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Learning from the new unitary councils

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Executive summary

Local government reorganisation (LGR) is here to stay and this report will help councils to prepare. Common reasons for LGR in recent years include the need for cost savings and financial resilience in the face of reductions in funding and the need to reset performance in the wake of failing children's services. The trajectory of LGR is for larger local authorities, such as county-level unitary councils.

In this report we focus on the creation of unitary councils replacing two tier county and district council arrangements, and in one case a smaller unitary council. We draw on the lessons learnt from our auditors' annual reports (AARs) relating to value for money in the eight unitary councils created since 2019 that are audited by Grant Thornton UK LLP, or in the case of the most recent unitary councils the AARs from the predecessor councils. In a few cases we supplement those lessons with published council papers.

It is all about timing. In addition to the demands and complexities of LGR these new councils were all impacted by the unprecedented, and yet not fully understood, post-COVID-19 landscape and the financial challenges that it bought, including the significant additional demand for services. In most cases these councils were established post pandemic and during a cost-of-living crisis with high inflationary pressures, and this has added significant additional pressures to the leadership and workforce and has tested financial sustainability.

Given the service demands on local government, and the impacts of cost of living and inflation, it's unsurprising the financial benefits of LGR are yet to fully materialise. At the same time transformation costs are significant, and these costs need keeping under control if councils are to be financially sustainable.

During the transition, those areas with legacy county council arrangements need to build in time to agree an estimated balance sheet disaggregation to enable them to understand their capital finance requirements, minimum revenue provision needs and their reserves positions as soon as possible. This will strengthen the new council's financial sustainability. Finance needs to be at the heart of the decisions being made when disaggregating and aggregating services.

Common across the LGR model is the need to understand the legacy reserves position early. This will also provide a stronger platform on which to build. Understanding and maintaining sound reserves is vital and a key indicator of sound financial governance.

New unitary councils inherit a range of legacy financial systems which mean they have multiple financial ledgers and a range of systems feeding into these such as benefits and payroll. We're concerned about the ongoing risks of operating multiple financial systems on the accuracy of its financial position and recommend moving to a single ledger as soon as possible.

Producing timely accounts to a high standard in the run up to and immediately after vesting day (the first day of the new council) is an important part of the assurance framework for a new unitary authority. While there are some issues related to the well-publicised capacity issues in the local audit system, there are too many example where outgoing councils have either not produced accounts or failed to deal with legacy technical issues, which have prevented accounts from being signed off. By ensuring the accounts are as up to date as possible by vesting day can manage the risk of changes to key finance staff post vesting day.

Transformation and programme management capabilities are key to success. Strong programme management arrangements are critical to establishing the new council. Setting-up a dedicated and properly resourced programme management office (PMO) will help to manage the process and ensure that sufficient internal resources and external support are devoted to it. Councils have also benefited from having external support to act as a critical friend and supplement existing capacity or bring in new skills. Too often councils don't retain their transformation PMO for long enough post vesting day leaving transitional programme management to overstretched existing staff delivering business as usual activities and risking the loss of built-up knowledge which could effectively smooth that transition.

New unitary councils need multi-year savings and transformation programmes: this was a key theme in our AAR findings. They also need the capacity to deliver this change. These councils are no different from more established ones in that they're seeing increased service demands, particularly in children services, adults, and housing and they have increased costs from inflationary pressures. This puts pressure on the transformation programmes to deliver at pace. We've seen an over-reliance on existing teams and an assumption that staff can work in transformation while delivering business as usual. There is a clear need for specialist skills in this area and capacity and capability to change. Business cases for new unitaries make assumptions on the level of transformation and savings that will be possible. While it's attractive to assume that these will be developed pre vesting day and can start to be realised during the first year of the new uitary, we've identified significant shortfalls in capacity, systems, management information, governance arrangements and focus which have slowed the path to transformation. When considering the creation of a new unitary, the timing of such assumptions should be considered very carefully and accept that such transformation and savings might not be available for a twelve to eighteen month period or possibly longer.

Introduction

One size doesn't fit all, and local government is no exception. Those unitary models which split county council arrangements have the additional complexity of disaggregating county-wide finances, services, data, and contracts to align to the geographies of the new unitary councils. This impacted six of the nine new unitary councils since 2019.

Not all councils support the need for change or the final model for LGR directed by the Government following consultation and modelling. Where councils have preferred alternative models, this has slowed down the process and in some cases a lack of ownership of the model has caused local tension. For example, county councils often want a single unitary but may end up with a split county model.

LGR provides an opportunity to realise financial benefits and improve service delivery and the financial sustainability of local government. The aim is to unlock efficiencies from the rationalisation of council structures and assets and improve systems and processes. However, in some cases the disaggregation of county services, has required the duplication of some statutory posts.

Implementing LGR is complex, time consuming and provides some significant challenges. These challenges include:

- a relatively short implementation timescale of less than a year once the Structural Change Order (SCO) is agreed (SCOs are the statutory instruments through which the Secretary of State's decision on LGR in an area becomes legislation);
- the pressures that come from delivering business as usual services by the sovereign councils (the existing council prior to the SCO) while implementing LGR in parallel;
- the lack of ownership of some sovereign councils for the approved unitary model and a shared business case; and
- the need to undertake financial and service planning for the new unitary when many senior officers aren't in role in a timely way to make key decisions.

It will take several years to fully realise the benefits planned from LGR and it will require sustained commitment from senior stakeholders to deliver. Most LGR business cases plan at least five years for post-vesting day transformation. There are inherent risks in any LGR implementation, and new councils will have significant decisions to take post-vesting day.

This report is structured around early successes before, during, and post-transition. It looks at learning in financial sustainability, governance and effectiveness, economy and efficiency. Three cross-cutting themes emerge from our learning: transformation, capacity, and corporate knowledge. We make recommendations both to local authorities and to central government, and we present a good practice checklist for local authority members and officers to reflect on.

Key messages for local authorities

During the transition period

- Appoint chief officers and portfolio members into their shadow authority roles as soon as possible to allow them to shape and drive future service delivery and ensure there's collaborative member governance in place.
- During the LGR transition councils should ensure adequate resources are allocated to planning and delivering transformation, reviewing business as usual activities to create capacity, and developing key organisational enablers such as the staff structure, target operating model and the Council Plan.
- LGR transition and medium-term transformation requires significant programme management capacity and capability. Most councils don't plan this well or recognise that it needs long term sustainable investment.
- Careful consideration should me made on the right time to reduce legacy staffing capacity and deliver transformation, and accept that this might not be for a twelve to eighteen month period or possibly longer.
- For councils with legacy county council arrangements they need to agree an estimated balance sheet split early in the transition process including reserves, capital financing requirement and minimum revenue provision is vital. Ensure all agreements are clearly documented and consider underpinning with formal decisions or legal agreements.
- Ensure there's sufficient focus on culture and communication before and after the transition period.
- Where a county council is replaced by two or more new unitaries, there needs to be careful consideration of how social care budgets are allocated to the new councils. Rather than a budget allocation based on client numbers or geography, the cost of social care for each new council should be clearly identified.
- Seek to build constructive relationships with the other shadow council(s) where LGR is taking place in a county geography and more than one unitary council is being created.

Financial sustainability

- New councils need their finance team in place at the start with sufficient capacity and capability. Too few have a fully resourced finance team in place.
- Having audited financial statements is critical to a strong financial position. Too few unitary councils recognise the finance team capacity required to ensure they can develop legacy accounts, and to work with external auditors. The amount of work required to consider the financial accounting implications of unitarisation can't be under estimated including the work required to produce draft statement of accounts post vesting day.
- Common across the LGR model is the need to understand the legacy reserves position early. This will provide a stronger platform on which to build. Understanding and maintaining sound reserves is vital and a key indicator of sound financial governance.
- If balance sheets have to be divided between two new councils this should be completed 12 months from being established. Where this isn't achieved the Government should appoint an arbitrator to make this decision as soon as possible after this period. Disaggregating a balance sheet will be one of the biggest decisions the new councils will need to make and have far-reaching consequences over a significant period of time. Ensure all agreements are clearly documented and consider underpinning with formal decisions or legal agreements.
- Financial sustainability is a function, at least in part, of the inherited position from legacy bodies. This assurance can only come from high quality audited accounts.
- Where councils are established due to a financial crisis there's need for the new council(s) and the Government to ensure that the opening balance sheet is sufficiently robust.
- New unitary councils need stronger savings and transformation programmes: this was a key theme in our AARs. Too many new councils rely on unsustainable use of reserves over sustained periods.
- Reduce reliance on legacy financial systems as early as possible. We're concerned about the ongoing risks of operating multiple financial systems on the accuracy of its financial position. Councils also need to ensure they have tested the functionality of their finance system and can use it effectively.
- Consider the capital programmes alongside their revenue budgets. Too often capital programme delivery isn't sufficiently resourced in the early years of LGR.
- New councils need a management plan in place to deal with dedicated schools grants (DSG). They need to ensure they have plans to reduce the inherited deficits and a plan to control further spending.

Governance

- Councils which understand the value of strong governance foundations and value risk to support performance and financial sustainability have had a stronger start.
- Prioritise the production of legacy accounts to provide foundation assurance to the new unitary authorities. We have identified numerous examples where a lack of investment in legacy accounts has meant that to some degree the new unitary is reliant on management accounting numbers which may differ materially from statutory accounts and have not been subject to any form of audit challenge.
- Internal audits take more time during the transition period and councils sometimes underestimate their complexity.
- Build capacity for counter-fraud into the new structure. Some councils lack capacity for proactive counter-fraud work.
- Cyber security is a growing national threat, and councils need to mitigate the risk of this occurring and ensure they have disaster recovery arrangements in place. The lack of understanding of legacy council arrangements and the pace of improvement in these areas is a consistent theme for new unitary councils to address.

Effectiveness, economy, efficiency

- Develop the performance management framework early, ideally for day one. Once target operating models are agreed, shadow councils should start developing their performance management framework and ensure KPIs are aligned to this framework not to legacy council arrangements.
- Put in place a clear IT strategy and transformation plan that removes duplicate systems within three years and puts in place appropriate cyber security and data recovery within 12 months.
- Data quality improvement is critical both to performance and financial information. New councils need to ensure data underpinning performance and financial reporting is reliable and validated with data governance controls in place.
- Procurement and contract management is a common theme requiring improvement.

Key messages for the new Government

- Don't set new councils up to fail. Allow more time for transition ahead of vesting day to enable councils to develop their transformation programmes and time for aggregation and disaggregation of contracts.
- Recognise councils may need transformation support. Some councils have benefited from having external support to act as a critical friend but finding that support takes time they don't have. Provide external support to the transition team to help them transform.
- Ensure that new councils have a sufficiently strong balance sheet.
- Local government needs the freedom to choose. The structural change orders are too prescriptive on transitional governance.
- Consider the Government's role in ensuring legacy councils have the appropriate ownership for the agreed model and offer financial freedoms and flexibilities to support the process.
- Give local government more flexibility around council tax. Let them determine their own council tax levels, without caps or thresholds, that they'll then have to justify locally. One council wasn't allowed by DLUHC to raise council tax beyond the referendum limit even though predecessor bodies had frozen it for several years. Increasing council tax in this area would have generated £17 million on an ongoing basis. Instead, the council had to increase its exceptional financial support request.
- Central government needs to contribute funding to support the implementation of LGR and ensure checks are done to evaluate the financial viability of new councils. There's a potential role for CIFPA to undertake resilience reviews to ensure new unitary councils are financially viable.
- Consider how the Government can use the Local Government Association to facilitate shared learning and information exchange to help councils going through LGR transition and transformation.

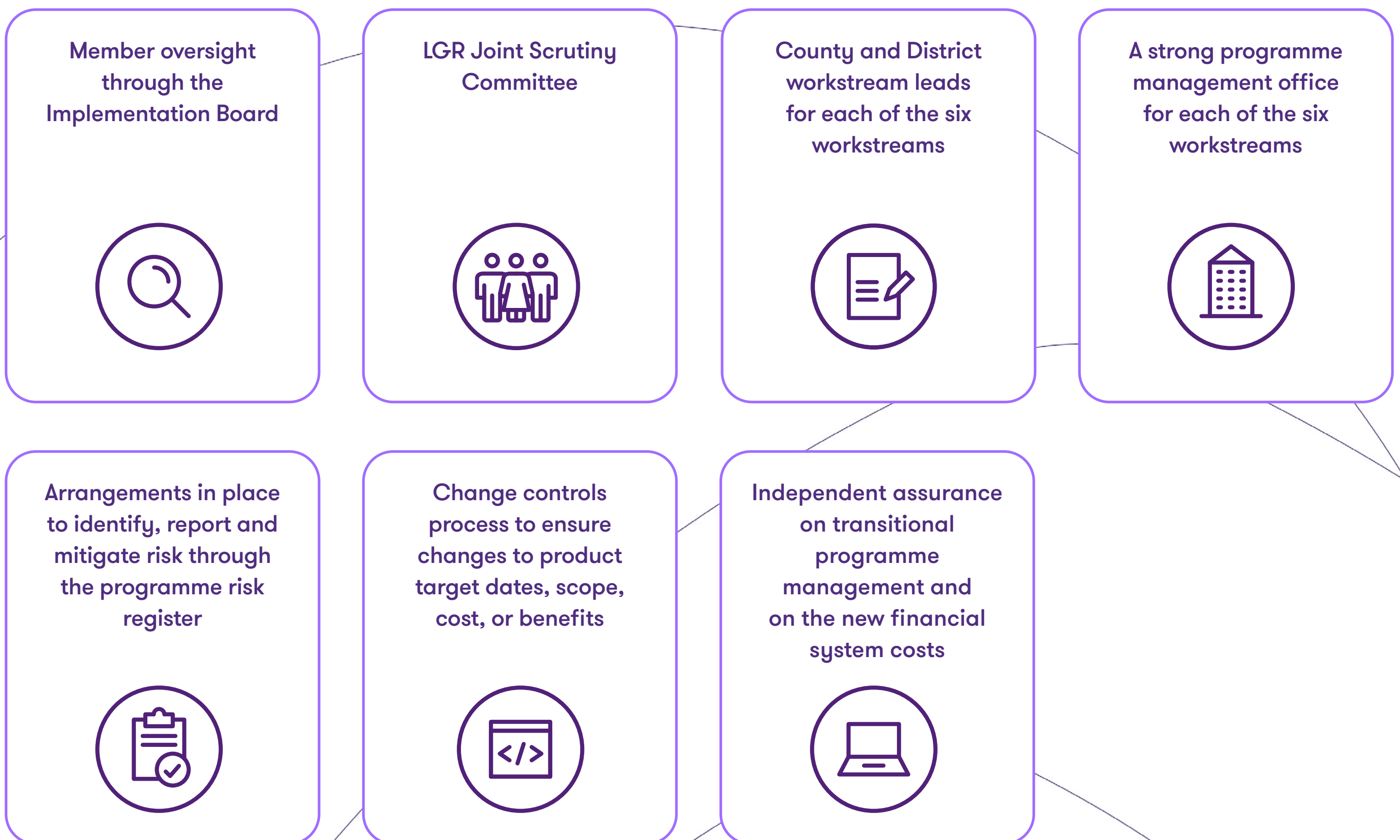
Early success before and during the transition

Focusing resource on disaggregation and aggregation as early as possible will have future benefits. The more a newly established local authority can harmonise its structures, systems, processes, and ways of working, the better it will be able to deliver efficient and effective services to its local community. Aligning things like job titles, salary scales and terms and conditions, while difficult and time consuming, can also play a vital role in creating the 'one organisation' ethos that's critical to a successful reorganisation.

During the transition, those areas with legacy county council arrangements need to build in time to agree an estimated balance sheet disaggregation to enable them to understand their capital finance requirements and minimum revenue provision needs and their reserves positions as soon as possible. Key is understanding the indebtedness of the new council, and how this is being supported by the asset base and loan portfolio position. This will strengthen the understanding of the new council's sustainability. Prior to vesting day four of the new councils agreed an estimated balance sheet disaggregation which has helped these councils to develop their own balance sheets. Two councils agreed the disaggregation principles but after three years had still not agreed all of the detailed opening balances.

Developing a budget for year one while in the shadow authority form is a complex task involving the aggregation of budgets and in the case of legacy county council models also budget disaggregation. LGR requires council tax harmonisation and this needs to happen as quickly as possible. Budget setting can also be hindered by the lack of an establishment for the new council. Finance representatives from the sovereign councils must work together to agree financial assumptions for the new unitary council and align the different approaches historically used for medium-term financial planning.

In our view, getting the governance right is key. Establishing strong governance arrangements during transition will enable the new councils to have a stronger start. For example, we identified that during Somerset's transition the governance arrangements included:



We think transitional governance from central government is too prescriptive. Structural change orders (SCOs) are the statutory instruments through which the Secretary of State's decision on LGR in an area becomes legislation. SCOs include detailed arrangements for transitional governance. The SCO for each new unitary establishes the need to set up a committee which is responsible for the preparatory work to create Shadow Authorities and oversee the implementation planning until Shadow Authorities are elected. The joint committee is dissolved once the Shadow Authorities and executives for the new council is established. For example, in one council an implementation executive of nine county council members and seven district council members were required to establish and deliver an implementation plan. The SCO also required an officer group to be set up within 21 days and the SCO sets out who needs to be on this group. One council had established a model of governance that worked locally, in the form of an LGR Joint Committee to oversee the implementation plan, with membership including the Leaders of all five sovereign councils. However, following the SCO this Committee was replaced by the LGR Implementation Executive although this maintained the same membership.

Having the right staff and supporting them is essential. The SCOs establish the requirement to recruit to three main statutory posts of Chief Executive, S151 and the Monitoring Officer, but establishing the new organisation in advance in 'shadow' form and recruiting for key positions will help to make sure things go smoothly during the transition. Capacity and capability are critical so resource change appropriately. We acknowledge the national workforce challenges in local government have impacted on the capacity at some new unitary councils. LGR requires significant input of staff time and resources. Remember that officers are also trying to do their day jobs too at a time of considerable uncertainty. LGR implementation and transition is a period of significant anxiety and uncertainty for officers working for the sovereign councils. Staff are facing uncertainty over new conditions and organisational structures. Officers in the top three tiers often face further uncertainty in going through the consultation and recruitment process for senior roles. New unitary councils will need to assess how these factors impact on their organisational capacity and resilience, so this doesn't adversely impact on meeting their statutory service responsibilities, and in being able to realise transformation improvements arising from LGR. When working though LGR there will already be upheaval for staff, members, and the community. It's important to support people during the transition and to check in on their wellbeing. Communication and engagement with these groups is essential.

Transformation and programme management capabilities are key to success. Strong programme management arrangements are critical to establishing the new council. Setting-up a dedicated programme team will help to manage the process and ensure that sufficient internal resources and external support are devoted to it. Councils have also benefited from having external support to act as a critical friend and supplement existing capacity or bring in new skills.

In Cumbria the LGR programme was split into seven thematic areas, each managed by a Theme Board. In the themes, work was split between workstreams and captured in individual delivery plans. The programme was supported and managed by a Programme Director and dedicated PMO team, using automated reporting to enable daily tracking of progress against delivery plans, and day-one requirements and milestones.

The Somerset team created six workstreams: governance; people (human resources, organisational development, culture, and ways of working); assets optimisation (property, information technology); service alignment and improvement; finance; customers, communities and partnerships. They also set up a programme management office to provide assurance, support, and additional leadership for the programme.

Pre-vesting day implementation timescales are short and most new councils only have time to be safe and legal on day one. After Vesting Day (legally day one of the new council) council's also need transformation resource and capability in place in their early years to ensure they have the capacity to develop strong arrangements. Understand that the skills needed to achieve pace of change and transformation are different from business as usual, and safe and legal. Too often councils don't retain their transformation PMO for long enough post-vesting day leaving transitional programme management to overstretched staff delivering business as usual activities and risking the loss of built-up knowledge.

Councils should ensure there's sufficient focus on culture and communication before and after the transition period. New councils combine many cultures, and we would encourage the implementation team to build the target operating model as soon as possible before vesting day and consider the values and behaviours for the new council. Too few councils focus on culture and getting it right will underpin the rest of the journey.

Financial sustainability

LGR models vary and those models which merge district councils will have different priorities than reorganisations that split county council services. The merger of legacy district arrangements will often have social housing and the need to merge housing revenue accounts and ensure compliance. Disaggregating county council arrangements is particularly challenging, and this adds to the complexity of LGR.

Agree an estimated balance sheet split early in the transition process including reserves, capital financing requirement and minimum revenue provision for LGR involving legacy county council changes. This will help the new councils to establish good financial sustainability. Four new unitary councils agreed estimated balance sheet splits prior to vesting day. This established the opening position for these councils as well as separated capital programmes, reserves, and balances for each authority. This informed the first-year budget monitoring and the assumed legacy position. Two councils also had an estimated balance sheet prior to vesting day but didn't finalise the opening balance sheet until over three years later. This means these councils didn't have complete certainty on their reserves and liabilities over this period which could have impacted on their financial sustainability.

Common across the LGR model is the need to understand the legacy reserves position early. This will provide a stronger platform on which to build. Understanding and maintaining sound reserves is vital and a key indicator of sound financial governance. It should be at the heart of all medium-term financial plans. In our view, general fund reserves (including earmarked general fund reserves) should be a minimum of 5% of net spending and ideally between 5 and 10%. While we have identified some good practice in councils reviewing their legacy reserves in year one, we're concerned about two examples were the councils have no audited view of their legacy position three years after vesting day. We're equally concerned that some new councils made significant use of their reserves in the first few years of their existence.

Reduce reliance on legacy financial systems as early as possible. New unitary councils inherit a range of legacy financial system arrangements which mean they have multiple financial ledgers and a range of systems feeding into these such as benefits and payroll. We're concerned about the risks of operating multiple financial systems on the accuracy of its financial position and recommend moving to a single ledger and other supporting systems as soon as possible. Councils also need to ensure they have tested the functionality of their finance system and can use it effectively.

New unitary councils need stronger savings and transformation programmes: this was a key theme in our AARs. These councils are no different from more established ones in that they're seeing increased service demands, particularly in children services, adults, and housing and they have increased costs from inflationary pressures. This puts pressure on the transformation programmes to deliver at pace. We've seen an over reliance on existing teams and an assumption that staff can work in transformation while delivering business as usual. There's a clear need for specialist skills in this area and capacity and capability to change. One council tried to transform in-house but hadn't designed its new operating model at the start and then sought external help which added financial risk from the non-delivery of savings.

Transformational savings take time to achieve, and new councils need to ensure these are planned over the medium-term and they have enough savings in their programmes in case of slippage. Too many new councils identify single-year savings with limited scope if savings fail to materialise. We expect councils to identify a greater proportion of their savings which impact multiple financial years and reduce their reliance on unsustainable one-off measures. We've also seen the lack of stronger transformational approaches to savings as we would expect including in those councils established for longer. We've also identified significant use of reserves which impacts on future financial sustainability. However, one Council has a five-year transformation plan and ensures cabinet member portfolios include change and transformation.

Transformation needs to be fully costed and those costs kept under control. For example, in one council the estimated transformation programme costs increased significantly from £29.5 million in November 2019 to £52.12 million by February 2024. Transformation programmes need effective programme management and regular progress reporting in public to elected members is essential. Elected members need enough evidence to challenge delivery and ensure officers are taking corrective action if needed.

New unitary councils need to consider the capital programmes alongside their revenue budgets. Too often capital programme delivery isn't t sufficiently resourced in the early years of LGR. However, Westmorland and Furness Council did establish a Capital Delivery Group which carried out project assurances reviews on its capital programme in line with good practice and supporting the approach of the Infrastructure and Projects Authority (Cabinet Office) for public sector infrastructure. Councils need to improve their capital reporting to provide greater detail to why programmes are delayed, mitigation and the expected performance benefit aligning financial performance and risk reporting.

Five of the new unitary councils since 2019 have received agreement in principle from the Ministry of Housing, Communities and Local Government (MHCLG) capitalise through the exceptional financial support (EFS) framework. Two of these councils received support to help them transition and transform recognising the pace and scale of change needed. One of them needed additional support given service demand pressures and its need for significant transformation. One council hadn't requested EFS during transition but did need financial help in its first year to ensure it was financially sustainable. Two unitary councils established at an earlier timescale also had EFS approved in principle in 2023-24 for transformation related costs. One of these received EFS in the form of a capitalization directive at the end of February 2024. A newer unitary council agreed £76.9 million in principle with DLUHC for 2024-25 after it declared a financial emergency in November 2023.

Councils need a management plan in place to deal with dedicated schools grants (DSG). Nationally, councils who receive DSG are coming under increasing financial pressure due to high needs block deficits driven by demand for special education needs and disability (SEND) places and education, health, and care plans (EHCPs). The new unitary councils are no exception. These councils need to ensure they have plans to reduce the deficits they have inherited and a plan to control further spending. If the statutory override is lifted in March 2026 the councils will become liable for the DSG deficit which would significantly impact their financial sustainability.

We think new councils need their finance team in place at the start and they need to ensure it has sufficient capacity and capability. One new unitary council was still recruiting significant posts to its finance team a year after Vesting Day. Not all new councils had finance staff who understood the breadth of council finances at the start particularly children's services and dedicated schools' grants. Several new councils struggled with finance team capacity in the early years of establishment which impacted on the development of financial statements and on the effective monitoring of capital programmes.

Governance

Understanding the value of risk management varies across the new councils as it does across local government more widely. We know that effective risk management enables councils to improve governance, plan and achieve outcomes and identify opportunities. The councils which understand the value of strong governance foundations and value risk to support performance and financial sustainability have had a stronger start. In two cases we also saw evidence of councils considering risk and opportunity together, which we see as good practice. These councils are also developing other examples of strong governance including having independent members on their Audit Committees. However, in most cases we identified areas where councils need to improve their risk management arrangements. Most notably, these improvements covered the need to improve risk reporting to the Cabinet and the Audit Committee, separating duties so that risk responsibility isn't in the internal audit team, having a risk strategy (to include a clear escalation framework, clear roles and responsibilities and a consideration for risk appetite), improving the strategic risk register (linking to corporate priorities, including mitigation, assurance and risk proximity. We also expect councils to be integrating risk, performance and financial reporting and reporting these quarterly to the Cabinet.

Build in more time for internal audits in the transition period. Councils have underestimated the complexity of internal audits in their transition year. New unitary councils' need to recognise this when setting the audit plan. Audit delivery in this period is often impacted by the loss of organisational memory due to high staff turnover and the capacity of officers to respond to audit requests. Audit plan delivery is also impacted by the complexity of multiple legacy systems and in some cases by the availability of audit team members.

Audit planning needs to ensure legacy recommendations are reviewed as these will impact the new council arrangements. We've seen evidence of councils bringing together a plan to understand and prioritise legacy audit recommendations but in some new councils this wasn't the case. Councils should also self-assess their new audit arrangements against Public Sector Internal Audit Standards and organise an external assessment as soon as possible. They should also carry out a self-assessment of the Audit and Governance Committee, in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) methodology.

Build in capacity for counter-fraud to the new structure. We've found some new unitary councils lack capacity for proactive counter-fraud work. Councils need to be proactive as counter-fraud is not just about having policies in place. Councils need to ensure they have resources to undertake investigations and reduce the risk of fraud occurring. We would expect them to have a dedicated counter-fraud officer. Councils need to adopt the CIPFA 2014 code of practice on managing the risk of fraud and corruption and integrate fraud and anti-corruption risks as part of risk management improvement.

New councils often inherit council-controlled companies and appropriate arrangements such as shareholder committees need establishing and changes filing with Companies House. Having appropriate governance in place such as shareholder committees for council companies reduces commercial and financial risk and conflicts of interest. Councils also need to carry out due diligence before making changes to the companies they inherit.

Joint committees need establishing in those areas which split county services and where hosting arrangements are in place. These committees need supporting by chief officer governance structures. In these areas it's important for elected members and senior officers to challenge performance and finance of these services and ensure contracts are effectively managed. In the case of Northamptonshire arrangements are further complicated by the Northamptonshire Childrens Trust being based on the legacy county geography, although a joint committee is in place to monitor the arrangement.

Having audited financial statements is critical to a strong financial position. Too few unitary councils recognise the finance team capacity required to ensure they can develop legacy accounts, and work with external auditors to agree them before building the unitary council foundations. The task of combining the accounts of legacy councils is difficult and too often we've seen the lack of capacity and continuity in the team responsible for producing financial statements resulting in significant delays. This lack of audited financial statements is a common weakness in the financial sustainability of new councils. Councils need to ensure they're not overly reliant on key individuals in the finance team as this could indicate a point of failure.

The lack of financial statements in some legacy councils are a cause for concern. In two established unitary councils, delayed financial statements is partially due to their ability to agree the disaggregation of the predecessor councils balance sheets. It's highly likely that these audits will be part of the backstop measures. A newer council has limited finance team capacity which has resulted in its inability to produce accounts and support the audit for legacy district council arrangements. Three other unitary councils have also experienced a lack of audited legacy accounts that will create a problem relying on some financial information.

Cyber security is a growing national threat, and councils need to mitigate the risk of this occurring and ensure they have disaster recovery arrangements in place. The lack of understanding of legacy council arrangements and the pace of improvement in these areas is a consistent theme for new unitary councils to address. Councils need to have defined cyber security strategies in place, regular testing, and developed disaster recovery arrangements with agreed prioritisation. Councils need to ensure they have the ICT capacity in place to develop strong arrangements. Where ICT is part of a hosted arrangement this needs to be contract managed effectively to ensure both councils are fully supported.

New councils need to establish a central record for members and officers' declarations, including gifts, hospitality, and interests. Officers, particularly those with responsibility for procurement and commissioning, need to declare their interest at least annually and we would expect this to be managed centrally.

Use the CIPFA Management Code to drive improvement. Too often we see new unitary councils not using this Code to help them establish good financial governance. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. Using this Code to develop an improvement plan will help new councils to identify their gaps.

Improving economy, efficiency and effectiveness

Develop the performance management framework early, ideally for day one. Once target operating models are agreed, shadow councils should start developing their performance management framework. For example, in Buckinghamshire we found the Shadow Organisation had a performance framework which was the starting point for the new authority. New councils need to develop their corporate plans and underpin this with key performance indicators (KPIs) that are relevant to the new body. Too often KPI reporting is focused on legacy arrangements, and this risks not reporting significant statutory measures. Councils need to report on a comprehensive set of performance measures and use national and statistical neighbour benchmarking. We saw examples of councils with social housing not reporting on compliance, and councils not reporting children with special education and disability needs and education, care, and health plans. Our work also identified a lack of focus on statutory adult social care outcome indicators, Looked after children, children in need, and child protection in some areas. A common theme for compliance with statutory responsibilities is a lack of school places for children with EHC plans. We expect councils to be reporting performance quarterly to their Cabinets and aligning this with risk and financial management.

Data quality improvement is critical both to performance and financial information. New councils need to ensure data underpinning performance and financial reporting is reliable and validated. Developing arrangements to secure quality data is important, including the development of a corporate data quality policy and an improvement plan to raise standards. Good data quality is a particular challenge for those councils with disaggregated services, such as children and adult services. Data quality is an area of concern and should be high priority as it impacts regulatory and statutory compliance, and cyber security. Due to legacy platforms holding old data, its consistency, accuracy and future interoperability requirements impede the future state roadmap. Councils need to develop a data catalogue, ownership, and stewardship. Poor data quality isn't just a service issue. Data quality weaknesses are also apparent in finance and HR systems.

Councils should ensure controls are in place to minimise data breaches. Two of the new unitary councils have reported themselves to the Information Commissioner's Office. For those councils with disaggregated services data governance is particularly challenging. Disaggregating systems in children's and adults' services has been a challenge across all councils where legacy county services were disaggregated.

Councils who inherit social housing need to merge their housing revenue accounts (HRA) as soon as possible. New unitary councils who inherit HRAs are too slow to merge them. They also need to review legacy compliance with decent homes standards and arrangements for building safety as a priority. We would expect these councils to be commissioning a stock condition survey, ensuring there's an asset management plan in place for housing and developing a 30-year business plan. These councils also need to comply with the Social Housing Regulation Act, which came into effect from 1 April 2024.

New councils lack an aggregated picture of their S106 and Community Infrastructure Levy (CIL). Councils need to develop effective processes to reconcile CIL income and S106 agreements and ensure it's transparent with infrastructure funding with its partners such as town and parish councils. They need to ensure that monies are spent appropriately and within the agreed time limit. This is significant for communities that may be missing out on infrastructure improvements and creates risk of financial loss.

Understanding the strategic partners for the new council is important. Buckinghamshire established a workstream focused on strategic partnerships which established a strategic partnership board for day one. During the transition, the workstream mapped where its partnerships were working and the key influencers in these arrangements. We recognise this as good practice. The four key partnerships in Buckingham have a joint chairs meeting which identifies synergies and themes. It also worked during the shadow arrangements to identify the risks and opportunities from unitary status to the strategic partners. This focus on partners isn't common and in other new unitary councils we've identified a lack of such arrangements as an area for improvement.

Procurement and contract management is a common theme requiring improvement. In some new unitary councils, we identified a lack of capacity in the new procurement and contract management team which needed addressing. This lack of capacity is further compounded by the scale of the requirement. New unitary councils inherit contract registers, and they need aggregation and contract pipelines developing. Contract registers often require improvement to ensure contracts are up to date, have owners, and comply with whole-of-life procurement. This is a particular challenge for new unitary councils when legacy contract owners have often left, and multiple contracts exist across legacy arrangements.

New councils need to improve procurement and contract management. We've seen a lack of strategy, an over-reliance on waivers and breaches of the procurement rules and a lack of reporting on exemptions to the Audit Committee. However, in two of the most recent councils to become unitary we did identify preparations for the Procurement Act 2023 implementation.

Most new councils haven't built cost and performance validation into contract monitoring, and they lack systems to monitor real-time performance of their key contracts. Some new councils haven't identified their significant contracts which must be prioritised.

Buckinghamshire recognised the variability of its legacy procurement arrangements and established a Supplier Management Group. The group aimed to maximise value for money, promote social value and understand and promote supplier resilience. It also established a strategic procurement team which has trained those procuring and contracting services in areas such procurement, contract management development, modern slavery and procontract e-sourcing.

Conclusions

LGR is expected to continue, given the financial pressure the sector is under. Future new unitary councils should learn the lessons from the issues we outline here and the good practice examples to plan change more effectively.

We've seen in our work the scale of complexity and the volume of day one requirements during the transition period to operate as safe and legal. This too often means councils haven't undertaken work on transformation and in most cases aren't sufficiently prepared for vesting day. We do think the government needs to allow enough time for change ahead of Vesting Day, so councils are able to establish a strong platform to build on.

We've seen that capacity and capability are critical, so councils need to resource change appropriately. LGR requires significant input of staff time and resources. Remember that officers are trying to do their day jobs too at a time of considerable uncertainty. Councils need to recognise that additional resources are needed to help them deliver effective transformation and often the skills aren't the same as those needed for business as usual.

Given the service demands on local government and the impacts of cost of living and inflation it's unsurprising that the financial benefits of LGR are yet to materialise for all new unitary councils as planned. At the same time the costs of transformation are significant and needs keeping under control if councils are to be financially sustainable. In some cases, the cost of transformation has escalated significantly.

We've used our findings to set out a good practice checklist, which is included as an appendix.

Appendix – checklist for councils embarking on LGR

During the transition period

- Get the governance right, include a programme management office and external support in the transition and transformation periods.
- Appoint the new council's senior management in the shadow period and build the team.
- Agree the target operating model during transition.
- Culture and values are important for staff, members and the wider community so is regular communication so make sure you have a communications lead in the team.
- Understand the future HR establishment.
- Capacity and capability are critical so resource change appropriately.
- Build, and resource to, the finance team early – capacity in this team is essential.
- Ensure the transition plan has robust control measures including risk and audit.

Financial sustainability

- Focus resource on disaggregation and aggregation as early as possible to maximise future benefits.
- Build in time early in the transition period to agree an estimated balance sheet split including reserves, capital financing requirement and minimum revenue provision for LGR involving legacy county councils.
- Harmonise council tax during the transition period.
- Build finance team capacity to ensure they can develop legacy accounts, and work with external auditors to agree them.
- Understand the legacy reserves position early – it is a key indicator of sound financial governance.
- Reduce reliance on legacy financial systems as early as possible by moving to a single system and ensuring you have tested it and trained staff to use it.
- Develop a multi-year savings and transformation programmes with the right mix of capacity and capability to deliver it combined with effective member governance.
- Review the capital programme and develop strong governance arrangements including regular reporting to elected members.
- Merge housing revenue accounts (HRA) as soon as possible and ensure housing compliance is in place.
- Develop a DSG management plan to ensure the Council can reduce inherited deficits and control further spending.

Governance

- Separate responsibility between internal audit and risk management and ensure there's integrated risk, performance, and financial reporting at least quarterly to the Executive.
- Develop a corporate risk strategy including escalation, opportunity, and risk appetite. Ensure the strategic and directorate risk registers include corporate priorities, risk mitigation, assurance, and risk proximity.
- Ensure the new council has capacity for internal audit and dedicated counter-fraud work.
- Ensure legacy audit recommendations are reviewed and a plan developed to implement relevant recommendations.
- Review legacy cyber security arrangements, develop a cyber security strategy, regular testing, and develop disaster recovery arrangements with agreed prioritisation.
- Resource ICT capacity sufficiently to develop strong cyber security and disaster recovery arrangements.
- Develop appropriate governance for inherited council companies to reduce commercial and financial risk and conflicts of interest.
- Establish a central record for members and officers' declaration, including gifts, hospitality, and interests.
- Use the CIPFA Management Code to drive improvement.

Effectiveness, economy, efficiency

- Develop the performance management framework early, ideally for day one and ensure KPIs are aligned to this framework not to legacy council arrangements.
- Ensure data underpinning performance and financial reporting is reliable and validated.
- Ensure data governance controls are in place to minimise data breaches.
- Map the council's strategic partners and develop partnership governance arrangements.
- Aggregate S106 and CIL funding and develop an effective process to reconcile CIL and S106 income.
- Ensure the council has sufficient capacity in the new procurement and contract management team.
- Develop strong procurement and contract management arrangements, including a procurement strategy, up-to-date contracts register, a contract pipeline and a process to agree waivers and ensure compliance with contract standing orders.
- Identify the significant contracts, assess their risks, and ensure cost and performance validation are built into the contract monitoring.

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