's seven district councils address less-strategic elements in their own local plans. However, these have been slow in coming forward and being adopted.

Neither the district council areas nor the areas covered by the joint committees cover natural travel-to-work or housing market areas. This does not aid strategic planning. Nor does it aid residents who wish to access planning services in person, as for many their closest town will be in an adjacent district, with their own council residing further away.

Furthermore, the patchwork of eight planning authorities and two strategic planning committees across the county militate against single procedures being introduced across the county, such as single charging, consultation, and case management systems.

The problems exist throughout the planning system, but begin with the system of Objectively Assessed Need (OAN). OAN is supposed to give an indication of the local 'need' for housing and a benchmark with which to judge councils against. In practice, the methodology is left to local councils, which leads to long-running disputes over the accuracy of the projections they produce, with different groups producing their own 'need' assessments. Further complicating matters, 'need' and 'demand' are not defined separately in the OAN, resulting in battles between what the housing markets will deliver and what residents consider socially desirable or necessary.

One unintended consequence of the current system is the failure in aligning housing with schools, which the current planning process does not facilitate well. Sparse populations in county areas are often supported by a number of small one-form infant and primary schools located in villages and fewer but relatively large secondary school in the biggest towns, often more than three miles from where many pupils live.

In many counties demographic changes and housing growth have led to an increase in pupil numbers. Small infant and primary schools can be constrained by their site location to accommodate expansion, leaving families with second choice schools that can be in opposite directions and more than two miles away. This means the county authority must provide free home to school transport to those refused a place at a local school.

The average cost to transport a primary age child is just less than £1,500 p/a. Therefore if additional housing leads to catchment oversubscription of just 100 per year who are unable to access their nearest local school, the additional cost will be in the order of £150,000. The costs of providing home-to-school transport for all entitled children in a large county authority can run to more than £30m per annum - double that spent on child social care to support vulnerable children and their families. See Case Study: Home to School Transport Links, Hampshire County Council.

Of the problems afflicting housing in two-tier areas, the resolution for many is only available by both integrating policy into one layer and applying it across a wide geographical reach. This could be via the 'Council Housing Deals' promised in the 2017 Conservative Manifesto. Top-tier authorities have already been designated as the only bodies that can apply for strategic 'Forward Funding' in the Housing Infrastructure Fund.

Extending spatial plans to other areas could vest infrastructure and housing locations in the same body and same plan. As a result of the Neighbourhood Planning Act 2017, county councils can, on the Secretary of State's instruction, write local plans if lower-tier authorities are behind on doing so. To extend this principle, The Statement of Common Ground (SoCG) should, since the County deals with infrastructure, be signed for the whole County area.

With fewer negotiations between different bodies, the Local Plan process could be quicker than the 17 months it takes currently (10 months pre-National Planning Policy Framework). Processing applications at larger geographies removes some of the pressure of local interests from planning permission, and insulates councillors from political blowback from approving developments.

Case Study: Home to School Transport Links, Hampshire County Council

Hampshire is a county that has experienced significant housing and population growth in recent decades. This has placed increasing demand on education and home to school transport services, leading to additional costs.

The disparate location of the new housing in Hampshire's districts means that there is often no one site that can easily accommodate rising pupil numbers. A strategic review of housing development and pupil catchment areas would seek to create an arrangement whereby all children live within the two and three mile statutory distance from their nearest school. But without ongoing consideration at the time of approving housing development sites this will not be achieved.

If a single strategic body were at the helm of the planning process, it could bring together housing and education intelligence to match demand with supply. This would factor the number, type and tenure of houses in its various settlements, the demography at any given time and the forecasted impact of the likely child yield from additional new housing developments.

This information could then be used to look across infrastructure requirements to ensure that if additional houses are to be approved, Section 106 contributions are able to fund potential solutions. These could include new school buildings, school buses, and transport subsidies, so that the council's revenue dedicated to providing home to school transport can be freed up. Without this strategic function, the continual increase in this cost – caused by district decisions - will fall to the county budget and the public purse.

In terms of new delivery models, the scale of counties also offers the opportunity for them to create their own housing companies, as some have. The financial scale of counties means their borrowing and risk tolerance will be higher for such a model. Relying on their own delivery means, counties can offer a guarantee of high delivery numbers to the Government in future devolution negotiations.

Divided and overlapping public service geographies

The geography of public service provision is not always matched to county council boundaries. This is most apparent with the NHS Sustainability and Transformation Plans (STPs), which are the blueprint for NHS planning for the next five years and aim for health and social care integration. There are very few places where the various boundaries for health and social care coincide. In areas with a history of joint working, such as Cornwall or Greater Manchester, STPs align with local government boundaries. Elsewhere, boundaries do not. See Case Study: Health and Social Care in North Yorkshire County Council (NYCC).

County councils are responsible for public health, but the fragmentation of planning policy in the two-tier system, directly affecting population growth and the demand for NHS services, makes co-ordinating policy more complex than it otherwise would be.

A priority for any reform of public services must be to minimise complexity and fragmentation, which points towards the need for a single geographical footprint and overarching authority at the county level. Ultimately the solution will be to effectively align all public services within a unified accountable boundary. In this context, operating at the county council scale, via a single body, provides a pragmatic solution. Conversely, sub-county proposals to reduce scale could further increase the problems of fragmentation and non-contiguous delivery.

Policy to realise this could include a 'boundary change link', where any future review of county boundaries should also consider wider public service boundaries, which should be similarly changed.

4.3.2 Reorganisation as a platform for devolution and public service reform

In addition to the provision of statutory services, local government aspires to having greater control over wider public services that are currently delivered by central government agencies. Yet service integration alone cannot deliver the scale of transformation required.

Public spending can broadly be divided into two categories, depending on its aim. 'Proactive' spending uses resources to prevent problems arising and prevent cases reaching a more serious or costly state. 'Reactive' spending responds to the consequences of problems caused elsewhere in the system, such as dealing with excluded pupils, the costs of taking children into care, drug-related crime, acute healthcare including A&E, and long-term unemployment.

Shifting the emphasis from reactive measures to preventative early intervention - the reform of public services- is necessary to provide positive social and economic outcomes and better value for money at a time when overall public spending

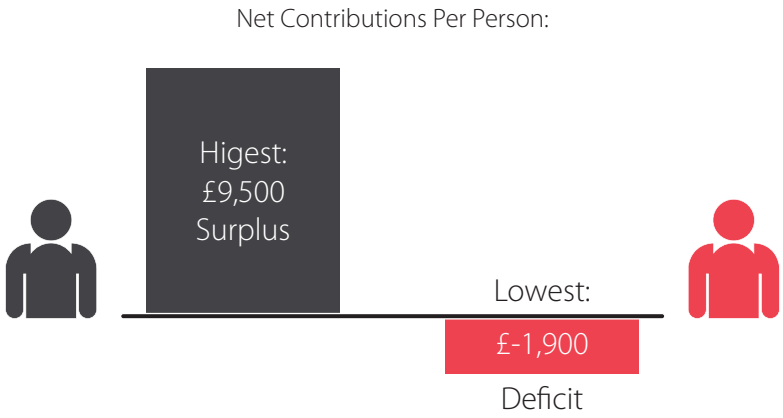
Case Study: Health and Social Care in North Yorkshire County Council (NYCC)

In North Yorkshire there are no simple footprints for health. Due to the patient flows for acute, tertiary and specialist services, five Clinical Commissioning Groups (CCGs) fall into three out-of-county facing Sustainability and Transformation Plans (STPs). This provides an additional challenge to the system and to the integration agenda in the NYCC area. Layers of plans sit above and below the STP's, with shared links and dependencies. Each organisation has a multitude of relationships with other organisations including primary, secondary and tertiary care providers of both physical and mental health services, specialist and other commissioners, local authorities, government, and the third sector.

The county council is committed to keeping care as integrated and close to home as possible for patients in the North Yorkshire area. But this requires greater alignment to local authority boundaries, where people live, and not with the location of hospital care. Districts do not play a significant part in the delivery of care services but they do have a role in the allocation of housing and leisure services which contribute to public health but which add another layer of complexity to strategic planning. NYCC has ambitions to integrate housing services with health and social care across the county footprint, to help maintain more residents in their own homes and to plan for extra care, sheltered housing schemes and shared facilities.

Integration on this scale requires strategic coordination at the county council level, where delivery can benefit from an appropriate level of operation, clear governance, contiguous boundaries between partner agencies and a high capacity and capability to accommodate transformational change.

Figure 19. Variations in Tax & Spend Between Counties 2015-16



Source: Oxford Economics

is reducing. Despite an overall picture of relative prosperity, the counties contain too many communities, families and individuals on low wages and in precarious work, who often must recourse to social security.

However, early intervention measures are difficult to implement given the highly centralised nature of public services in the UK. These are highly centralised, delivered through central government departments and organised in large policy and funding silos. This leads to a standardised 'one-size-fits-all' approach that is less able to respond to, or address the root cause of, more complex problems which often need cross-disciplinary and simultaneous interventions across a range of issues.

Solving these 'wicked' problems requires a more bespoke and holistic offer that can more effectively join up government and integrate delivery at the local level, to better meet the increasingly complex needs of service users. By adopting a 'whole-place' approach, local partners and agencies can connect and concentrate their efforts.

Public services frequently operate at a level and scale that restrict the potential for genuine service integration. They prevent the flexibility needed to work across departmental and geographical boundaries. Services are already specified long before local partners are able to influence or align delivery.

Places simply lack the necessary control over public resources to shape and design services to achieve distinct local outcomes. Consequently, many local communities and individuals experience a system that provides overly prescriptive and reactive services that are deeply disjointed and fragmented, with multiple points of access, assessment and referral but with limited continuity of care between agencies and providers. This situation disincentivises local co-operation as delivery organisations compete with each other, unnecessarily and against the common good. It results in wasteful duplication of ineffective activity across services. It limits innovation and the capacity to adapt to local variations, leading to unintended policy outcomes – solving easier-to-help problems but entrenching others – and ultimately, poorer services at higher costs.

Reforms to governance in county areas could enable it to play a bigger role. Counties must make full use of their assets and strengths to attract investment, grow businesses and create jobs. Reducing levels of worklessness and those at risk of moving onto long-term ill-health benefits; improving qualifications levels; opening up more employment opportunities; and increasing progression into higher skilled and higher paid jobs – all of these are central to addressing both the missed potential for growth and the dependency on public services that are holding back productivity. Ensuring people are better connected to growth and employment opportunities will be fundamental to closing the tax and spending gap across the counties. See figure 19.

As a potential vehicle for devolution, this could not only ease financial pressures across the public sector and maximise efficiencies through place-based integration but also allows for the redesign of services to better meet local need and improve outcomes. Local government would increasingly facilitate integration between different parts of the public sector, overcome multiple boundaries for service delivery and work with multiple partners. In each of these benefits, the importance of scale and the strategic decision-making capabilities of a single body are foremost in delivering successful reform.

The potential efficiency and growth benefits of adopting this approach are explored in Chapter 5.

Part 4: *Linking Governance Structures to Local Growth and Reform*

The history of local government in England can be characterised as two dichotomous traditions: the centralising state – the oppressive 'Norman Yoke' – and the decentralised legacy of Anglo-Saxon rule. The governance of territory - the system of policy, actions, and affairs of the responsible political authority - is at the heart of the debate over its form.

Relevant issues for the form and structure of governance concern the process of change and how this is achieved; the broad principles and criteria of reform especially concerning size and scale; how councils work in partnership with surrounding or overlapping bodies; their role engaging with central government and their place in the UK constitution; and the extent to which they provide for popular representation.

On each of these measures, although they start from different considerations, all point towards a need for unified authorities with sufficient scale, that can command popular support, in a way the current system is inherently challenged to do.

4.4.1 Good governance is achievable at scale

The 'right' size of local government is one of the most bitterly contested themes in the field. Large-scale county councils are sometimes painted as unresponsive, unwieldy and neglectful. In practice, above a certain size, increased population shows little link to performance standards. There are examples of good and poorly performing councils at both large and small sizes. The exception is very small unitaries, including some created in the 1990s – the smallest have only 34,000 and 88,000 population – who have struggled with delivering services, especially where these have been divided off from former county areas, such as social care and education.

A cap of around 800,000 – which is what current guidance suggests – is essentially arbitrary. Population caps would also potentially cut across other important factors in deciding council size, such as geography, local assets, and sense of place. These should weigh heavily in determining the scale at which local government is organised. However, DCLG has not always given these criteria the consideration they deserve when assessing reorganisation bids, focusing narrowly on corporate performance instead of considering the wider outcomes for the territory governed. See figure 20.

In considering future bids, DCLG must first of all ensure to strongly weight these criteria and rule out a cap on potential council size. See Case Study: Reorganisation process in Buckinghamshire.

4.4.2 Partnership working in overlapping tiers

The current system makes deep integration of decision-making unnecessarily complicated and time-consuming to the point of impossibility. From an organisational view, it adds little to outcomes but consumes significant resource. This is highly problematic during a period when councils are working with a plethora of agencies, both overarching, like Sub-national Transport Bodies and LEPs, or

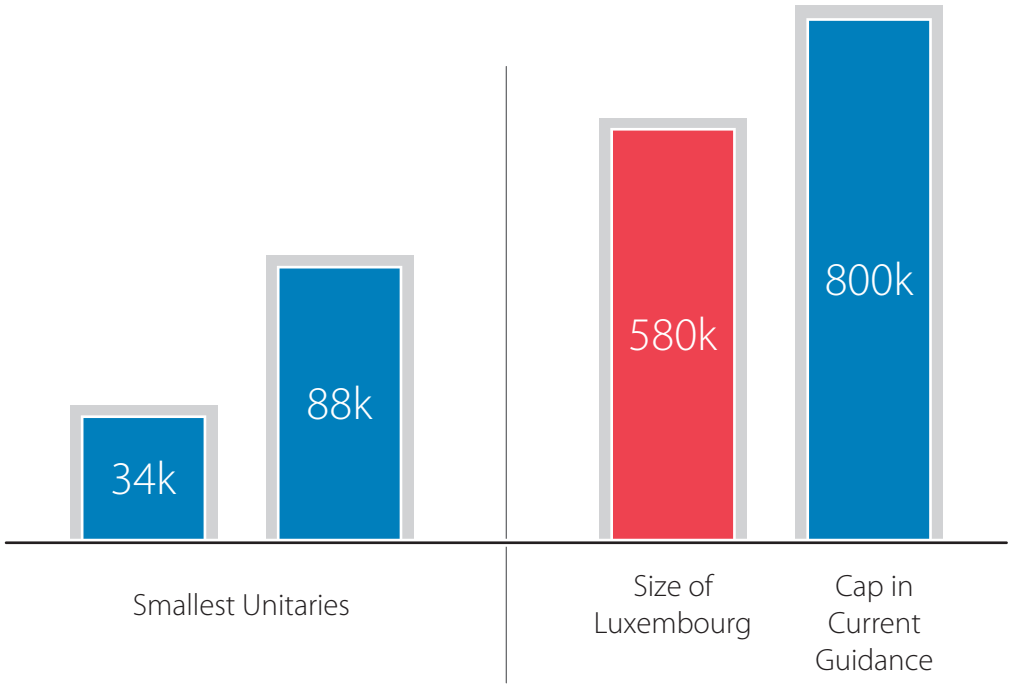
Case Study: Reorganisation process in Buckinghamshire

The current absence of a clear process, timetable and decision-making criteria from Government have been a challenge for authorities seeking to bring forward proposals for modernising local government. In Buckinghamshire, the County Council submitted a business case for a single county based unitary council in September 2016; the four District Councils submitted an alternative business case for two unitary councils in January 2017. Resources have been committed by all parties to the development of business cases and the engagement of communities, businesses and partners.

However, a lack of clarity over the government's criteria for judging proposals and decision-making means these efforts may be duplicative or mistargeted. Mixed messages around future leadership arrangements, models of service delivery and priorities for investment mean despite best efforts, progress in moving forward is inevitably affected. Councils submitting bids must rely on informal knowledge or stories in the local and national press.

A clear process and criteria for its decision making, published by the Government, would enable ambitious proposals for reform and innovation to move forward.

Figure 20. Comparison of County Population



Source: ResPublica

Case Study: Warwickshire: Working with Combined Authorities

Combined Authorities are a relatively new institution and County authorities are working with them in different ways. Warwickshire County Council, which lies to the east of the Metropolitan Borough councils of Birmingham, Solihull and Coventry, has joined the West Midlands Combined Authority (WMCA) as a Non-Constituent Member.

Warwickshire sees substantial Travel-to-Work flows to the east as well as to the Birmingham area, and its economic sectors have their own geographies that reach outside of the county to east and west. Therefore, the County council looks to maintain an economic orientation open to all directions, rather than becoming solely integrated with the West Midlands.

While Warwickshire is less legally embedded in the WMCA than constituent members, the county nonetheless participates fully in the affairs and decision-making of the Authority, to the extent that it nominates the WMCA's lead member for Finance, and in many ways it is more similar to a full (constituent) member.

By contrast to the level of participation of the county council, the district councils have formed a separate 'Non-constituent members group', focussing on issues affecting non-constituent members. There is a risk that this dynamic will develop a sense of 'us and them', where non-constituent members adopt an oppositional attitude instead of working for the common good of their area and the wider region.

adjacent, such as Combined Authorities. Ability to work with neighbouring authorities is vital to deliver efficiency improvements, public service delivery plans, aligned economic growth, and devolution deals.

The problems are both relational and legislative. On the relational side, councils are seeing the erosion of their abilities to make long-term plans for their statutory areas of responsibility and align their policies with neighbouring areas. This happens because district councils are able to 'play off' county councils against neighbouring Combined Authorities and LEPs and put forward different priorities, despite both having responsibility for the same geographic area. It is then unclear who has ultimate authority to strike agreements, and negotiating partners from other agencies may be unwilling to make agreements when they could get a better 'offer' from district councils.

This situation is a product of the two-tier system, but also of recent incomplete central government reforms. Since district councils can be members of more than one LEP, and also full or non-constituent members of a combined authority, and since these bodies receive centrally distributed transport and growth funds, there is opportunity for extensive jockeying and competition for control over funds and responsibilities.

On the legislative side, where districts are members of a combined authority, the county is also legally a member, even if it does not participate. This means that if the district is part of the Combined Authority's transport functions, the county cannot join a different Subnational Transport Body, even if that body is more appropriate. See Case Study: Warwickshire: Working with Combined Authorities.

The current instability is likely to continue as long as district councils are able to keep one foot in both current county boundaries and neighbouring city-regions. In the longer term, fragmentation due to competing priorities will continue so long as there is overlap between the responsibilities of lower and upper tiers.

4.4.3 Improving local-national working

A renewed local government system that creates one accountable voice for local areas would make the governing of the UK through local-national co-operation much easier. As it stands, local government is difficult for central government to convene and the array of overlapping stakeholders makes it difficult to agree national-local plans to implement policy.

Just as a single accountable body is simpler for business, it also makes convening local government much simpler for central government. The difficulties in agreeing devolution deals in two-tier areas on issues such as Mayors have demonstrated the problems presenting a united voice to government in areas with multiple authorities - and that is just on the issue of devolution. A single voice greatly reduces complexity and effort required to consult and engage with local government.

This would open up the possibility of a more, collaborative approach to policymaking where local government was involved at every stage of policy design, rather than have to implement central government edicts handed down from the top. Common in European countries such as the Netherlands and Germany, this could potentially reduce the risk of policy failure and help governments of all colours achieve their policy goals more effectively. Moving from the current unclear lines of accountability to a unified authority would also smooth the path to advancing devolution deals in county areas.

Making co-ordination less frustration may also support bringing forward strong local leadership for engaging with both government and citizens. Ability to make a different and effect positive change is vital in attracting good leadership.

4.4.4 Directly-elected leaders -'mayors'

A single layer of governance at the county scale also unlocks potential to go further and adopt a directly-elected leader to enhance accountability. This could mean a leader elected by popular vote would lead the county-level authority and not be imposed as an additional layer of government (like the Combined Authority Metro-mayors). The principle of direct election can be adapted for the rural context to avoid the urban connotation of 'mayor', with alternative titles, such as 'county leader''governor''prefect''sheriffs', 'first councillor', or similar. The title of 'Mayor' itself is unimportant, apart from the messaging it conveys.

Directly elected Mayors/leaders enjoy significant profile and recognition, possibly because of the more personalised nature of the electoral campaign. Voters may well feel more of a connection with a politician that they directly voted for, rather than one indirectly elected. This public profile, combined with the direct electoral mandate they receive at elections, gives them significant legitimacy in implementing their political programmes, both in formal exercise of power and in 'soft' negotiations with other bodies and national government. They become the 'person to call' if Government decisions affect their areas.

The same is true for relations with investors and business interests, who look for assurances that their projects will receive local support and strong, accountable personal relationships are a key part of doing so.

The profile of directly-elected leaders also help resolve the question of equal representation with city-regions when it comes to soft power – which is in some ways more important that formal powers. When metro-region Mayors can exercise this power to extract concessions from Government or argue for their priorities, counties are potentially losing out on a valuable source of benefit for their areas.

Profile and mandate also allow accountability at elections, where a change of elected leader or Mayor represent a clear rejection of the incumbent's priorities or performance by the electorate, rather than an internal party reselection as a change of council leader involves currently.

Previous requirements for elected mayors were based on a desire for a single site of electorally accountable power. There are also indications that local government will be able to set business rate multipliers in future, if business rate retention goes ahead, and tax powers in particular require strong accountability.

Finally, while a directly-elected leader leads the same council as before, the dynamics of a directly-elected leader are different to those of a leader-cabinet in ways that directly impact the role their authorities play in systems of government.

Other European countries, responding to a need for reform of their own systems of local government, have sought to create directly-elected leaders for non-urban local government at a variety of scales. See Lessons from abroad: The case of Mayors leading the communes of France and Italy.

4.4.5 Empowering real communities

Connection to a sense of place and identity is vitally important in the legitimacy of political authority, but the opportunity is currently being missed to provide people with governance on a level they identify with. A new model of local government could change this, with locally-responsive government that relates to real communities.

An argument advanced against changing the current system of local government is that the two-tier system offers government that is closer to the people, closer to organic communities, and that English local government is excessively large by international standards. Professor Colin Copus, in support of such a view, says of reorganisation "the only aspect that is really difficult to predict is how and when English local government will cease to be local at all".

Contrary to this argument, district councils are often neither organic communities nor representative of international best practice. They do not have a long history in the UK, being created in their modern form in the 1974 reorganisation of local government. They were based originally on the often ad-hoc 19th-century Sanitary and Poor Law districts. English local government is not especially large by international standards, as while other countries have many small communes, these are more equivalent to English Parish Councils.

The historical legacy of the ad-hoc creation of the district councils continues today. Paradoxically, district boundaries divert attention away from serving natural communities to a degree, as service delivery becomes focussed around boundaries that cut across and group population in an arbitrary way.

Lessons from abroad: The case of Mayors leading the communes of France and Italy

France and Italy demonstrate the differing paths that local government has taken, while employing directly-elected leaders in different contexts.

France elects 'Maires' in every one of its 37,000 communes. While the largest are towns of 50,000 to 70,000 people, most are in rural areas. The French government has encouraged communes to group together to share costs. The Maires are strong figures that exercise delegated power and act as chief executive. Citizens vote directly for their favoured Mayoral candidates in local elections by a list system with mandatory gender balancing.

In Italy, Mayors (Sindacos) play an equally central role in political life in all areas of the country, leading their commune along with an elected council. In the wake of a corruption scandal in the late 1990s, all Mayors were made directly elected to connect them better to voters. Mergers between Italian communes has reduced their number to 8,000. Italian communes have long had responsibility for functions such as public utilities, while France's largest communes and their Mayors gained increased local power in the 1980s.

Meanwhile, at the strategic level, France has merged its 27 Regions to 18, and is devolving them sole responsibility for employment and training policy, secondary education, transportation projects, regional planning, and large scale infrastructure initiatives. The goals of the reform of the regions is to reduce waste and duplication and achieve economies of scale, to clarify responsibility to citizens about who represents them, and to deliver economic scale and power to compete. The French Government has also published proposals to abolish its mid-level tier of Departments, which are smaller than Regions and larger than communes, and do not reflect the historic provinces.

Italy moved to devolve powers to its regions, which are much smaller than their UK equivalents in the late 1990s, granting legislative powers and removing powers from its mid-level provinces.

Unlike the arbitrary scale of districts, vesting powers in an authority at the county scale enables the offering of elements of self-rule to all real communities at the lowest suitable level, which will in many cases not be the scale of the former district councils. This approach to empowering communities can offer both a better way of running council affairs that works with the real concerns of citizen's lives.

This means that key decisions and engagement of the unitary can be undertaken at a level close to real communities. This approach has been undertaken in Wiltshire's 18 community areas. Wiltshire previously had four district councils, but appointed historian John Chandler to conduct a review in 1997 into the different communities of place in the county. The process of defining these community areas considered local identities, culture, social centres, geography, and topology. These 18 areas now form the basis of Wiltshire's Area Boards, which have extensive delegated powers to make spending decisions and set priorities for the County council in their areas of responsibility. Other public services now also operate at the area board geographies. This means that priorities for the county receive extensive challenge and input at a level which represents real communities.

At the same time as making the principal authority more responsive, power can be passed to the historical representative bodies for rural places – parish and town councils. Originating in the manorial system of the feudal age, parish and town councils both represent real communities and are a flexible form of local government that can take on more or less powers as circumstances dictate. Unitary councils across the country have been offering parish councils new powers, new assets and new responsibilities, where they have the capacity to receive them.

Parish councils currently account for 1.7 per cent of the £26bn raised through council tax in England, with a total precept of around £400m. This rose 6 per cent in 2016, although there is potential in future years for parish precept increases to be limited to just 2 per cent, if Government proposals for a parish referendum lock are implemented. This was consulted on but is not currently proceeding.

For example, Hampshire County Council introduced 'Parish Lengthsmen' in 2010. These are dedicated repair workers for groups of parishes, doing environmental maintenance and highways work. They are paid and employed by the county council, but work for groups of around 10 parish councils on jobs that are prioritised locally by parish councils. Previously, improvement schemes would have to go through district or counties highways department job lists.

4.4.6 Supporting self-determination for in-county urban areas

As well as offering enhanced local governance via existing parish councils structures, a move to scale up local government to larger county-based councils would offer the opportunity to provide for the self-governance of cities and towns lying within county areas, some of which have had historic self-government dating back hundreds of years.

To harness the benefits of scale, efficiency and agency that a single local government would offer while recognising the different policy choices and distinct needs of urban areas, town councils could be set up using existing legislation. County authorities would offer progressively more powers to urban areas of sufficient size and economic scale, while large-scale service delivery remained at the county-scale.

This council could, for instance, be able to levy additional council tax, business rates and/or other taxes, if there is local support. Settlements of sufficient size could be devolved some economic development powers, culture, and elements of planning.

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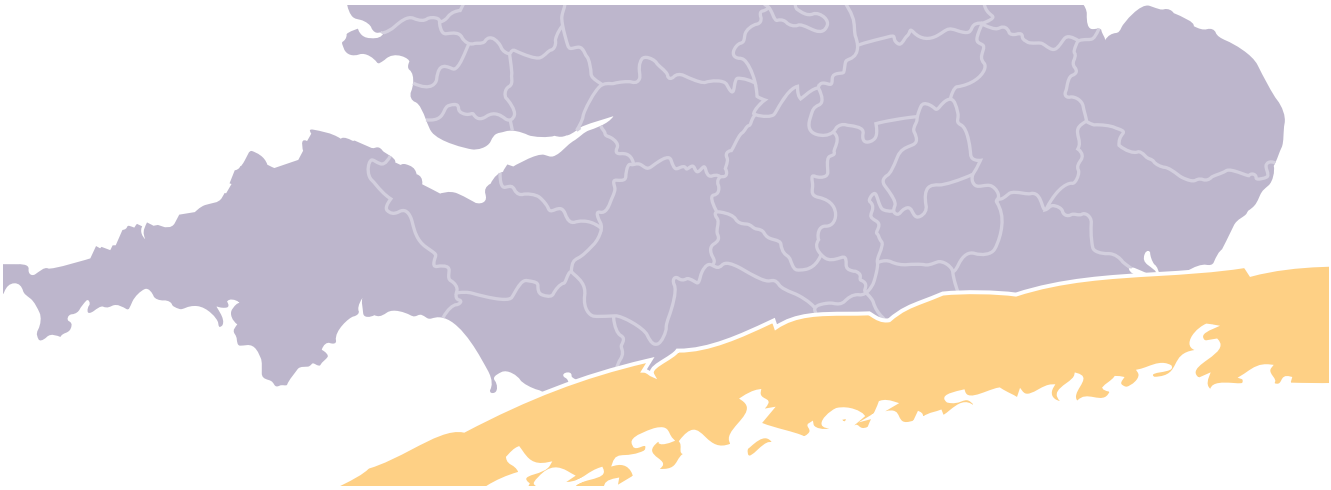
77 The New Homes Bonus is intended to counteract this, but DCLG research found 60 per cent of planning officers didn't think it had resulted in local policymakers being more supportive of housebuilding.



5. The Proposition

"A flexible pathway to reform can allow for different models and the gradual devolution of new powers. By learning the lessons of the past, this process could accommodate both reformed and retained two tier authorities as well as the formation of new county-wide unitary authorities"

We have set out the financial, economic and social challenges facing England's county areas and identified how the current system of local government is ill-equipped to tackle them. To move the debate forward, we propose a pathway which can serve the reform agenda and provide a platform for the devolution of new powers – Devo 2.0.

In this chapter, we first set out existing proposals for reform and analyse their deficiencies. Next, we look at quantifying the benefits of devolution and reform based on county geographies. We then outline how future reform should be achieved, what its aims should be, and how it could help to focus on the functions and characteristics of strategic decision-making in the counties to:

- Secure the long-term financial sustainability of local government
- Provide an effective agent of public service reform and economic growth
- Serve as a vehicle for devolved powers
- Support enhanced localism and representation.

5.1 Options for reform

As we have observed, the key functions and instruments of place making are currently separated between districts and county councils in a two-tier system. This has far-reaching and detrimental implications for key strategic functions such as spatial planning and land use including the designation of employment and housing sites, transport infrastructure and wider public service delivery.

5.1.1 Existing options

There are a number of options which local government has currently adopted with the aim of improving strategic decision making and enabling greater devolution. These include:

- Combined Authority + Urban Unitaries (e.g. City Metros)
- Combined Authority + Urban Unitary + County Council + Districts (e.g. Cambridgeshire)
- Combined Authority + Urban Unitary + County Unitary (e.g. Northumberland)
- County Unitary + Parish Council (e.g. Cornwall)
- County Unitary + Enhanced City/Town/ Parish Council (e.g. Salisbury in Wiltshire)

While these models have proved suitable for some areas, they have clearly presented a barrier for others. Many two-tier authorities have argued that these forms of (re) organisation and governance are not appropriate for them and do not satisfy their needs, while others have found them unworkable in the devolution 'deal' process.

5.1.2 Alternative options: More work, less capability

In response to the perceived inadequacy of existing options for reform, a number of alternative proposals have been advanced over time. These approaches have typically sought to achieve the benefits associated with unitarization, without the political and organisational disruption.

However, these approaches share common flaws. They aim to allow separate organisations to act as if they were one, without the incentives to do so. They rely on relational work between leaders to succeed, but leaders may have opposing local interests to maintain, and can be disrupted by turnover and elections. Nor do they provide additional capacity or functionality, asking participants to expend their time and resources on collaboration without providing new benefits for their areas.

District Cluster proposals – recreating the existing problems

One proposal is that current district councils should be grouped into 'clusters', collaborating with other agencies and Combined Authorities to create sub-county footprints. This approach calls for:

- Pooling resources and developing capacity to deliver and transform public services.
- Interacting with other agencies to draw them into a shared strategic vision of the development of specific localities and therefore influencing and shaping the decisions, policies and actions of external agencies.
- Holding a wide range of unelected organisations to account such as LEPs.

This proposition emphasises the districts' 'public mandate' to undertake these activities. However, it is likely to fall short in meeting the growth challenges posed.

First, there is a danger of magnifying the problems in the two-tier system, especially with regards to the significant relational work required to agree even small matters. As the District Councils Network report says, "successful collaboration requires investment of time and resources from leading councillors and senior officers".

It is therefore difficult to see how this model will be able to act in a strategic way to identify and make judicious investments and decisions, that will enhance the long-term outcomes of the councils and territory. While input into the priorities of other bodies is important, delivery of the service itself offers much more extensive opportunity for strategic alignment of costs and benefits, in matters such as procurement, the skills pipeline, housing construction, and transport, to name but a few. If the district cluster role is to shape the activities of other agencies, it is likely that the conflicting incentives in the current system and the lack of coterminosity between service boundaries will continue.

Second, the extent to which districts are able to respond to real economies is limited, as their travel-to-work areas often do not fit well with their administrative boundaries and the wider Functional Economic Area. District clusters would, then, end up fragmenting and subsequently recreating county services at the sub-county level, with boundaries unrelated to real economies, and with less economic influence.

Third, it is circular to argue, as has been raised in the past, that district authorities have a 'mandate' to exist. By their nature, all elected councils are democratic. The fact that councillors are elected to the authority does not give district councils a sovereign mandate to exist.

Unitary Pathfinders – 'Just get round the table'

In 2006, DCLG began a pilot for two-tier 'pathfinder' models that would attempt to meet the same criteria as new unitary councils. The aims were to:

- Unify service delivery from the user perspective.
- Provide stronger leadership for place shaping.
- Introduce effective accountability arrangements so people know who is responsible for what.
- Share back office functions and joint, integrated service delivery.

Of the local authorities that submitted bids, some emphasised that the process could smooth the transition into a full unitary.

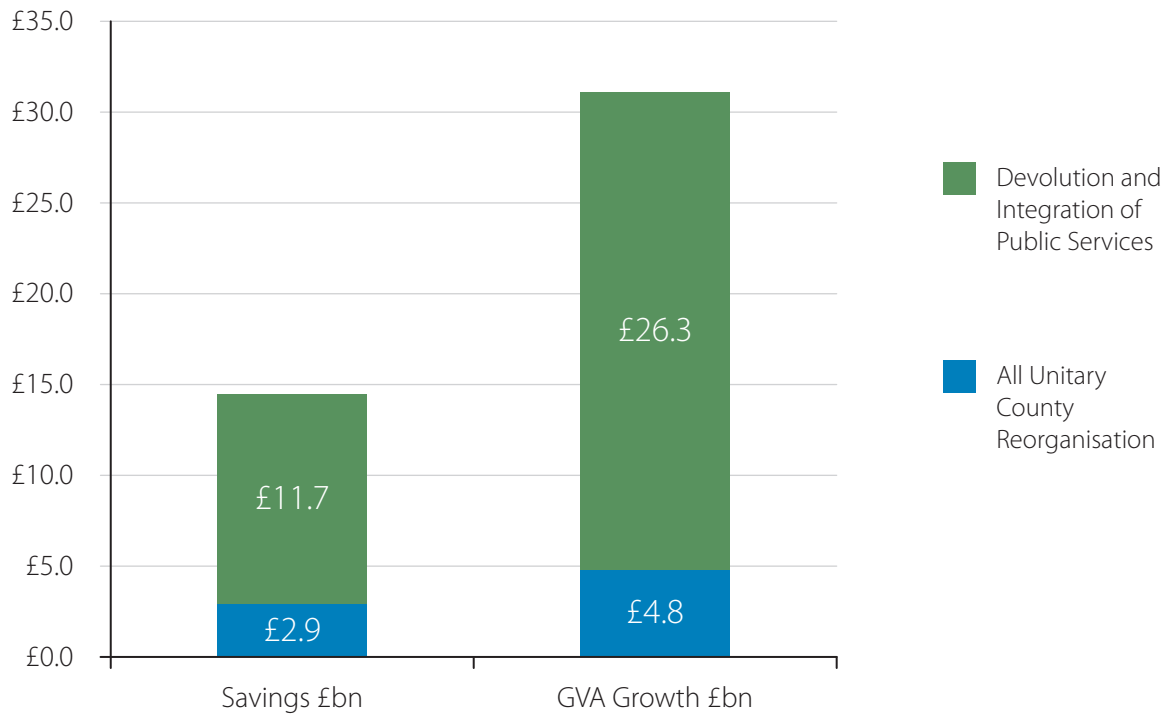
However, different councils in the pathfinders gradually withdrew their support for individual projects, meaning the programmes had very limited impact. The lessons from these experiences point towards the importance of offering genuinely additional capability to deliver, and incentives to change, especially devolved powers.

In discussions between different stakeholders, agreement is much easier where councils are the sole empowered representative for their area. Vertical separation of functions means that bodies covering the same area have different corporate priorities. The sheer number of participants in discussions also greatly affects the ability to agree.

Preserving existing power bases in each of the constituent councils meant each had to be continually recommitted to the project. In some respects, the pathfinder experience can be compared to the attempted devolution deal based on the Combined Authorities model, many of which did not happen because there were too many stakeholders to agree. In the absence of a clear indication of policy direction from central government, the competitive process became destabilising and acrimonious.

More importantly, the Pathfinders were unable to provide a real incentive to change, with no additional powers offered, and without the savings that full integration as a unitary council offer. Without changes in the conditions and background in which they operate, multiple organisations will not achieve the same outcomes as a single one. Therefore, future reform efforts should offer incentives for organisations to change their behaviour by gaining new benefits if milestones are met.

Figure 21. Reform Savings and the Economic Gain from Reinvestment



Source: EY, Oxford Economics

5.2 Counting the benefits of devolution and reorganisation

In thinking about how previous reorganisation and attempted devolution deals have failed in the counties, it is instructive to consider the potential benefits and incentives for reform. These financial benefits can be quantified, to an extent.

Converting two-tier areas to unitary councils would offer substantial efficiency gains. Research undertaken by EY has identified that if all 27 two-tier areas were converted to single unitary councils, a total saving of £2.9bn could be achieved over five years. These savings decrease if the scale of the councils created after reform is smaller and the number higher.

Strengthening and unifying local government in the counties can develop capacity and provide an appropriate vehicle for central Government to extend devolved powers equal to those now granted to the city-regions. Without reform, it is politically unlikely that devolution can proceed.

Devolving powers to the county level offers the opportunity to design more localised and integrated public service, with single budgets and bespoke interventions. Secondly, therefore, the savings from previous redesigns of this kind can be extrapolated up to all counties. Oxford Economics have calculated that this could result in potential savings of between £6.2bn to £11.7bn per year, across all counties.[78]

These two potential sources of savings, once realised, can be reinvested in projects to grow the local economy above the current trendline. If the maximum of £11.7bn in a single year saved from devolved integrated public services was achieved, with half returning to the Treasury and half retained locally, then approximately £5.8bn would be available to invest in local growth initiatives, over a five-year period. This could create potential growth of £26.3bn over five years, a boost of 0.8 per cent per year.[79]

Separately, of the £2.9bn savings achievable over five years through the reorganisation of two tier local government, approximately £1bn could be ring-fenced by local areas for investment in growth.[80] Investing this sum could raise GVA across all counties by an additional £4.8 billion over a five-year period and boost growth across all counties by 0.1 per cent per year. See figure 21.

5.3 Guiding principles

We suggest five key principles that should guide future proposals for local government reform and devolution. These are an expansion on the two principal criteria –

effective and convenient local government and the identities and interests of the local community - used in past statutory governance reviews.

(1) Strategic consolidation at county scale

Reorganisation should look to consolidate, rather than break up, strategic level authorities. While there are many councils that are currently too small to have the capacity to effectively invest and adjust to wider circumstance, large councils have proven their ability to work effectively. There is also a strong public service delivery imperative against breaking up service delivery teams, which has negative long-term impacts on services. It is vital that this point is embedded in decisions on future changes, as it unlocks the scale needed for strategic devolution.

(2) Accountable leadership

Any new reform should increase the quality of leadership, by making leaders more visible, by giving locally elected leaders purview over as extensive a scope as possible of policy areas, and by creating a structure which enables leaders to deliver on their priorities, with other agencies. The directly-elected leader Mayors introduced in England have enjoyed significant public profile, shaping and influencing agendas through the application of 'soft power', improving representation to government, and allowing a different kind of relationship with local voters. This point addresses the importance of leadership for influencing external national and local decisions.

The strengthening of elected leadership at the existing county level should be a strong consideration for additional powers, unless there are good reasons otherwise. Titles could be flexible, with alternatives to municipal-associated 'mayor', such as 'first counsellor' or 'county leader'.

(3) Coterminosity

Reforms should aim to encompass the wider public sector, to align boundaries to be 'coterminous' so that public service delivery bodies do not straddle county borders. This is important for public understanding of who delivers services; for aligning planning between different agencies; and for simplifying the transfer of powers from central to local government. This point therefore links local government to all public sector activity in its area, not just those it is directly responsible for. Where in future, county boundaries are changed, public service body boundaries should likewise be changed to provide contiguous service delivery. When public service boundaries are reviewed they should over time converge to the county boundaries.

(4) Industrial planning

Reforms should facilitate a deep and entrepreneurially-minded relationship between local government and the local economy, considering the principles of modern industrial strategy. Reformed authorities should have the capacity to understand specialisation and innovation in their economies; understand how their economy works with others in their region; understand gaps in the market and have the economic and commercial weight to act as an investor and entrepreneur where it can improve the local economy and generate revenue. From a business perspective reform would help to provide a single point of contact for inward investment, consistent local regulatory framework, strategic planning and infrastructure. This point explicitly links local government to the local economy.

(5) Popular legitimacy - inclusivity

To create popular legitimacy, reforms should appeal to citizens' identities and sense of civic pride, and respect local sensitivities and differences. It is unlikely that newly-created place names and geographical units will achieve this. Institutions with strong and enduring historical and institutional roots, likely county councils, will be best placed to do so. To include citizens, mechanisms to engage participation at the most appropriate level will be important, engaging Parish councils and empowering them where appropriate. This makes it explicit that communities must receive real representation connecting them to their council, which requires more than simply a historic geography.

5.4 A flexible path to reform

Adopting the principles outlined above need not require disruptive or abrupt reform. Identifying the optimal way forward will need to strike a balance between the risks of an uncoordinated and conflicting offer, and a centralising system which cannot easily respond to different needs.

There has been no wholesale reform of local government in England since 1974. To date, both the re-organisation of two-tier authorities and place-based devolution has been characterised by an asymmetric, deal based process where individual agreements are struck between local and national government. There are some benefits to this approach, as it offers a level of adaptability for different places which a single mandated policy could not provide. However, lessons from the devolution process to date demonstrate the need for Government to set out some clear principles in which reform should be based upon and the requirements of local areas. A flexible yet clear path to reform should therefore build on the following considerations.

First, Government should signal a clear indication of the direction it wants to go. Maintaining the status quo should not be an option for county councils looking for increased responsibility and powers. While the direction of travel should be clear, it should also allow for divergent paths to achieve the guiding principles for reform outlined above.

Second, in setting out a common framework for reform, Government should allow for different governance models, including county-wide unitary and combined authorities, or retained and reformed two-tier through a Strategic Authority. However, this approach should be clear about what kind of proposals Government will not entertain, for example, those that are too small to achieve necessary scale or that create incoherent or disruptive geographies. It should be for local proposals to identify how they meet requirements, and not for Government to specify precise metrics at this stage. The principles of localism, by definition, insist that local government should shape this agenda.

Third, central government should be clear about the powers and incentives that are available to councils if they fulfil the requirements of the framework. This means that while the ways to reorganise are not prescribed, the minimum powers available, at each stage are clearly defined and set out. It also means that there is a definitive and clearly defined benefit available for local authorities who commit resources to acting together.

Fourth, the counties that want to move fastest should be allowed to do so. This has several implications. On the one hand, there is no need to impose reform on the same timescale on all county areas simultaneously. The role of 'soft' mechanisms for bringing other areas up to the same capability should be enhanced, with the experiences of authorities shared through networks. On the other, where there is a general consensus for reform locally, but one or two local partners are resistant, Government may need to step in to overcome resistance.

Fifth, levels of asymmetry in local government should be accepted, particularly with regard to differences between rural and urban areas. This means where there are cities inside counties, special status should be provided so they can manage their own development, planning and assets.

5.5 Towards a single 'Strategic Authority'

A flexible pathway to reform can allow for different models of sub-national government and provide the platform for the gradual devolution of new powers, rationalisation of existing services and better strategic decision making across economic growth. By learning from the lessons of the past, and building on the strategic capacity of county councils, this would overcome the limits of previous approaches. Using existing legislation and practice, this flexible process could accommodate both reformed and retained two tier authorities as well as the formation of new county-wide unitary authorities, where desired.

For the former, we propose new governing arrangements that would allow partners to jointly exercise the powers which currently reside with different tiers of local government, and ensure a single point to administer devolved powers. We call this a 'Strategic Authority'. This would allow counties and districts to retain and reform two-tier structures, strengthening governance without adding another layer. It would enhance two-tier working by pooling strategic decision making and aspects of service delivery to the county-wide scale.

5.5.1 Delegated powers

Based on existing county council geographies, this Strategic Authority would integrate strategic decision-making across the current two tier system, specifically relating to:

- Economic Development
- Planning
- Housing
- Council Tax and Business Rates

The primary purpose of the new integrating Strategic Authority, would be to improve the conditions for growth and public service reform in the counties. The Strategic Authority, in partnership with the LEP, would be responsible for driving the local industrial strategy at the county level. This arrangement would provide the opportunity to replace the Local Growth Fund with infrastructure funding at the county level, and with the upper tier authority acting as the accountable body.

At a practical level it would remove both the parochial element of some decision-making processes and the political heat from councillors, for example, permitting contentious planning decisions.

Other statutory duties would remain with their existing tier of government, although there could be future scope to delegate 'up' to the new decision-making authority, where there is agreement or 'down', where appropriate, to parish and local town councils.

The 'Strategic Authority' would not represent an additional layer or separate 'third tier' of government since it would essentially integrate and absorb existing strategic functions, with the county council acting as the accountable body. The intention would be to streamline and replace; not duplicate or multiply.

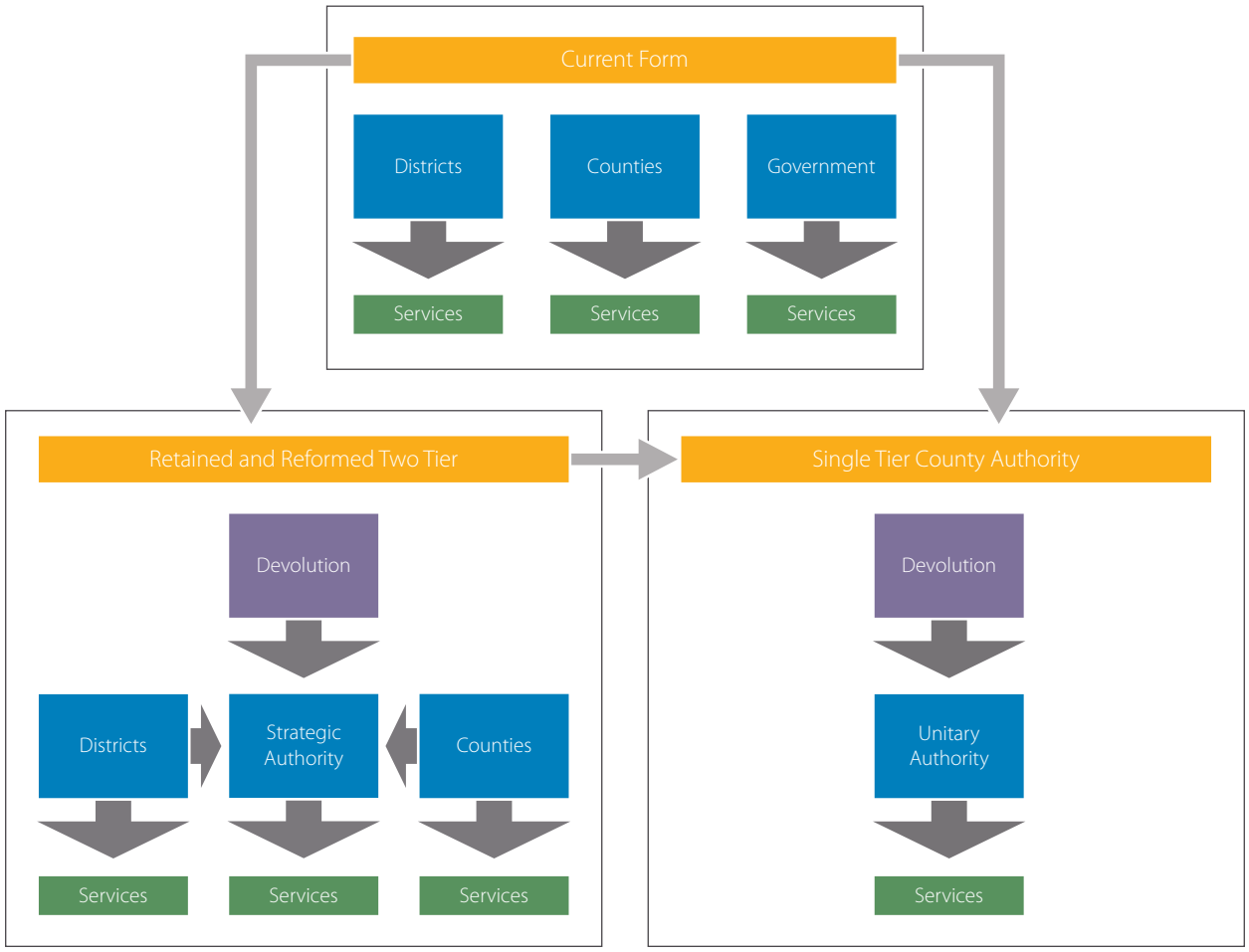
The county tier of local government already approximates a strategic layer of governance in some areas. The Government has granted several additional recent abilities; to lead Housing and Infrastructure fund applications and to take over the writing of local plans. Government should build on this and, in a natural evolution, endorse the county councils tier as the convening member of proposed Strategic Authorities. The convening authority would coordinate strategic and delivery functions between partners, the rationalisation of services between the two tiers, and responsibility for new devolved powers.

Ideally there would not be a requirement to impose this model on either county or district, allowing for arrangements to be agreed by all parties and implemented on a consensual basis. However, the experience in two-tier areas to date suggests that co-operation may need to be compelled. We suggest that the common devolution framework should set out an expectation that every two-tier area, should at the very least adopt the proposed Strategic Authority Model as the minimum requirement for a devolution deal.

The 'Strategic Authority' could enable retained two-tier government to drive reform and achieve the level of efficiency gains that are needed thorough shared services pooled budgets and a strengthened duty to co-operate. This could lead to a fundamental shift in relationships between county and districts in the exercising of powers and achieve what the pathfinders failed to deliver, by providing a stronger framework to reform existing service provision and the incentives of greater devolution.

Operating in this way and at this scale could, as we have argued, maximise the opportunity from devolution, providing real incentives to change, while ensuring continuity of services and avoiding

Figure 22. A Pathway to Reform



Source: ResPublica

disruption. It could create the corporate capacity to invest judiciously and strategically, bridging gaps in funding and services, working with the grain of existing institutions, drawing on longstanding identities, while enabling a more developed localism.

A gradual transition towards greater integration of district and county functions could be enabled via a variety of legal forms such as district mergers, non-statutory partnerships, strengthened county/district 'federations', economic prosperity boards, and combined or unitary authorities.

Ultimately this process of reform could, if desired by partners, serve as a stepped approach to single tier unitary government, providing the necessary governance and accountability to accrue more devolved powers from central government.

Unitary counties could then more easily take on a sub-regional role. As full and equal partners, they could work with neighbouring county areas to transitioning towards a formally constituted regional combined authority, within the parameters of the Local Government and Devolution Act. This would allow strategic place making functions equivalent to the metro-regions, including spatial planning, transport and greater fiscal powers. See figure 22.

5.5.2 Governance

Governance arrangements could vary and would need to evolve out of a formal review, but they would need to adhere to a set of principles informed by the lessons of previous reforms and failed devolution deals, highlighted throughout this report, particularly the requirement for clear strategic leadership to overcome the disruptive effects of equal voting rights. The lead accountable body for the Strategic Authority should be the county council, providing the basic resource and capacity for integrated strategic decision-making across economic development, housing planning and revenues. It should

Figure 23: The Different Powers Available to Each Tier of Local Governance

<table>
<tr><th rowspan="2">Powers</th><th rowspan="2">Metro-regions</th><th colspan="4">County Areas</th></tr>
<tr><th>With regional Combined Authority</th><th>With new Strategic Authority</th><th>In Unitary rural area</th><th>In Unitary area with City/Town</th></tr>
<tr><td>Strategic: To include varying degrees of devolved powers e.g. Fiscal, Health and Social Care, Spatial strategies, Employment and Skills, Transport</td><td>Combined Authority (e.g. WYCA)</td><td>Combined Authority (e.g. Cambridgeshire Greater Peterborough)</td><td rowspan="2">Strategic Authority (County Councils + Districts)</td><td rowspan="2">County Unitary (e.g. Cornwall)</td><td>County Unitary (e.g. Wiltshire)</td></tr>
<tr><td>Principal: As current – i.e. Statutory services, Buildings, Culture, Economic development, Local planning</td><td rowspan="2">Urban Unitary (e.g. Leeds)</td><td>County/ Unitary Council (Northumberland / Cambridgeshire) + Districts</td><td rowspan="2">Double-devolved City/Town Council (e.g. Salisbury)</td></tr>
<tr><td>Local: Environment, Streets, Local assets, Public space, grants</td><td>Parish/Locality Councils</td><td>Parish/Locality Councils</td><td>Parish/Locality Councils</td></tr>
</table>

Source: ResPublica

act, on behalf of the Strategic Authority, as the legal entity for any devolved powers to the county.

Reorganisation of internal resources would be required across county and districts to provide a Cabinet Office structure to integrate the strategy and policy roles for shared services (e.g. Economic Development, Planning, Housing) and to provide secretariat functions. This would sit within the county council.

A cabinet-style committee would then be formed, comprising leaders from constituent authorities. This could serve as an expedient solution in moving towards a single decision-making entity. With the county leader as the default chair, district leaders would take on cabinet member roles with their own cross-county portfolios. Scrutiny could be provided by a cross-county committee of district and county councillors.

This process would not necessitate a reduction in the number of elected members, although the process of reform may lead to this. Nor would it require the adoption of an elected mayor, since Government has not signalled support of this role in counties. However, the scale of any future devolution deals may yet hinge upon the county council adopting a directly elected leader within this model, as the current agreement with Cornwall makes clear.

Reform should start with an existing county and district councils playing more of a 'federated' role. The Strategic Authority, led by the county council, would exercise powers for setting a spatial framework within the existing county council boundary, but this would now be agreed on by leaders from all of the councils.

Local services could continue to be delivered at the appropriate level by the districts, but to drive efficiency the common devolution framework should set out a number of areas where the Strategic Authority could explore integrated service delivery across the county including a single waste management, planning and support services.

5.5.3 Powers available to different local governance arrangements

The new governing arrangements for county authorities, as outlined above, sit with other options for local government. The different powers available to each tier of local governance are compared in the diagram below. See figure 23.

A reformed and retained two-tier system with a new 'Strategic Authority' for county and districts should be granted equivalent devolved strategic powers to a county unitary (such as Cornwall). The prospect of agreeing with Government such a deal, should therefore provide the incentive

for counties and districts to adopt this governance model. It also provides scope for areas to propose unitary proposals, including with a directly elected leader, for a more ambitious settlement.

5.5.4 Devolution within counties

The different needs of larger settlements such as cities and towns that lie within counties will also need to be recognised in any new governance arrangements.

Large urban settlements which serve as important employment and administrative centres should receive special delegated powers in proportion to their size and economic weight. These would be a matter of local choice and negotiation but could include input to the local plan, planning permissions, town centre management, maintenance of streets and street lighting, building control, housing, culture, tourism and leisure. Powers that should remain at the county-wide geography would be, for example, strategic transport and highways, children's services, health and social care, skills, and other personal services. New town councils may need to be created where they do not already exist.

Where cities in counties have become separate unitary authorities or do so in the future, there may be a need to look at business rate pooling if full retention occurs, to ensure growth is shared where the economic impact of a city reaches beyond its boundaries.

In line with the principle of providing local representation, where large settlements are identifiable 'places' with economic scale, it is right that they receive powers commensurate with that.

The level of 'double devolution' will therefore vary between large urban areas (cities and towns) and small (parish) settlements. This asymmetric principle, common in many other countries, should be enshrined in any new legal arrangements.

5.6 Recommendations for Government

To deliver this new central-local settlement, a number of commitments are required from Government. These commitments follow from the guiding principles and from the requirements for a path to reform.

1. A clear direction of travel

Government should issue a clear and unambiguous indication of its position in relation to local government reorganisation and devolution, as it pertains to two-tier authorities in the English counties. Recognising the evidence to support the arguments for sufficient scale, we suggest that Government should actively promote new models for local authorities on the basis of existing county council boundaries, eliminating arbitrary limits to council size. Ultimately this can take the form of a Strategic Authority model or single county-wide unitary authority, but it must seek to end the disruptive and destabilising competition between different tiers of local government each coming forward with rival propositions.

2. A new model for local government

Government should allow for greater flexibility in allowing for new models of local government that can serve the reform agenda and provide the platform for the devolution of new powers. Government should, however, encourage the formation of strategic bodies to be created at the county council level. This would provide delegated authority for the strategic decision-making functions of the current county and district councils, including those relating to economic development, spatial planning and wider public service delivery. Government should consider the requirement for new legislation and enact this where required. However, both county councils and districts should explore all possibilities to develop this model within the scope of existing laws - the Local Government and Devolution Act.

3. Incentives for change

Government must provide clarity on what it will offer to local areas who make the commitment to reorganise to provide an incentive for local areas to drive reform. This will, finally, overcome the fundamental problem of expecting councils to produce superior outcomes with the same incentive structure.

The Conservative 2017 Manifesto proposed that the next Government would be "providing clarity across England on what devolution means for different administrations so all authorities operate in a common framework". The best way to achieve this would be to set out the broad principles for change and a clear 'menu' of corresponding powers that would be available to authorities seeking to reorganise. This should include fiscal incentives that set a single long-term 'whole place' budget for two-tier government, so that local areas could determine how best to use this between tiers and places, as well as new flexibilities to set business rate multipliers, additional council tax bands, and perhaps access to dedicated replacement regional development funding.

4. Act rapidly to compel reorganisation where necessary

While incentives to move towards a new model of local government with additional powers should be sufficient in most cases, there may district councils which refuse to engage, stalling further progress. The common devolution framework should set out that movement to the Strategic Authority model should be the minimum requirement. On formal reorganisation, the Secretary of State should be willing to use his powers under Section 15 (5-7) of the Cities and Local Government Devolution Act 2016, to alter the structure and boundary arrangements of local government if one of the involved authorities consents. However, this power has a 'sunset clause' of 31st March 2019, Counties and Government must therefore move rapidly to advance reorganisation without new legislation.

5. Invest in growth through reform

Reorganisation cannot in itself resolve the problems of two-tier authorities. Government must enable greater freedom and responsibilities to address the challenges of growth and reform. However, the scale of potential savings that could be achieved through the integration of services and the benefits of reinvestment in local infrastructure make reorganisation a necessity. Government should commit to the financial flexibility that can provide a single investment fund (utilising efficiency savings alongside, for example, business rate retention and the reallocation of New Homes Bonus). This should incentivise county councils and districts to seek the fullest reforms.

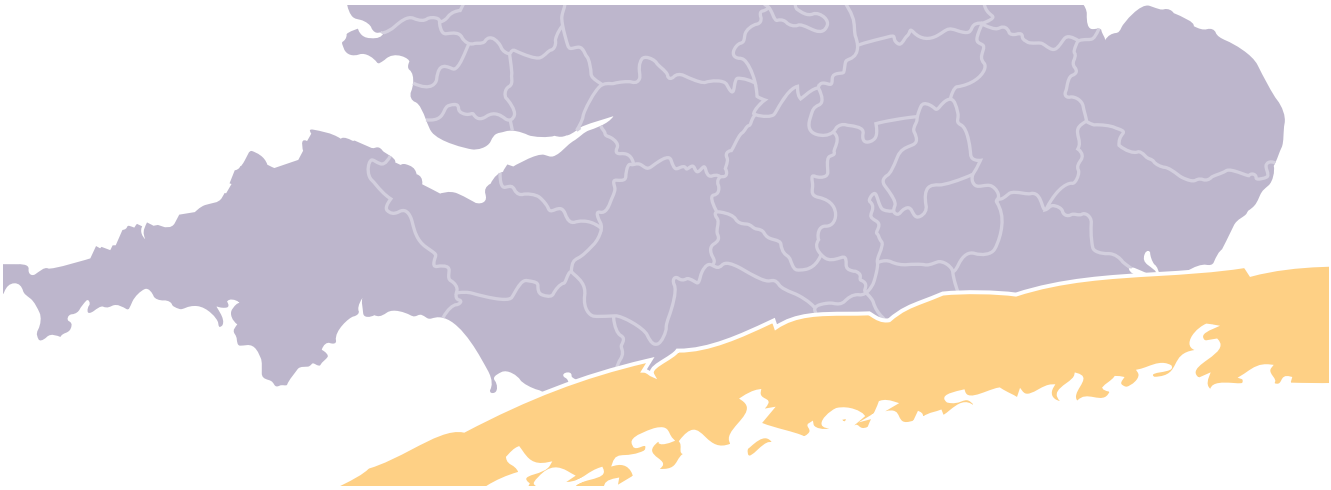
6. Towards coterminous boundaries

Partnership working and collaboration between public bodies has become more important to services and sustainability since the last two rounds of local government reorganisation. Equally the geographical scale at which councils have to operate is also increasing. The establishment of Local Enterprise Partnerships, development of NHS Sustainability & Transformation Plans, Regional Adoption Agencies, Regional Schools Commissioners, Sub-National Transport Bodies and Combined Authorities are all examples of a pattern of scaling up. County geographies should ultimately form the agreed target for all public service bodies. This would need to happen organically so that every time there is a review of local government and other public sector boundaries (e.g. LEPs, NHS STPs) there is an adjustment towards coterminous boundaries at the county geography. Government should implement a 'boundary change link' such that where in future there is a county boundaries review, then other public service body boundaries are likewise changed.

78 P 57, Understanding County Economies: Oxford Economics 2017 for County Councils Network (http://www.countycouncilsnetwork.org.uk/download/901/)

79 Using an estimate based on the performance of Regional Development Agencies (RDAs) in England. A two-year study by PwC for then Department for Business Enterprise and Regulatory Reform (BERR) concluded that during their lifetime, all of the English RDAs had generated regional economic benefits with a ratio of 1:4.5. Using this ratio of costs to benefits of £1 to £4.5, the impact of different source can be estimated and combined together.

80 £2.9bn estimated by EY if all counties converted to unitary. £1bn available to ringfence estimated by CCN.



6. Conclusion

Given the pressures on Government with negotiating the UK's exit from the European Union, and the need for localities to anticipate and prepare for this outcome, a new iteration of Devolution - Devo 2.0 - becomes ever more important. Local government urgently needs new powers to address current and future challenges – to make strategic decisions about local growth and reform and the associated prioritisation of funding. The current state of affairs is neither sustainable nor desirable.

At the same time, local government reform, as evidenced, can provide a scale of efficiency and savings attractive to both local and central government which could, if re-invested, help transform local services and economies.

One must be achieved through the other. Reform can be the vehicle to achieve the incentive of transformative devolution to the counties. But this must be achieved using existing county council geographies as the essential building blocks. Not because counties represent a perfect alignment with either economic or public service boundaries. The reasons are more pragmatic – county council boundaries provide a recognised and identifiable unit of administration that correspond to the appropriate scale of operation required for strategic decision making and development. Other competing options that involve a hive-down to sub-county levels do not.

The pathway to reform that we advocate allows for a degree of flexibility accommodating both reformed and retained two tier authorities, including new 'Strategic Authorities' and Combined Authorities at the county level, as well as reorganisation to unitary councils. This agreed route map can allow a menu approach, with options along the way.

But the end goal must include unitary authorities for those areas that want to pursue this agenda. This, we believe, will begin to unlock the devolved powers that we know counties want and need, including their role in the wider industrial strategy. Further down the line, some counties may want to consider how greater accountability might follow with changed governance arrangements and the option for directly elected county leaders.

No change is not and cannot be an option. New models of local government and civic institutions are required – and claims of natural 'sovereignty' of local government in any of its current forms is not a credible justification for the continuation of the same. Nor should change be handed out top-down by Central Government. The principles of subsidiarity and the presumption to devolve, which localists have long argued for, insists that local government should shape this agenda.

Reorganisation of two-tier local government should not mean the supremacy of one form of government (county) over another (district) but the creation of a new more appropriate form of government for the challenges of the 21st Century. Collaboration is never easy and rarely rewarded with immediate gains. The answer, therefore, must not be permanent workarounds, but the beginning of a transition to a better system. The current moment demands action from local leaders to achieve this. That path to reform must begin with a first step.

Appendix: County Indicators Table

Economic dimension	Population growth, average per year, 2008-2017	Employment growth, average per year, 2008-2017	GVA growth, average per year, 2008-2017	Productivity level, (£2013, 000's/job), (2017)	NVQ Level 4+, % of 16-64, (2016)	Net business births per 1000 population (2015)	Exports as % of GVA, (2014)	Employment rate 16+, (2017)	Ratio of house prices to earnings (2016)	Fiscal balance (£ per person) (2015/2016)	GVA growth, average per year, 2018-2027	Employment growth, average per year, 2018-2027
Buckinghamshire CC	0.9%	1.5%	1.7%	54.5	48.0%	2.2	25.7%	64%	11.8	7744.0	2.2%	0.7%
Cambridgeshire CC	1.0%	1.1%	1.8%	52.0	43.7%	1.4	25.3%	66%	9.0	3800.5	1.9%	0.4%
Cumbria CC	0.0%	0.4%	1.5%	41.3	30.9%	0.7	35.9%	62%	6.0	-1077.4	1.4%	0.0%
Derbyshire CC	0.4%	0.2%	0.9%	43.2	33.0%	3.3	26.1%	61%	6.1	87.0	1.5%	0.1%
Devon CC	0.7%	0.6%	0.5%	39.5	37.1%	0.7	17.3%	59%	10.3	246.4	1.8%	0.5%
Dorset CC	0.4%	0.4%	0.6%	42.1	35.7%	1.1	21.7%	58%	11.3	1020.0	1.6%	0.2%
East Sussex CC	0.7%	1.0%	1.7%	43.9	34.1%	1.4	25.6%	57%	9.9	1258.1	1.9%	0.5%
Essex CC	0.8%	1.0%	0.9%	47.0	31.5%	2.2	23.4%	61%	9.5	3084.8	1.9%	0.5%
Gloucestershire CC	0.7%	1.0%	1.3%	47.4	38.5%	1.4	34.7%	63%	8.9	2999.6	1.7%	0.3%
Hampshire CC	0.7%	0.8%	1.5%	51.9	37.7%	1.8	37.8%	65%	9.6	3794.5	2.0%	0.5%
Hertfordshire CC	1.1%	1.5%	1.5%	50.1	42.5%	2.6	32.8%	66%	11.7	6012.6	2.2%	0.9%
Kent CC	1.0%	1.1%	1.4%	45.9	36.9%	1.7	26.9%	60%	9.5	2414.2	1.8%	0.4%
Lancashire CC	0.3%	0.1%	0.4%	42.2	33.8%	1.0	36.6%	57%	5.3	-1127.9	1.7%	0.3%
Leicestershire CC	0.8%	0.8%	1.0%	46.3	35.2%	1.3	23.5%	63%	7.5	2026.0	1.9%	0.5%
Lincolnshire CC	0.8%	0.1%	0.8%	40.4	27.5%	1.1	19.4%	57%	7.0	-343.0	1.6%	0.3%
Norfolk CC	0.7%	0.3%	0.9%	44.0	31.3%	0.9	25.3%	56%	8.9	-339.5	1.6%	0.3%
North Yorkshire CC	0.3%	0.9%	0.3%	40.8	35.5%	1.2	18.2%	62%	8.5	1355.1	1.6%	0.2%
Northamptonshire CC	1.0%	0.5%	0.3%	42.9	32.0%	2.8	21.9%	63%	7.4	1896.4	1.9%	0.6%
Nottinghamshire CC	0.6%	0.3%	0.3%	41.0	31.4%	2.1	18.8%	59%	5.9	444.6	1.7%	0.4%
Oxfordshire CC	0.8%	1.6%	2.6%	52.1	51.8%	1.5	33.3%	66%	11.2	4899.5	1.9%	0.5%
Somerset CC	0.6%	0.5%	0.8%	40.7	34.5%	1.0	29.8%	62%	8.8	668.1	1.6%	0.3%
Staffordshire CC	0.5%	0.6%	-0.3%	38.0	33.7%	1.2	24.7%	61%	6.6	-39.6	1.6%	0.3%
Suffolk CC	0.6%	0.6%	1.0%	46.7	31.1%	0.9	25.3%	60%	8.5	1229.6	1.7%	0.3%
Surrey CC	0.9%	1.2%	1.3%	57.7	47.5%	2.3	29.7%	62%	12.4	9518.3	2.2%	0.8%
Warwickshire CC	0.5%	0.9%	1.8%	47.3	37.8%	2.8	29.6%	64%	7.8	2228.7	1.9%	0.5%
West Sussex CC	0.8%	0.9%	1.2%	48.1	38.4%	1.6	36.7%	61%	11.1	3037.1	2.0%	0.6%
Worcestershire CC	0.5%	0.1%	0.7%	42.7	39.2%	1.2	27.4%	64%	8.3	631.6	1.7%	0.3%
Central Bedfordshire UA	1.2%	1.1%	0.8%	46.7	32.1%	1.7	27.0%	68%	9.3	2726.4	1.7%	0.4%
Cheshire East UA	0.4%	1.0%	1.6%	57.2	39.4%	1.9	61.1%	60%	7.4	3893.8	1.7%	0.4%
Cheshire West & Chester UA	0.2%	0.8%	0.4%	49.1	39.8%	1.7	71.5%	60%	7.1	1622.6	1.7%	0.3%
Cornwall UA	0.7%	0.5%	0.4%	37.2	32.9%	0.8	14.3%	59%	9.9	-766.7	1.7%	0.3%
Durham County UA	0.4%	0.0%	0.5%	40.2	30.1%	0.9	35.9%	56%	4.0	-1874.3	1.2%	0.0%
East Riding of Yorkshire UA	0.3%	1.0%	-0.1%	41.3	36.5%	1.1	23.8%	58%	6.4	-99.2	1.4%	0.1%
Herefordshire UA	0.6%	0.1%	0.8%	40.5	31.7%	0.6	22.5%	63%	9.6	-762.3	1.4%	0.0%
Northumberland UA	0.2%	-0.1%	0.4%	40.3	32.7%	0.7	32.4%	57%	5.8	-996.8	1.1%	-0.2%
Shropshire UA	0.6%	0.9%	0.6%	40.1	31.9%	0.9	14.5%	61%	7.8	-42.1	1.5%	0.2%
Wiltshire UA	0.8%	0.7%	1.2%	42.2	42.2%	1.3	23.0%	65%	9.8	2799.0	1.7%	0.3%
County Council Network	0.7%	0.8%	1.1%	46.0	36.5%	1.6	29.1%	61%	8.9	2350.7	1.8%	0.4%
Combined Authorities Total	0.7%	0.4%	0.8%	43.7	32.5%	1.7	26.2%	58%	6.3	-	1.7%	0.4%
England	0.8%	0.8%	1.3%	49.7	37.9%	2.2	30.3%	61%	8.2	1551.8	2.0%	0.5%

Source: Oxford Economics, Understanding County Economies

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Society

The UK has one of the most centralised states in the developed world and one of the most disaffected and politically passive populations in Europe. We hold our leaders in contempt, but despair of doing anything for ourselves or our community. The dysfunction at the highest level of society stems from the collapse of our social and personal foundation. There is little doubt that we are becoming an increasingly fragmented and individualist society and this has deep and damaging consequences for our families, our communities and our nation state.

Starting from the bottom up, the collapse of the extended family and the ongoing break-up of its nuclear foundation impacts on all, but disproportionally so on the poor and on their offspring. Too many children at the bottom of our society are effectively un-parented as too much is carried by lone parents who are trying to do more and more with less and less. We know that the poorer you are, the less connected with your wider society you tend to be. Lacking in both bridging and bonding capital and bereft of the institutions and structures that could help them, too many poorer families and communities are facing seemingly insurmountable problems alone, unadvised and without proper aid.

Based on the principle of subsidiarity, we believe that power should be devolved to the lowest appropriate level. Public services and neighbourhoods should be governed and shaped from the 'bottom up', by families and the communities. These neighbourhoods need to be served by a range of providers that incorporate and empower communities. Moving away from a top-down siloed approach to service delivery, such activity should be driven by a holistic vision, which integrates need in order to ascertain and address the most consequent factors that limit and prevent human flourishing. Local and social value must play a central role in meeting the growing, complex and unaddressed needs of communities across the UK.

The needs of the bottom should shape provision and decision at the top. To deliver on this, we need a renewal and reform of our major governing institutions. We need acknowledgement of the fact that the state is not an end in itself, but only one means by which to achieve a greater end: a flourishing society. Civil society and intermediary institutions, such as schools, faith groups and businesses, are also crucial means to achieving this outcome. We also need new purpose and new vision to create new institutions which restore the organic and shared society that has served Britain so well over the centuries.

About Our Partners

Founded in 1997, the County Councils Network is a network of 37 county councils and county unitary authorities that serve county areas. We are a cross-party organisation, expressing the views of member councils to the wider Local Government Association and central Government departments

Society *Society* *Society*

This is a tumultuous time for British politics, national and local. Central Government finds itself struggling to deal with the complexity of the demands placed upon it, hemmed in by limited resources. Brexit represents a national difficulty of unprecedented scale and Whitehall is severely overstretched.

Reform is essential in facing up to England's economic and political challenges. Local government has, some places, risen to the occasion. But the system that exists in England is unsuitable for the roles it is now being asked to take on, roles unforeseen at the time of its creation. Devolution and implementation of local industrial strategies are advancing in city-region areas but have made almost no progress in the counties, hampered by the current structures.

This report looks to offer an alternative. We propose a path to reform that leads to transformative devolution to the counties – 'Devo 2.0'. We argue that existing county council geographies are the essential building blocks. Through them, we can both reform the existing two-tier County/District system; and move to complete reorganisation in the form of single-tier unitary councils. The incentive to doing so should be a clear commitment to unlock the devolved powers that counties want and need, including their role in the wider industrial strategy.

If realised, this could help to transform the UK's economy, with closer partnerships between communities, as well as wider towns, cities and metro-areas. This could enable counties to bypass the complexity of existing 'workarounds' between different layers of local government. It could make acting to improve outcomes simpler and more effective. And, it could provide greater autonomy and self-determination for communities at the most local scale - helping them take back control.

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