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Devolution,  
Democracy and  
Delivery

# White Paper – Reforming Local Government

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**Overview**

The White Paper 'Reforming Local Government' is the Welsh Government's statement of intent about the future of Local Government. The White Paper also responds to the Local Government aspects of the report of the Commission on Public Service Governance and Delivery. The White Paper seeks views on whether our vision is the right one, and suggestions on how it could be further developed.

**How to respond**

To respond to the consultation please either complete the online form or complete the questionnaire at the back of the document and return it either by email to

ReformingLG@Wales.gsi.gov.uk

or by post to

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**Further information and related documents**

Large print, Braille and alternative language versions of this document are available on request.

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**Data protection**

How the views and information you give us will be used

Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about. It may also be seen by other Welsh Government staff to help them plan future consultations.

The Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with the response. This helps to show that the consultation was carried out properly. If you do not want your name or address published, please tell us this in writing when you send your response. We will then blank them out.

Names or addresses we blank out might still get published later, though we do not think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including the Welsh Government. This includes information which has not been published. However, the law also allows us to withhold information in some circumstances. If anyone asks to see information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published, that is an important fact we would take into account. However, there might sometimes be important reasons why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decided to reveal the information.

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## Foreword by the Minister for Local Government and Government Business



Local Government provides services many people depend on and we all expect to be there when we need them. These include the services which educate our children, care for and support the most vulnerable members of our families and communities, fix our roads and collect our waste. However, Local Government does not exist simply to provide services. We have a strong tradition of community participation in Wales and we know the public want to be involved in designing the future for their area and the services provided. We all pay for public services through our taxes, so we all have a stake in their future.

The environment for public services is almost unrecognisable from where we were 50, 20 or even 10 years ago. Times are tough financially, demand is increasing for many services and the public expect instant access to information. The Commission on Public Service Governance and Delivery confirmed what we already knew – our current arrangements are not fit for purpose. Reform must be significant and sustainable.

In this White Paper I give you my initial thoughts on a vision for Welsh Local Government fit for the 21st Century and beyond.

It proposes a new relationship between Local Government and communities. We need communities and Authorities to work together to tackle issues and create joint solutions. I have already introduced measures to promote better engagement, greater openness and transparency, however, we need to do more.

It sets out action to ensure our elected representatives reflect the communities they serve. I am passionate about increasing diversity in Local Government.

It will strengthen governance and make it clear how decisions are made and who took them. It will help local Councillors provide effective challenge and scrutiny. It will encourage innovation and the sharing of best practice, to drive excellent performance and services which meet people's needs.

The White Paper starts to set out the changes to structure needed to empower Authorities to rise to the challenge of leading their areas. It reminds us not to forget about collaboration.

However, 'the devil is in the detail'. To crystallise my vision, to add broader perspectives and to come up with detailed plans and timetables for implementation, I need your views. I will set up arrangements for a frank and open debate and I expect a mature and constructive conversation. Local Government must take the lead in designing its own destiny. We must work together, in partnership, over the coming months to build Local Authorities designed for Wales, in Wales.

A handwritten signature in grey ink that reads "Lesley Griffiths".

## Introduction

1. We know the people of Wales place great value on their public services. These include the services provided by Local Government which educate our children, care for our older people, support those who are ill or disabled, watch over the most vulnerable, and collect our waste. Some people in our communities particularly depend on these services and we all expect them to be there at the times in our lives when we need them. We all appreciate the thousands of dedicated public servants who work hard to deliver these services and would want their efforts to be recognised and appreciated. We all pay for public services through our national and local taxes, so we all have a stake in their future. But public services mean more to us than delivery of specific services. They are part of the communities in which we all live and provide the background against which daily life in Wales takes place.
2. We have a strong tradition of local democracy and community action and participation, and we know the Welsh public wants to be involved in the decisions about how the future of our communities is planned and how services are designed and delivered. We know people recognise this is not just about the here and now, but also about how we make public services sustainable so they deliver effectively for future generations.
3. However, Wales and its public services face complex and unprecedented challenges. Many of these are a legacy from the past, but this generation must not leave them as challenges for the next. The funding available for public services is under pressure, and will continue to be, whilst more and more people are likely to need these services. We cannot sustain this, and we know something has to change. This White Paper invites a wide engagement with the reality of the situation we face – the need to reform not just our structures and our services, but the terms of engagement with our public services and our expectations of them.
4. It was for this reason we established the Commission on Public Service Governance and Delivery (“the Commission”), and asked it to produce an honest, independent and robust report on how our public services are governed and delivered now, how this needs to change in order to meet the needs of people today, and how we can build a sustainable basis for the future.
5. The Commission has provided a detailed, authoritative report, with a series of recommendations for action. Some of it makes uncomfortable, challenging reading – for the Welsh Government, for Local Government, and for other public services. However, we cannot be defensive, or deny the existence of the challenges the Commission has identified. We may not agree with every detail in the report, but we recognise the problems of wide variation in performance and efficiency, of scrutiny and governance which does not support and drive improvement, of basic standards and principles of governance not being applied consistently and effectively, and of excessive complexity.
6. We are very grateful to the Commission for its work. Its report is an important stimulus for change, and this White Paper is a positive response to the challenges the Commission poses for the future of Local Government in Wales, and its contribution to high-quality, responsive and efficient public services. However, we want this paper to be more than a response to the Commission. It is our statement of intent about the Local Government we want, Local

Government which improves the well-being of Wales by contributing towards shared long-term outcomes. We want to ensure a proper relationship between those who provide a service and those who rely on it, through stronger local democracy, and more effective scrutiny, and enabling local Councillors to properly hold those responsible for services to account, on behalf of the communities they serve. We want well-run Local Authorities which operate transparently and openly, which plan effectively, which use the resources available to them to best effect, and which work collaboratively and in partnership with others wherever this will benefit the people they serve. And we want people themselves to have a stronger voice, and more influence over how services are designed and delivered. To deliver this, Local Authorities will also need to be continually assessing and improving their own performance. This paper does not cover every aspect of how we will achieve this – in some areas we are continuing to develop our plans, and more details will follow in the coming months.

7. This Paper also responds to some of the Commission's findings which have implications beyond Local Authorities, such as those relating to partnership and collaboration, and it addresses recommendations for Fire and Rescue Authorities relating to scrutiny and governance, and to boundary changes.

8. Since the Commission published its report, discussion has focused on whether we have too many Local Authorities, and whether we should reduce the number by merging some of them. The Commission's proposals have provoked much comment and debate. Some have suggested we should be focusing our efforts and resources on improving services, rather than changing boundaries. This misses the point: merging Authorities is an essential component – though not the only one – of improving services, making Authorities more efficient and enhancing their capability, and putting them on a stable financial footing to meet the challenges ahead. The Commission is clear its proposals are a package: we agree, even if we do not agree with every detail of the recommendations. We know we cannot just merge Authorities into larger units, then sit back and expect things to improve. However, without a reduction in the number of Authorities, it is clear many will not be sustainable and will struggle to meet the challenges they face now and in the future.

9. The proposals for Local Authority mergers represent the single biggest change recommended by the Commission and, if we are to deliver at the pace the Commission called for, we need to start immediately. This paper therefore focuses on the actions we intend to take between now and the end of the current Assembly in May 2016 to facilitate a programme of Local Authority mergers. However, we remain clear mergers are only part of the story. So this White Paper also sets out a wider vision for the future of Local Government and the services it delivers. Ultimately, we want a Local Government which is fit for the 21st Century, which is connected to its communities, and which delivers improved well-being and effectively prioritises and delivers services to a high standard. However, we need your views about the Local Government Wales wants as well: we want to be sure our plans and ambitions are the right ones, and we have included questions throughout this Paper, inviting views and comments on some of the proposals for action we have set out.

10. In parallel with this White Paper, we have also issued 'Devolution, Democracy and Delivery - Improving public services for people in Wales'. This sets out a comprehensive, Government-wide response to the challenges articulated by the Commission on Public Service Governance and Delivery, as well as a vision for the future of the devolution settlement, following the report of the Commission on Devolution in Wales. 'Devolution, Democracy and Delivery - Improving public services for people in Wales' ranges far more widely than this Local Government White Paper, but many of the actions proposed will have implications for Local Government as part of a wider devolved public services, in relation to matters such as leadership, performance, developing new models of public services (including co-production), and the concept of 'one public service', as well as our response to the Commission's specific proposals for Powys, and for integration of health and social care in other areas.

## The findings of the Commission on Public Service Governance and Delivery

11. It is important to emphasise again this White Paper is more than just a response to the findings of the Commission. Rather, it is a statement of purpose about how we propose to deliver the changes necessary, if we are to have consistently excellent local public services. Nonetheless, responding to the Commission's work and its findings is a central part of this Paper, so we start by restating the Commission's key findings.

12. The Commission found the financial pressures on public services to be severe and unsustainable. Even the most positive projections indicate public expenditure will not return to 2011 levels until around 2022. In the meantime, the number of older people will continue to grow relative to the rest of the population (as will the younger population in some parts of Wales), so demand for Local Authority services will continue to grow. The Commission notes these pressures and challenges are not unique to Wales, or the UK: they exist across the developed world.

13. The Commission finds performance is poor and patchy, with a wide difference between best and worst, and significant variations in efficiency. The Commission accepts some variation in performance is inevitable, because different Local Authorities face different challenges of demography, deprivation, and geography. However, it describes the differences as 'often inexplicable'. Given the future financial challenges, weaknesses in performance will only increase unless we act.

14. The Commission identifies a number of shortcomings which contribute to these problems of performance. It finds too much effort is wasted on managing complex public sector systems and relationships rather than on providing quality services. This is a particular issue for Local Authorities because they are unique, multi-service organisations, linked inextricably with the rest of the public sector. Its solution is to reduce complexity of the public sector, by simplifying accountability, removing duplication, streamlining partnerships and ensuring organisations work together effectively.

15. The Commission finds compelling evidence many Local Authorities are too small to address the risks and pressures they face. This does not necessarily mean larger Authorities perform

consistently better than smaller ones, and the Commission does not suggest this. However, it finds breadth and depth of capacity to be a real challenge, with small scale often creating unacceptable risks to governance and delivery. The Commission therefore proposes a reduction in the number of Authorities to between 10 and 12, through mergers of existing Authorities. This, it believes, will combat the serious problems of small scale and make it easier for Local Authorities to work with other public service organisations in the public interest. It will also create significant long-term savings, which will help protect services.

16. The Commission highlights the importance of governance, scrutiny and accountability in driving improvement, but it finds governance arrangements within organisations are too often unclear, and scrutiny and other accountability mechanisms are under-valued and ineffective. It recommends changes to make organisations more responsive, with accountability mechanisms which are better informed, more complementary, more effective and less burdensome. It also recommends measures to improve leadership, and calls for development of a shared, collaborative and citizen-centred set of public service values.

17. The Commission found the number and scale of Town and Community Councils to be problematic and they expressed concerns around their accountability, representativeness and their ability to understand and articulate local needs. They concluded the Community Council sector is in need of reform. The Commission recognised the importance of harnessing the voice of the citizen as a force for improvement but acknowledged the processes and practices for doing so were sporadic, inconsistent and often ineffective.

18. Finally, the Commission finds the wealth of performance data collected by the public sector is not being properly used to deliver improved outcomes, and recommends a single and concise set of national outcomes, with local partnerships and organisations feeding into them.

19. The Commission recognises there are examples of good performance, highlighting the success of Fire and Rescue Services in reducing fire casualties (which have more than halved since 2004-05), and the achievements of Local Authorities in meeting targets for waste and recycling. Nonetheless, we agree performance needs to improve, and recognise fundamental change to the way we prioritise, organise, manage and deliver services is necessary for this to happen.

## The future of Local Government – what should we expect of Local Authorities?

20. The Welsh Government's ambition is to make Wales a better place, to deliver real change to improve the lives of people now, and leave a better legacy for our children and grandchildren. This means a Wales which is more equal, prosperous, and innovative; with healthier people living in safe, cohesive and resilient communities, who have more opportunities to use the Welsh language.

21. We – and particularly those who rely more heavily on public services – expect our services to play a full and central part in achieving the Wales we want. In February 2014 we set out a vision for a sustainable future for Wales – The Wales we want in 2050. The Well-being of

Future Generations (Wales) Bill introduced into the National Assembly for Wales on 7 July 2014 proposes a new legislative framework to agree a set of long-term well-being goals for Wales, and a stronger sustainable development framework with public bodies at its heart. This means thinking more about the long term, working better together, taking early action and engaging with people on this journey.

22. One of the aims of the Bill is to ensure Local Authorities work together, and with other parts of the public service, to improve the lives of people, both now and in the future, through the delivery of a shared set of long-term goals for improving social, economic and environmental well-being. These long-term well-being goals for Wales will help us address the call from the Commission for reform to be nationally driven and co-ordinated across the public sector, with suggestions for a clear and concise statement of all-Wales outcomes, to which all public sector organisations contribute. The Bill will also secure key governance approaches of prevention and collaboration, consistent with the Commission's broader findings about the importance of prevention and co-production in developing and delivering services.

23. We know Authorities are committed to actively promoting and improving well-being in the way envisaged by the Well-being of Future Generations (Wales) Bill, as well as delivering services, but this has to start with doing those things the public can reasonably expect of them. What are these expectations?

24. The evidence tells us people want Local Authorities capable of providing the services they need, and which are able to respond quickly and effectively when they need them. Services should be high performing, simple for people to access and use (in English and in Welsh), resilient enough to cope with increasing demand, and able to adapt to new challenges through innovation. Authorities should work with communities and individuals on service design, involving other partners and particularly the Third Sector, as well as their own staff, many of whom are keen to be more closely involved in designing innovative solutions to the delivery challenges they see every day.

25. However, Authorities should also be anticipating and managing demand, identifying and dealing with problems early, to prevent those problems getting worse and in turn placing greater demands on already stretched services. We and Local Government also need to be open and honest about the limits of what Local Authorities can provide, particularly in light of growing financial constraint. Whilst Local Authority services must always be there to help the vulnerable, and to support those who may be in crisis, they cannot (and should not) be there to solve every problem which might arise. People have a role to play and a responsibility for their own well-being. And some services might more effectively be provided in a different way.

26. We also know people want to see and understand how Local Authorities make decisions about their local services, and be part of the decision-making process, with their voices heard and their views taken into account. This means Authorities need to be open, telling people what they are doing, involving people in what is important to them through regular and active engagement, and providing easy access to the information people need to help them engage effectively.

27. People pay for their local services through their taxes (national and local), and they want to know their money is being used properly and effectively, with robust and effective processes in place to ensure this happens. Local Authorities need to be well-run, making decisions properly and transparently, and complying with all financial and legal requirements, so people can have confidence the money they provide is always used to best effect.

28. People want their Councillors to represent the diversity of the communities which elect them, and they want to be confident their own Councillor is working to make services better. This means effectively representing the views of individuals and communities, and holding the Authority's leadership to account both on the delivery of services, and the longer term work to improve social, economic and environmental well-being.

29. Finally, we know people expect Authorities to be responsive when services fall below the required standard. People understand things will sometimes go wrong, but when this happens they expect a prompt response, effective action, and for lessons to be learned, so the same mistakes are not repeated.

### Do Local Authorities meet these expectations?

30. Unfortunately, these expectations are not always met. The Commission has highlighted poor and patchy performance in the delivery of many services, and wide variations in efficiency. It cannot be right for disabled people in one Authority to have to wait over a year longer for adaptations to their homes than those in another. Nor, in a climate of continuing financial austerity, can we ignore a difference in annual corporate management costs between two neighbouring Authorities equal to over £50 per resident, or a cost difference of £90 per ton of waste collected between one Welsh Authority and another. Many of our Authorities are, or have recently been, in special measures for education. And even where an Authority does perform well in one area of service, it is often unable to replicate this performance across the range of its responsibilities. And this is not just a matter of indicators and targets. The National Survey for Wales 2012-13 found 43% of people in Wales do not 'agree' their Council provides high quality services; in addition, 59% of people did not agree their Local Authority was good at letting them know how it was performing.<sup>1</sup>

31. Authorities are becoming more open and transparent, but there are still too many examples of decisions being made without proper consultation, and we have seen a series of failures of governance in a number of Authorities. Even if the actual sums of money involved are relatively modest in the context of an Authority's total budget, these failures damage significantly the trust people have in their Local Authority, to use local taxpayers' money properly and effectively.

32. The National Survey found 47% of people want to be more involved in the decision-making of their Council. Local Authorities are facing difficult decisions about future budgets and there are some excellent examples of how they have engaged with their communities, but there

<sup>1</sup> National Survey for Wales, Headline results April 2012– March 2013, 23 May 2014. <http://wales.gov.uk/statistics-and-research/nationals-survey/?lang=en#/statistics-and-research/nationals-survey/?lang=en>

needs to be more. The Wales Audit Office (WAO)<sup>2</sup> has found many Councils did not engage effectively when planning budgets, or did not take account of the results of the engagement which took place. As a result, the WAO concludes some Councils may not be reflecting the needs, priorities and expectations of their communities.

33. We are still a long way from having a body of Elected Members who fully reflect the communities they serve, and who effectively scrutinise and hold their Authorities to account. The people who make decisions on our behalf need to be in tune with and representative of their communities, and understand their needs, but the majority of Councillors in Wales are over 60 years of age, less than a third are women, and 99 in every 100 is white.

34. Scrutiny is improving, but the Commission – and more recently the WAO<sup>3</sup> – have found there is much more to do in order to increase public accountability in decision-making. And the Welsh Government's postbag reveals continuing dissatisfaction about the way in which Authorities respond to complaints made to them, whilst the Public Service Ombudsman for Wales has highlighted the problems of delays by Local Authorities and other public services in responding to complaints.<sup>4</sup>

35. Authorities need to rise to these challenges, but we recognise there are challenges for us as well, and we know Government has a role to play. Like all national Governments, we must set the outcomes we want to see attained, and we must enable and support Local Authorities and others to do so. But we do not need to manage the detail of Local Authority business. We can, and should, leave more autonomy and decision-making with those who manage the delivery of services. Our approach to developing policies needs to recognise the strengths of being more joined up, and needs to take a more consistent approach to practical issues of delivery. And, we need to remove some of the burden we place on Authorities through excessive performance measurement, detailed planning requirements, and financial constraints. In return, we would expect performance and the delivery of our priorities to improve.

**Q: How can Local Authorities engage more effectively with their communities about the challenges of sustaining services as they are currently delivered and the need for change?**

**Q: What more could the Welsh Government do to assist Authorities with this dialogue, to improve their performance in the delivery of priority services?**

**Q: What specific suggestions do you have for reducing and simplifying administration, which would free up time and resources to deliver and improve services?**

<sup>2</sup> Meeting the Financial Challenges Facing Local Government in Wales, Wales Audit Office, January 2014. <https://www.wao.gov.uk/publication/meeting-financial-challenges-facing-local-government-wales>

<sup>3</sup> Good Scrutiny? Good Question! - Auditor General for Wales improvement study: Scrutiny in Local Government, May 2014. <https://www.wao.gov.uk/publication/good-scrutiny-good-question-auditor-general-wales-improvement-study-scrutiny-local>

<sup>4</sup> The Ombudsman's Casebook Issue 15, January 2014. <https://www.ombudsman-wales.org.uk/en/publications/The-Ombudsmans-Casebook.aspx>

## Moving Forward

36. It is easy to argue we should be concentrating on sorting out these problems, not changing structures. However, we must have a system of governance at national and local level which puts us in the best possible position to put these things right, and to have organisations which are capable of performing. Our core aim is not a restructuring of Local Government, it is Local Authorities delivering services which continually improve and strive for excellence, whose performance is visible and transparent to the communities they serve, and which is able to be compared against the best. This means best in class, not just best in Wales: local aspiration to be better than the Wales average is not enough.

37. This White Paper sets out the necessary steps towards the merging of Local Authorities into larger, more sustainable organisations. However, merging Authorities will only meet these aims if accompanied by a wider package of Local Government reform, because simply combining together the Authorities we have now into larger bodies which carry on doing the same things in the same way will not deliver better services or better outcomes. We need to lay the groundwork now if we are to deliver coherent, comprehensive and fully planned reform. The remainder of this paper therefore sets out our vision for Local Authorities, and how we intend to deliver it.

## Reforming Local Government – Strengthening democracy, sustaining and improving services

38. As we describe in the Introduction, we want Local Authorities fit for the 21st Century. We want a proper relationship between those who provide a service and those who rely on it, through stronger local democracy, and more effective scrutiny, enabling local councillors to properly hold those responsible for services to account, on behalf of the communities they serve. We want this to include planning for the long-term, not simply focusing on short-term decision-making. We also want to see a renewed drive amongst Local Authorities for greater collaboration and partnership working, with each other, with other parts of the public service, and with the Third Sector, where this represents the best way of delivering for communities.

## How do we make Local Government more accountable and transparent? – Democracy and Scrutiny

39. Local Authorities have an essential role in delivering services for the communities they serve. However, we do not want Local Authorities simply to be the managers of a series of individual services, we need them also to lead the drive for improving the full range of their services so the services work together to secure the wider well-being of their communities. This requires healthy and robust local democracy, where Councillors see themselves as champions of people and communities and are recognised as such, and where they are responsible for decision-making, and for effectively holding each other to account. They also have clear roles to play in delivering and improving services for the public they serve and represent.

40. To ensure Local Authorities are able to support this aim, we intend to fundamentally review how Authorities are constituted, in order to build a new constitutional settlement for reformed Local Authorities in the future. This will capitalise on the connection between Elected Members and their communities, ensure openness and transparency and have clear accountability for decision making at its heart. We intend to examine scrutiny arrangements, governance arrangements and the role of audit, inspection and regulation as part of this review.

41. Scrutiny and governance arrangements will therefore be re-designed to ensure greater openness, transparency and accountability. For example, we have made changes to require all Local Authority jobs which attract a salary of over £100,000 to be advertised publicly, for decisions on senior pay to be made by full Council, and for any adjustment to the pay of Chief Executives to be referred to the Independent Remuneration Panel. We have improved access to Council business and provided funding to help Authorities introduce live broadcasting of full meetings of principal Councils and Committees, and we intend to introduce a mandatory requirement on all Authorities to do so.

42. We also want to ensure our Locally Elected Members are truly representative of the communities they serve: the Report of the Expert Group on Diversity in Local Government<sup>5</sup> has demonstrated we are still a long way from achieving this. We have developed, and will implement, an Action Plan in response to the Expert Group's report, and we will work closely with all political parties to deliver priority targets, such as the aim for at least 40 per cent of Councillors being female. A group has been established to steer this work up to the Local Government elections in 2017. The group includes representatives from a range of organisations including the Welsh Local Government Association (WLGA), One Voice Wales and political parties. It will be supported by an expert seconded into the Welsh Government to take forward the Action Plan put to the National Assembly for Wales by the Minister for Local Government and Government Business and a network of Elected Member champions from each of the existing Local Authorities.

43. The Commission made a number of recommendations which seek to reduce the complexity associated with audit, inspection and regulation,<sup>6</sup> and strengthen the alignment between local scrutiny and the public service audit and inspection regime. Our review of audit and inspection will support these recommendations. This review has already begun and the findings will inform the way the audit and inspection regime is developed. In the meantime, we agree with the Commission that auditors and inspectors who report on Local Authorities should do so directly to the appropriate scrutiny or audit committee, and we expect them to begin to do so immediately.

44. We also accept the Commission's recommendations about reinforcing the status and value of scrutiny, and we agree organisations need to view scrutiny as an investment which can deliver both better services and future efficiencies. Our existing programme of support for scrutiny has already had an impact on the status and effectiveness of Local Authority scrutiny. During the recent Local Authority budget-setting process for 2014-15, a number of Authorities

<sup>5</sup> <http://wales.gov.uk/topics/localgovernment/publications/expert-group-report/?lang=en>

<sup>6</sup> The key bodies include the Wales Audit Office, the Care and Social Services Inspectorate Wales, and Estyn

established successful engagement strategies to inform the scrutiny of budget proposals made in response to reductions in available resources. This has highlighted the value of engagement and scrutiny when Local Authorities have to make difficult decisions, in particular the impact of those decisions on service users. The Scrutiny Development Fund is also supporting a project to develop principles of the effective scrutiny of services delivered collaboratively.

45. We intend to continue with the current programme, but we are also examining how we may be able to extend its scope, in order to provide additional support specifically to deliver the Commission's recommendations in this regard. We expect to see public service organisations in Wales providing similar investment in scrutiny functions, ensuring appropriate training to ensure scrutiny is effective, and engaging with service users to ensure the value of scrutiny is well understood. In addition, having placed a duty in the Local Government (Wales) Measure 2011 on Local Authorities to engage effectively with service users in delivering their scrutiny functions, we encourage other public bodies to ensure service users can engage in their scrutiny processes.

**Q: What specific changes should be made to the way in which Local Authorities are currently constituted to ensure openness, transparency and clarity of accountability?**

**Q: How should the scrutiny support programme be shaped to support improvements in the effectiveness of scrutiny?**

**Q: In what other ways should scrutiny be strengthened to drive service improvement?**

## Scrutiny and Governance – Fire and Rescue Authorities

46. The importance of governance and scrutiny in driving continuous improvement even where there is good performance, applies to Fire and Rescue Authorities as much as it does to other public services. The Commission report recommended a reconstitution of Fire and Rescue Authorities so as to hold Chief Fire Officers (CFOs) to account and strengthen the governance and scrutiny of strategic service and financial decisions. Each CFO would be given legal responsibilities for planning, managing and delivering an effective Fire and Rescue Service for the relevant area. This Commission recommendation will require primary legislation. The proposals we make below to create larger more resilient Local Authorities through mergers would, in any case, require us to consider how these changes affected the constitution of Fire and Rescue Authorities.

**Q: How might governance and scrutiny of strategic service and financial decisions of Fire and Rescue Authorities be best secured?**

## How can we give people a stronger voice in decisions affecting them? - Community Governance

47. The Commission recognised the voice of the citizen, either directly or mediated through effective representation, must be harnessed as a force for improvement but there was widespread recognition that processes and practices for doing so were sporadic, inconsistent and often ineffective. We agree. People need a clear and powerful voice to help shape local

services, and we believe strengthened community governance is also essential for strong democracy. This requires a strong and coherent voice which impacts upon decision-making in Local Authorities, and ensures services are designed and delivered in a way which reflects the needs of communities as a whole, as well as individual service users.

48. Town and Community Councils are one element of community governance, but the Commission's recommendations also acknowledge the value of emerging neighbourhood management approaches. We do not believe these approaches are incompatible with each other. However, we do believe there are important factors, such as the distinctive and valued role of the ward Councillor in Principal Authorities, and Principal Authority Area Committees, which require further examination. This is set against a background where many communities are being empowered to act for themselves outside traditional democratic governance models, through community action and regeneration groups, and through use of modern technology.

49. We agree with the Commission about the need for reform and improvement. We agree some Town and Community Councils are too small, and lack capacity and capability. As an initial step, we will consider whether any Principal Authority Areas in Wales would benefit from a review of their Communities and arrange for either the Principal Council or the Local Democracy and Boundary Commission for Wales to conduct these. However, we believe the role of Town and Community Councils must be considered in the context of larger Principal Authorities and the role of ward Councillors within those Authorities. We do not want to recreate a two-tier system of Local Government in Wales. Our proposals in the Well-being of Future Generations (Wales) Bill for local well-being plans, and the many other ways in which communities come together to create an effective voice for their needs and concerns, must also be considered. Therefore, we will issue a further paper this Autumn in order to consult with stakeholders and communities on options for strengthening community governance so it is effective and fit for purpose for the 21st Century.

**Q: What suggestions do you have to ensure communities have an effective voice in the decision making of the new Authorities?**

**Q: What sort of consultation, engagement and feedback processes should the new Authorities have with communities?**

## Partnership and Collaboration

50. If we are to tackle many of the current and future delivery challenges we face, Local Authorities – however many there are and whatever their size – will need to continue to work together, with other parts of the public sector, and with other partners (including the Third Sector). Collaboration and partnership working will remain essential if the public are to receive the services they can reasonably expect. Whilst some services are best delivered at a very local level, others require investment or expertise which cannot be replicated in every local community. We continue to believe in the value of collaboration, and in the principle of public bodies working in partnership wherever there are benefits in doing so. Local Authorities have a critical role, as the local democratic heart of collaboration across public services.

51. The Commission recognised the importance of collaboration, because delivery challenges are rarely contained within organisational or geographical boundaries. However, it also considered voluntary collaboration had not driven change forward at the pace required, and had in some cases added to complexity by creating a further set of processes to be followed and relationships to manage, which could themselves divert attention away from delivery.

52. The Welsh Government has encouraged and invested in local collaboration, but has never considered collaboration to be an end in itself. We believe there is a need for greater pace and commitment in progressing collaborative initiatives. There have been good examples of collaborative activity delivering benefits (both financially and in terms of improved delivery), but we do not believe partners have taken all the opportunities available. It is the role of Government to set the strategic outcomes, and for partnerships then to deliver these outcomes.

53. In 2011, Local Authorities and the Welsh Government agreed a programme of collaborative activity and projects to drive service improvement.<sup>7</sup> We agree some of these service reconfigurations have taken too long to implement, and have been hampered by excessive discussion and consideration by those involved, at the expense of action. The final report on the implementation of the programme, published in October 2013, set out those proposals for regional service delivery which are considered to be worth pursuing, following the business cases developed by the projects. We agree with the Commission that implementation of those remaining collaboration proposals should fall within the same governance arrangements as the main programme for Local Government mergers, once these are in place. We are also commissioning an evaluation of funding streams which supported collaborative working, which will report at the end of 2015 and will provide evidence on outcomes for public services, for service users, and any impact on the wider public.

54. Local Service Boards (LSBs) are partnerships where the leaders of local public and Third Sector organisations come together to take collective action to ensure public services are effective, and focused on the needs of people and communities. We firmly believe LSBs have (and will continue to have) a vital role in bringing local public service organisations together, but we recognise there is scope for further improvements, as highlighted by the Commission. For this reason, provisions for the reform of LSBs will form a key part of our Well-being of Future Generations (Wales) Bill. The Bill will implement the key recommendations of the Commission by:

- putting LSBs on a statutory footing, comprising senior representatives from each organisation, with consistent and more effective governance arrangements;
- requiring LSBs to prepare local well-being plans to identify local priorities which need multi-agency action, based on an analysis of need and engagement with the area's people and communities;

<sup>7</sup> A Compact for Change between the Welsh Government and Welsh Local Government, December 2011 <http://wales.gov.uk/topics/improving-services/publication-events/publications/compact/?lang=en>

- requiring the plans to set out the actions necessary to achieve the priorities, by whom and when;
- placing local well-being planning within the wider framework of national well-being goals and indicators set by the Bill, ensuring local well-being plans implement the sustainable development principles of long-term thinking, integration, collaboration, prevention and citizen engagement;
- ensuring the LSB is held to account, and monitored for the effectiveness of its well-being plan and its governance arrangements by a designated Local Government democratic scrutiny committee.

## National Partnership arrangements

55. We agree the Partnership Council for Wales (PCfW) and the Public Service Leadership Group (PSLG) need to be reviewed and reformed to reflect the new model of public services.<sup>8</sup> We also agree the PCfW should own the programme of work required to implement the reforms we set out in this paper. Our intention is for the PCfW to provide political accountability and leadership for many of the elements of the new public service reform agenda, including Local Authority mergers. We envisage it will be supported by a number of sub and advisory groups, designed to focus on particular technical aspects of the merger process. The details of these work-streams will be developed in consultation with PCfW. We believe the current remit of PCfW, as set out in the Government of Wales Act 2006, is sufficiently broad to accommodate the refocused purpose we envisage.

### **Q: How can we best engage with Local Government to take forward a programme of Local Government reform?**

## How do we ensure Local Government performance is improving and continues to improve?

56. Identifying ways in which to improve the performance of public services was one of the core aims of the Commission's work. The Commission has presented strong evidence about how complex arrangements for performance management have distracted services from the central purpose of helping the people of Wales to enjoy better lives.

57. Performance reporting arrangements have often grown in an unmanaged way and we agree a more focused approach is required. However, even the best performance information,

<sup>8</sup> The Partnership Council for Wales (PCfW) promotes joint working and cooperation between Welsh Government and Local Government. It is chaired by the Minister for Local Government and Government Business, and its key responsibilities are:

- encouraging dialogue between the Welsh Ministers and Local Government on matters affecting Local Government in Wales; and
- providing collective political accountability for action to improve the effectiveness and efficiency of public services.

The Public Service Leadership Group (PSLG) provides national leadership for collaboration. It too is chaired by the Minister for Local Government and Government Business, and comprises senior leaders from across public services in Wales.

on its own, does not improve performance. This only happens when the right information is used effectively – to diagnose where there is room for improvement, to inform decisions, to shape solutions, to monitor progress and to measure impact. And this relies not just on having the right information and the analytical capability to interpret and challenge it, but on setting performance information and management within a context of clear strategic purpose, priorities and direction.

58. The Welsh Government's Programme for Government (PfG) remains central to our strategic approach to improving performance and delivery. It represents a real commitment to delivery, and a move away from an approach of measuring success which placed too much emphasis on the amount of money spent, or the number of policies implemented, rather than the impact Government is actually having on people's lives. The Commission recognised the importance of Government setting out its strategic outcomes and how progress should be assessed. However, it found current measurement frameworks are complex, and considerable effort is needed to make an assessment of progress from the performance information which arises from them.

59. We believe the Well-being of Future Generations (Wales) Bill will provide the framework for achieving clarity of purpose for the longer term, and thus will be the first step towards delivering improvements. The Bill will establish a smaller set of national well-being goals, and a process by which public service organisations will need to demonstrate how they have sought to achieve those goals.

60. The more effective performance management regime the Commission calls for across the whole public sector would represent an ambitious system-wide change. Grasping the opportunity presented by this Bill is a starting point for reform, and we intend to make further early progress by formulating principles and standards for performance management to apply across the public sector in Wales.

61. In the meantime, we want to see Local Authorities taking full responsibility for the performance of their services, for promoting well-being through preventative as well as reactive action, and for corporate improvement, with scrutiny committees providing effective challenge to how their Authority performs. The onus should be on Authorities actively identifying and responding to emerging issues of performance or governance, before they are highlighted by auditors or inspectors. We know this happens in some Authorities for some service areas, but it is by no means widespread. Too often it appears there is only an effective response to a service or governance issue once it has been formally identified by inspectorates or by the WAO. We intend to review the Local Government (Wales) Measure 2009 to see whether there is scope for it to be changed so as more effectively to support service improvement, and to ensure the relationship between self assessment and external inspection is made clearer.

62. We also want to see Local Authorities providing information in an accessible and transparent way to their communities, to enable those communities to be informed about and engaged in the way their services are managed. This requires a commitment to openness from leaders and senior officers, but it also requires a strong and capable strategic function within each Authority. This will require proper investment in the leadership and analytical capacity and capability needed to interpret evidence, to identify the longer term trends in well-being which Authorities

should be seeking to address and to formulate ways of dealing with them. We recognise smaller Authorities may find it difficult to support and retain the necessary capacity and capability, but larger and merged Authorities should find it easier to do so. This will also support more effective local scrutiny by Elected Members.

63. Outcome indicators and performance measures will continue to be an important part of managing and improving Local Government performance. However, we intend to put in place clear and shared outcomes, which focus more effectively on longer term improvements in people's well-being. We also intend to reduce the complexity of service-level performance measurement. We also want Local Authorities to make better use of qualitative information about how services are performing, which might for example mean using focus groups, or looking at what the nature of complaints says about what people think of a particular service, as well as what the performance measures say about whether service-level targets are being met.

64. The Welsh Government currently makes a significant investment to support Local Authority improvement, through a variety of interventions and initiatives. We intend to review the way in which we use such funding, to see how we can more effectively support Authorities in focusing on prevention and longer term well-being, as well as on service improvement and good governance.

**Q: How can we help and encourage Local Authorities to be more proactive in identifying and responding to delivery or governance issues?**

**Q: What should be the principles and standards for performance management and performance reporting across Local Authorities, and the broader public sector?**

**Q: In what ways could we more effectively use the money we invest in supporting Local Authority improvement?**

## Reforming Local Government - Merging Local Authorities

65. We have begun to set out above a vision for the future of Local Government, based on healthy democracy, robust scrutiny and governance, and continued collaboration and partnership wherever appropriate. However, we cannot ignore the fundamental challenges of sustainability, scale and capability facing our Local Authorities, and we do not believe it is feasible to continue with 22. We therefore accept the Commission's recommendations to reduce the number of Authorities through mergers, and the remainder of this paper provides more detail about how we intend to begin the process of doing so.

## What is the case for reducing the number of Local Authorities?

66. The Commission has set out a compelling case for a reduction in the number of Local Authorities. The remit did not require them to do this, nor did the Commission begin with any preconceptions about how Local Government should be structured. It is clear it has come to this conclusion based on the evidence it gathered in the course of its work.

67. In its consideration of the scale and capability of public service organisations, the Commission recognised smaller organisations do not necessarily provide worse services. However, it did find areas where small scale creates risk to governance and delivery. It also found these risks necessarily arose more often in Local Authorities than other public service providers because of the breadth of their work. The Commission was very clear structural changes alone will not result in the public services we want, but they are a necessary part of the change which needs to happen.

68. The Commission has highlighted the lack of resilience in smaller organisations, making it more difficult to effectively manage internal and external risk and adapt to a changing environment. Smaller organisations may lack expertise across the breadth of the area of their work, due to a lack of demand or resource for specialists in all areas. Depth of capacity is also more challenging in smaller organisations, which may also struggle to manage both the strategic and operational challenges they face. The Commission stressed the importance of leadership, but found it is harder for smaller organisations to recruit and retain high-calibre leaders.

69. The Commission recognised economies of scale exist in Local Government, and corporate overheads and the unit costs of delivering certain services are necessarily higher in smaller Local Authorities. This means larger Authorities are able to provide frontline services more efficiently because these costs are lower. In the present context of unprecedented pressure on service budgets, the Commission argued realising any potential savings in overheads and unit costs is essential.

70. The Commission considered how well Local Authorities are likely to manage future challenges, as well as current ones. Demographic changes in the next 20-25 years will not be equal across Wales; the Commission found smaller Authorities are more likely to experience a decline in population and a higher relative age of residents. Smaller Authorities will experience a greater increase in demand for services and lower levels of resources to support this increased need.

71. As a result of the pressures smaller Authorities are facing on funding, leadership, and expertise, the Commission found it is more difficult for them to respond flexibly to emerging pressures, or to have capacity to innovate. As a result, the Commission suggested smaller organisations tend to focus on providing day-to-day services in established ways, making service improvement more difficult. As the pressures of increasing demand and decreasing resources become more severe, the need for innovation and flexibility will be greater. The Commission believed smaller Authorities will find it very difficult to meet this need.

72. The Commission also found the risks smaller organisations face cause risks for the whole system. A large number of smaller organisations lead to greater competition for the best leaders, managers and professionals. As a result, the Commission found talent in Wales is being spread too thinly. And organisations which operate on a larger scale, such as the NHS and the police, have to work with many Local Government partners, making partnership working more challenging. To minimise the risks of scale Local Authorities have collaborated to achieve

the necessary capacity and expertise, but significant management capacity is required if this collaboration is to be successful, which smaller Authorities may not have.

73. The Commission was clear the status quo is not a viable option for the future delivery of public services in Wales. The Commission considered options for structural reform including more extensive and permanent collaboration; returning to a two-tier structure, and mergers. The Commission found voluntary collaboration had progressed only slowly in Wales, and suggested it has not delivered the benefits which were hoped for. It found a two-tier structure would add complexity, and cost, and would spread leadership more thinly. The Commission therefore did not recommend either of these options. It recommended Local Authority mergers, on the basis local democracy would be maintained, and resilience would be increased, with the least possible impact on delivery of front-line services during transition.

74. In making specific recommendations for mergers, the Commission argued Local Authorities must be big enough to minimise the risks of small scale, but not so big as to become unmanageable, unrepresentative, or too distant from their communities to have an effective relationship with them. The Commission took into consideration several criteria which could affect the ability of Local Government to respond to the needs of citizens and communities. These included shared heritage and culture, particularly language; levels of deprivation; population density; council tax levels; and patterns of commuting and economic growth.

75. The Commission also sought to enhance coherence and coterminosity between Local Authorities and other major service-providers. The Commission recommended mergers should take place within the boundaries of larger organisations, such as Local Health Boards and police forces, to reduce the number of Local Authorities those organisations have to work with. The Commission felt this was particularly important to support the integration of health and social care. The Commission also argues it would be unwise to combine areas which currently qualify for EU convergence funding with those which do not, as this could risk those which currently qualify losing eligibility for future funding.

76. The Commission was very clear in recommending mergers rather than any redrawing of boundaries. It will be much quicker and easier to plan for and implement mergers, and achieve the benefits, without the more significant disruption and cost which would result from redrawing boundaries.

77. The Commission recognised the strength of local identities, but creating new administrative units need neither create new loyalties and senses of community, nor destroy old ones. The Commission received a lot of evidence arguing “people do not care who delivers a service as long as it is a good service” and the Commission concluded structural change is needed, in order to deliver services which meet the needs of people and communities now and in the future.

78. We accept the Commission’s assessment, and its recommendation for a reduction in the number of Local Authorities through a programme of mergers. As we have described above, we want to create Authorities which are fit to meet the challenges of the 21st Century. In particular, we want them to manage excellent, high-performing services, resilient enough to

cope with increasing demand. We want them to be better connected and more representative of our communities. We also want them to be able to support Elected Members effectively.

79. In addition, they need to be able to adapt to new challenges through innovation, fully exploiting the opportunities presented by digital technology and communications, and to be able to access and retain the necessary specialist skills and knowledge. All of these attributes are essential in our increasingly complex and fast-paced world.

80. However, there is compelling evidence some Authorities are simply too small to be able to meet these challenges. We recognise there is a wide range of views about how Local Government should be restructured to make it more resilient, and able to meet the challenges of the future, but we believe there is wide (if not unanimous) agreement something has to change: the status quo is not an option, and the number of Authorities has to be reduced. The next section of the paper focuses on how we intend to achieve this.

## The future shape of Local Government

81. Reducing the number of Authorities through a process of mergers avoids many of the complexities and challenges which would be associated with a redrawing of boundaries, but it nonetheless represents a significant undertaking. We do not believe there is sufficient time to develop, plan and legislate for a full programme of mergers before the next National Assembly elections in May 2016.

82. A Bill to merge Authorities will not therefore be introduced to the National Assembly during this Assembly term, which ends in April 2016. However, we do intend in Autumn 2015 to publish a draft Bill for consultation, which will set out our intentions for the merging of Authorities. This draft Bill will be accompanied by a detailed draft Regulatory Impact Assessment setting out the rationale for our preferred merger options, as well as impact assessments covering Equality, the Welsh Language, Rural Proofing and the Rights of the Child as appropriate. This will provide the public, Authorities and others with the opportunity to comment on our proposals, informed by a full assessment of the likely impacts, costs and benefits. The Welsh Government which takes office in May 2016 will then be in a position to make early decisions on how it wishes to proceed, with the benefit of a developed legislative proposition, and assisted by a full understanding of the views of stakeholders.

83. As stated above, we intend to issue this draft Bill for consultation in Autumn 2015. However, we want to provide clarity now about this Welsh Government's current intentions for the future shape of Local Government in Wales.

84. As we have said, the Commission undertook extensive research and evidence gathering on public service delivery structures, including considering a wide range of responses to its calls for evidence from public service providers and users. As a result of this and its assessment of the evidence, it identified four potential options for merging authorities, leading to between 10 and 12 Local Authority areas. It argued that reducing the number of Local Authority areas to at most 12 was the minimum extent of mergers necessary to systematically address problems of scale. We agree with the Commission's assessment and its judgement on the upper limit

for the number of Local Authority areas. Of the four options presented we consider that the Commission's first option, leading to 12 Local Authorities, provides a coherent overall template and strikes a balance between building organisational capability and ensuring local democratic responsiveness, in terms of being more connected with, and representative of, their communities.

85. In setting out a preference in relation to its options, we note the Commission's powerful argument that the boundaries of merged Local Authorities should support integrated service delivery through aligning with health board and police force boundaries. In our view the strength of the argument is such that there would have to be an exceptional case made not to adhere to this principle. In addition, the Commission argues convincingly that the reforms should be based on mergers to avoid the upheaval involved in splitting existing Authorities. This argument is well made and we are clear that existing Authorities must not be split, but rather used as "building blocks" to create the stronger, more resilient Authorities we are seeking. The Commission also identified an issue of alignment with the West Wales and the Valleys 'convergence' area, which has links to EU funding and state aid allowances. This last point may be a relevant consideration, though in our view it should not override a strategic, long-term case for mergers, particularly if the Local Authorities involved accepted the issues and potential risks.

### Commission on Public Service Governance and Delivery: Mergers Option 1

- Isle of Anglesey and Gwynedd
- Conwy and Denbighshire
- Flintshire and Wrexham
- Ceredigion and Pembrokeshire
- Neath Port Talbot and Bridgend
- Rhondda Cynon Taf and Merthyr Tydfil
- Cardiff and the Vale of Glamorgan
- Blaenau Gwent, Caerphilly and Torfaen
- Monmouthshire and Newport
- Carmarthenshire
- Powys
- Swansea

86. Since the Commission reported, some Local Authorities have suggested they might prefer alternative merger configurations, although we have not seen any specific proposals backed up by evidence and supported by all the existing Local Authorities affected directly and indirectly. As we develop the legislation necessary to underpin a programme of mergers, we will remain open to considering possible alternatives, but it would be vital that any alternative proposal matches the key principles described above. We would expect that if an alternative proposal – particularly if it were to be one seeking to make an exceptional case to the principle of alignment with health board and police force areas – is supported by all Local Authorities directly and indirectly affected, their commitment to the proposal would be reflected in a commitment by them to early, voluntary mergers.

87. Proposals for draft legislation establishing the new merged Authorities will be the subject of formal consultation at the appropriate time. However, as both the Commission and Local Authorities themselves have said, early clarity is important in minimising uncertainty and realising the benefits of change sooner. In view of the compelling strategic case for urgent action, we are clear there is no place for procrastination nor parochialism in this process. We will therefore continue to develop the programme of mergers at pace. This will include allowing Local Authorities which wish to merge voluntarily on the basis of the preferred option indicated in this document – or a worked up alternative which addresses the key issues outlined above – to do so more quickly. Provision for early voluntary mergers will be included in legislation which we will introduce into the Assembly early next year, and a ‘prospectus’ setting out how we will help and what we expect from those Local Authorities wishing to merge voluntarily will be published this summer. We outline more detail about voluntary mergers below.

88. We recognise the benefits of consistent boundaries across public service organisations to support effective partnership working for the benefits of the citizens of Wales. As the Commission recommended, we will consider the boundary between the South Wales and the Mid and West Fire and Rescue Authorities, taking account of mergers between Local Authorities.

## What are the timescales for mergers?

89. We will be setting out detailed programme and governance arrangements for the programme of mergers in due course, but the key milestones are likely to include:

- In January 2015, we will introduce into the Assembly a first Bill which will provide the powers necessary to enable and facilitate important preparatory work for a programme of mergers, but it would not contain specific merger proposals. Details of the proposed content of the first Bill can be found below.
- The proposed new powers would, amongst other things, enable the Welsh Ministers to require the Local Democracy and Boundary Commission for Wales (LDBCW) to start work on considering and making recommendations for electoral arrangements for proposed new Authorities.

- It is anticipated, subject to this first Bill being passed by the Assembly, it would receive Royal Assent in November 2015.
- In Autumn 2015, we will publish a second Bill in draft for consultation. This second Bill would in due course establish the new Authorities to be created through merger.
- Shortly after the May 2016 elections to the Assembly we will introduce this second Bill into the Assembly, and subject to Assembly consideration we envisage the Bill would receive Royal Assent in Summer 2017.
- In May 2017, Local Government elections (postponed from May 2016) to the existing Local Authorities would take place (but see below). Councillors elected to Authorities which are to be merged will serve a term of three years. Councillors of continuing Authorities (i.e. those unaffected by merger) will serve a term of five years.
- Elections to Town and Community Councils would take place on the same day in May 2017.
- In May 2019, the first elections for the new Authorities, merged under the provisions of the second Bill, would be held, with Councillors elected for three year terms. The resulting Councils would exist as Shadow Authorities<sup>9</sup> until Vesting Day on 1 April 2020, when they would assume full functions, with the old constituent Authorities abolished.
- In May 2022, full Local Government elections for all Authorities would be held, for a proposed term of five years.

90. We believe this timetable is ambitious but achievable, and balances the need to move at pace with the need to ensure we get it right. In parallel, the governance arrangements we will establish for mergers will oversee a comprehensive programme of work necessary to deal with the wide range of practical, logistical and financial questions which will need to be addressed. We will work in partnership with Local Government and other stakeholders to deliver this programme of work, and we will consult closely with them about the range of matters which will need to be determined.

## Voluntary mergers

91. We set out the main proposed milestones for the main programme of mergers. However, the Commission also recommends the Welsh Government should support and incentivise those Authorities who wish to begin a voluntary process of merger. We agree, and we are committed to facilitating voluntary mergers in whatever way we can.

92. Firstly and importantly, we will make specific legislative provision in the first Bill which will allow willing and committed Authorities to move at pace. Our proposals for this are set out

<sup>9</sup> Shadow Authorities would have responsibility for matters which have to be determined before a new Authority formally comes into being, such as agreeing a budget and setting a council tax for the first year, appointing staff, developing service delivery plans, acquisition and disposal of assets, and establishment of committees. The precise scope of a Shadow Authority's functions would be set out in subordinate legislation, using powers included in the Bill to be introduced at the beginning of the next Assembly.

below, and we believe this will enable these new Authorities to be in place by April 2018. A possible timetable for Authorities who wish to merge voluntarily would look like this:

- The first Bill introduced to the Assembly in January 2015 would include a power for the Welsh Ministers to merge Authorities who wish to do so voluntarily.
- Authorities wishing to voluntarily merge must submit detailed expressions of interest by November 2014 and fully developed cases for merger by June 2015 to the Welsh Ministers for consideration. The Authorities and Welsh Ministers will work together in considering the cases to enable Authorities to submit statements of confirmation of intention to proceed to voluntary mergers by November 2015. The Welsh Ministers will, by February 2016, develop the necessary subordinate legislation for approval by the Assembly.
- There would be no elections in May 2017 to Authorities merging voluntarily. Instead, the subordinate legislation providing for voluntary merger would extend the terms of existing councillors to May 2018.
- In October 2017, a shadow Authority and shadow Council for the merging Authorities would be established, consisting of the full body of serving Councillors on the constituent Councils. Its functions in preparing for the creation of the new Authority would be specified by Order.
- Vesting day for the new voluntarily merged Authorities would be 1 April 2018. First elections to the new Authorities would then be held in May 2018, based on new wards following an electoral review of the whole of the new Authority, with new Councillors assuming responsibility four days after the elections. They would serve for four years, until a full round of Local Government elections take place in May 2022.
- Elections and terms for Community and Town Councils in Authorities which merge voluntarily will be changed to coincide with the arrangements for establishing the new merged Authority.

93. We would thus provide early legislative certainty for these Authorities, and the pace and voluntary nature of merger will reduce the need for many of the transitional provisions we believe will be essential for mergers more widely. It would mean one fewer set of elections en route to the new structures, the stability of an additional year for existing Councils to plan for transition, and a more limited period of shadow operation, based on existing Councils. Those who move early should be fully vested two years ahead of remaining Authorities, allowing them more quickly to realise efficiencies, and to begin to accrue the savings which can then be reinvested in better services.

94. However, our offer is more than simply introducing legislation. We will continue to expect all Authorities to seek improvement through service and back office redesign; but we will consider providing additional support to those who propose to merge voluntarily and continuing Authorities to act as pilots and pathfinders for the constitutional and service transformation we wish to see. This could also involve testing of approaches to workforce challenges such as the harmonisation of Terms and Conditions, equal pay agreements, and pension arrangements. We will also consider providing practical support to early movers who are prepared to act as

'model' Authorities, developing innovative approaches to scrutiny and public engagement, to increased democratic participation, and to greater diversity of representation.

95. Together, these incentives would provide Authorities with an opportunity to shape themselves for the future, show their ability to innovate, and take some key decisions which put them ahead of other Authorities.

96. The Commission sets out a persuasive case for reducing the complexity faced by Local Government, and for funding arrangements which are simpler, and focused on achieving outcomes. The Commission also calls for our ongoing review of audit, inspection and regulation to identify ways to reduce complexity and deliver greater focus, and we know this is a matter of keen interest for many Local Authorities.

97. We agree with the Commission's findings, and we believe there is scope to go further. Just as we seek greater powers through devolution of responsibilities from the UK Government, our ambition is to pass powers and responsibilities to Local Authorities wherever appropriate. However, this requires Authorities of sufficient scale to be able effectively and sustainably to take on these additional responsibilities. So Authorities merging early have the potential to work with us to achieve more quickly the increased autonomy envisaged by the Commission.

98. We will work with Authorities who wish to merge voluntarily to determine in more detail what support and assistance we can provide, in order to help them move toward early mergers. In the meantime, we intend this Summer to issue a 'prospectus' for voluntary mergers, which will set out what we expect from Authorities who wish to merge voluntarily, and how we will help.

**Q: Do you have specific suggestions for powers and responsibilities which could be considered for devolution to the new Authorities?**

### Facilitating and incentivising voluntary merger

99. The Commission recommends incentivisation of early candidates for voluntary merger; we agree, and we have set out above some of the non-legislative mechanisms by which we intend to achieve this. We consider the Welsh Ministers already have powers which would enable them to incentivise and provide support for voluntary mergers, but, if need be, will propose taking new powers through the first Bill.

100. In order to give legal effect to voluntary mergers, the first Bill will include powers to enable the Welsh Ministers to merge two or more Local Authorities to form a single new Authority, from a date to be specified. The Bill will set out the procedure and timescale for initiating and considering proposals for voluntary merger. The Bill will also make provision about the exercise of the powers for voluntary merger, so as to make clear in any exercise of the power:

- The date a new Authority comes into existence, and its name and status;
- Electoral arrangements for a new Authority, the date of first elections and the length of term of office for Councillors elected in first elections and thereafter;

- Establishment, composition and functions of shadow Authority and shadow Executive;
- Abolition of existing Authorities and standing down of Councillors of these Authorities;
- Cancellation of elections to current Authorities;
- Postponement of Community Council elections in areas affected by proposed merger and extension of terms of sitting Community Councillors;
- Duty on existing Authorities to collaborate in preparing for new Authority and to work with its shadow Authority or Executive; and
- Set out arrangements for achieving the timely transfer of property, the continuation of rights and liabilities;
- Staff matters; and
- Financial matters.

**Q: Does anything else need to be covered in a power to achieve a voluntary merger?**

**Q: Is your Authority considering submitting a proposal for voluntary merger?**

### Local Authority electoral wards

101. The Local Democracy and Boundary Commission for Wales (LDBCW) will have a crucial role in considering and making recommendations for electoral arrangements for the merged Local Authorities.

102. The LDBCW needs sufficient time to review an individual Local Authority, research the circumstances of an area, consider the views of local communities, draw up and publicise proposals and consult fully before submitting recommendations. This process takes on average at least 18 months. The existing legislation does not allow the LDBCW to start work on reviewing a new Authority until the new Authority has been formally established. This would mean a lengthy delay before the first elections could be held for the new Authority. Our proposal is to take powers in the first Bill to enable the LDBCW to start its work as soon as we have been able to confirm our intention to establish a new Authority.

103. The first Bill will therefore make provisions to enable the LDBCW to start considering and making recommendations in respect of proposed new Authorities. We intend the first Bill to provide the Welsh Ministers with powers to require the LDBCW to consider and make recommendations:

- for electoral arrangements for proposed new Authorities which are the subject of proposals for voluntary merger;

- for electoral arrangements for proposed new Authorities as described in an instructions given to the LDBCW. This would be in preparation for the second Bill which would be introduced during the next Assembly term.

104. The first Bill will also amend the Local Government (Democracy) (Wales) Act 2013, so the LDBCW's statutory review cycles take account of the creation of new Authorities.

**Q: Is there anything else we need to do in order to ensure LDBCW is able to effectively consider and make recommendations for electoral arrangements in the proposed Authorities?**

### Remuneration of Elected Members

105. The Independent Remuneration Panel (IRP) will need to have considered and made determinations on levels of payments to members of proposed new Authorities, in readiness for these Authorities to come into being. However, it can currently make determinations only in respect of payments to members of established Authorities. Therefore, the first Bill will also include provision to enable the IRP to start work early to make determinations about payments to be made to members of new Local Authorities and shadow Authorities. Specifically, the new powers will enable the IRP to

- Consider and make determinations for payments to be made to members of proposed new Local Authorities to be established by merger, whether voluntarily or by virtue of the second Bill;
- Consider and make determinations for payments to be made to members of shadow Authorities for proposed new Local Authorities;
- Set the maximum proportion of payments to be made to members of shadow Authorities who are also members of existing Local Authorities, in order to ensure such members are not paid twice for doing essentially the same job.

**Q: Is there anything else we need to do in order to ensure the IRP is able to effectively consider and make recommendations for payments to councillors in the proposed merged Authorities and any preceding shadow Authorities?**

### Disposal of property and assets

106. During the reorganisation which followed the Local Government (Wales) Act 1994, a Residuary Body was established to divest and distribute Local Authority assets. This was necessary because the 1994 reorganisation reduced Local Government to a single tier and involved the redrawing of boundaries. A Residuary Body was required to deal with issues where there was no obvious successor Authority, such as the distribution or disposal of property which served more than one area, or involved functions provided by different bodies; or land or buildings which straddled the boundaries of two or more Authorities. As the current proposals are for mergers of existing Authorities, with no redrawing of boundaries, we do not anticipate

any requirement for the divesting and distributing of property and assets. However, provision to enable or require merged Authorities to realise asset-related savings may be required. We therefore will consider including in the first Bill a power enabling the Welsh Ministers to provide assistance to new Authorities on these issues.

**Q: Do you agree the proposed power for the Welsh Ministers will be sufficient for disposal of property and assets? If you do not agree the proposed power will be sufficient, what specific problems do you envisage?**

**Q: What sort of assistance or guidance might Local Authorities need?**

### Collaboration, cooperation and preparation in advance of mergers

107. To help facilitate the joint planning between merging Authorities which will be essential as they prepare for merger, we intend to include in the first Bill a power to enable the Welsh Ministers to require Local Authorities to establish joint transition committees to ensure they co-operate and work together for the specific purpose of jointly planning and preparing for merger.

108. The power would enable the Welsh Ministers to specify certain required preparatory tasks for the joint transition committees, for example to scope out the existing service delivery arrangements, workforce structures, properties and other assets across the merging Authorities. The power would also allow the transition committees to consider any other matter which they consider necessary to prepare effectively for the new Authority.

**Q: Is there anything else which should be specified for joint transition committees to do in preparing for a merger of their Authorities?**

109. We also intend to include in the first Bill provision to prevent activities by current Authorities, shadow Authorities or new Authorities which might bring financial or reputational damage to any new Authority. This is likely to include:

- Restrictions on current Authorities to prevent prejudicial or inappropriate disposal of land or buildings;
- Restrictions on current Authorities to prevent them entering into prejudicial or inappropriate long-term contracts;
- Restrictions on the use of reserves;
- Extending to shadow Authorities the requirements in the Localism Act 2011 to prepare and publish pay policy statements;
- Extending to shadow Authorities the existing powers in the Local Government (Democracy) (Wales) Act 2013 for the IRP to make recommendations about salaries of Chief Executives;

- Extending the existing powers in section 141(2) of the Local Government Act 1972 to enable the Welsh Ministers to require a Shadow Authority to provide information within its possession (to inform any purpose linked to a merger).

**Q: What other powers might the Welsh Ministers require to prevent damaging behaviour?**

### Staffing matters

110. We do not believe reducing the number of Local Authorities through mergers will create as many staffing and workforce issues as has been the case when Local Government has been reorganised. We also know some Authorities already face difficult decisions about their workforce regardless of any structural changes to Local Government, as the competing pressures of reducing resources, increasing demand and rising expectations require changes to the ways frontline services are delivered. Nonetheless, we recognise these changes will be unsettling for the Local Government workforce, and there will be staffing matters requiring action and resolution.

111. We therefore intend to establish a Staff Commission to advise the Welsh Ministers on staff matters related to proposed Local Government mergers. As a minimum, we envisage the Staff Commission needing to provide authoritative advice and guidance on workforce matters. Initially, we will establish the Staff Commission on a non-statutory basis. However, we intend as part of the second Bill to put the Commission on a statutory footing. We envisage the second Bill would:

- Set out the status and composition of the Staff Commission;
- Define its remit, primarily the provision of advice to the Welsh Ministers, current Authorities, shadow Authorities, and new Authorities on specified matters relevant to the merger of Local Authorities;
- Provide the Staff Commission with powers it requires in order to fulfil its statutory functions, such as a power to require an existing Local Authority to supply it with information;
- Give powers to the Welsh Ministers to enable them to give directions to the Staff Commission, and to direct an authority to act on the advice of the Staff Commission.

112. We will consider further how the work of the Staff Commission might be aligned with the Welsh Ministers' existing powers to issue guidance on pay policy statements under section 40 of the Localism Act 2011, and the IRP's responsibilities in respect of Chief Executives' pay in section 143A of the Local Government (Wales) Measure 2011.

**Q: What should be the role and responsibilities of the Staff Commission?**

**Q: Is anything else needed to prepare the way for merging Local Authorities?**

## Financial considerations – the costs and benefits of merging Local Authorities

113. The potential cost of merging Local Authorities has attracted a great deal of comment since the Commission published its report. We understand this, and the Commission and the Welsh Local Government Association (WLGA) have produced very different estimates of the possible costs, to which we return below. However, it is essential to put any cost implications into context.

114. Firstly, the Commission sets out starkly the severe and unsustainable financial pressures on our public services. These pressures are likely to continue for at least the next decade, whilst the demand for some services increases. Faced with these challenges, inaction is not an option. Costs will rise in any event as services begin to buckle under the strain. Neither can we afford to wait until a more favourable financial climate returns before we act.

115. Secondly, the severe financial pressures also mean it is not realistic to expect the Welsh Government to provide large injections of cash to meet the cost of mergers as central Government has often done in the past when Local Government has been restructured. One of the principles guiding these mergers must be to manage them in such a way to maximise the benefits and minimise the costs.

116. Thirdly, we have always been clear this is not just about pounds and pence. It is about improved performance, better governance, and stronger democracy, as well as making better use of limited resources. Efficiency and value for money are very important, but they are not the sole yardstick by which we will measure success.

117. The WLGA, based on work it commissioned from Deloitte, estimated the cost of mergers at between £200 million and £400 million, with recurrent annual savings of between £92 million and £100 million. The Commission examined the WLGA figures and concluded for a number of reasons they overestimated both the costs and potential savings. The Commission suggested the upfront costs might be between £80 million and £100 million, with recurrent savings of £60-£80 million per year.

118. The substantial variance in these figures is not surprising: the estimates of costs depend on the assumptions made in producing them, but as there is no precedent for the merger programme we are proposing, it is not possible to determine with certainty whether either approach is appropriate. However, we do recognise the need to assess the potential costs and benefits as far as reasonably practicable, and we will produce a draft Regulatory Impact Assessment which will accompany the draft Bill we intend to publish in the Autumn.

119. In the meantime, some important points need to be made. We have to put any potential costs of merger in the context of the £8 billion which Local Government in Wales spends every year. The WLGA's upper cost estimate equates to around 5% of this annual expenditure. In addition, Local Authorities will have a key role in ensuring these up-front costs are minimised. Some costs may be unavoidable, but other costs can be avoided or managed down, particularly if Authorities start to take account now of the likelihood of mergers as they make budgetary

decisions, and do not make decisions which will generate unnecessary future costs. This means thinking very carefully for example before entering into new arrangements, and before making major spending decisions about accommodation and other assets.

120. Our overall aim is to help create Authorities fit for the 21st Century, and to create a new model for Local Government which will last at least a generation. In this context, even if mergers were to cost £400 million (the WLGA's upper estimate) and recurrent savings were £92 million (the WLGA's lowest estimate), this still suggests a direct payback period of under five years, for the creation of Authorities which we hope will last at least 25 years and which will deliver more effective services. We believe this represents a more than acceptable return on investment.

## Local Government Funding – how local services are funded in the future

121. Local Government in Wales spends over £8 billion a year (revenue and capital) in delivering services. This spending is funded from a number of sources. These include Welsh Government general and specific grants, other grants, council tax and non-domestic rates income, fees and charges, receipts and borrowing. The largest single source is the Welsh Government's Revenue Support Grant (RSG) which currently contributes around £3.3 billion.

122. The various parts of the Local Government finance system operate as a whole and are closely interdependent. It is also closely connected to the way policing in Wales is funded. As such, it is not feasible to redesign parts of the system in isolation. We will need to review the system to ensure the funding arrangements serve new merged Authority structures. In particular, we will explore the scope to develop stronger links between funding, performance and the delivery of the strategic outcomes identified through the Well-being of Future Generations (Wales) Bill. This will mean looking at what Local Government does and how this needs to adapt to reflect the new financial environment. We will also seek to simplify the current funding arrangements where this is practicable and to ensure Local Government's funding and budgeting arrangements are more inclusive and transparent.

123. There are also a number of other relevant developments which will be happening in parallel, not least the Financial Reform agenda and devolution of selected taxes set in train by the first report of the Silk Commission on Devolution in Wales, and its second report on the National Assembly's legislative powers. The other business of Government will also continue during this period and it is likely our legislative programme will continue to introduce new powers and duties for Local Government. The scale and nature of these developments bring great opportunities, but they also bring significant risks if the financial implications are not fully considered and addressed. As such, we do not anticipate making major changes to the main features of the Local Government finance system in advance of legislation. There are certain aspects of the current system which we already recognise will warrant particular attention.

## Local Government Funding – Council Tax

124. In addition to overall costs, the prospect of Local Authority mergers has also provoked much comment about the likely impact on levels of council tax. Again we understand this: although council tax represents a small proportion of the overall tax ‘take’, it is one of the very few taxes which people are charged directly, as opposed to taxes which are deducted from salaries, or are included within the cost of goods or services. It is also a tax which can vary considerably, depending on where someone lives and in what kind of property. The Commission recognised council tax as being an important factor, and one of particular interest to the public, when developing its proposals for merger.

125. We do not believe it would be helpful to speculate on the precise impact on council tax at this stage. The current funding arrangements take account of a wide range of indicators which fluctuate from year to year. Any estimates produced at this stage are likely to be misleading, given we do not anticipate any mergers taking effect until at least April 2018.

126. Nonetheless, it is very important to recognise whilst there may be local impacts on council tax levels, there should be no need for the overall council tax requirement to increase as a consequence of mergers. Indeed, mergers should be implemented to deliver efficiencies where possible. Since it is unrealistic to expect a repeat of the large injections of new money which were provided during previous restructures to limit the impact on individual Authority council tax levels, we will, instead, be looking for solutions which avoid creating and/or minimise significant local impacts.

**Q: What would be the most equitable approach to raising revenues for local services?**

## Local Government Funding – Welsh Government Support

127. When considering the potential impacts of mergers, we understand much attention will focus on council tax, as we have described above. However, a far greater proportion of the revenue available to Local Authorities is provided by the Welsh Government, through the RSG. This is distributed using a needs-based distribution formula, which is developed in consultation with Local Government.

128. A programme of mergers will require the development of a new basis for distributing this funding, to take account of the social and economic characteristics of all Welsh Authorities. It may be possible to retain the existing distribution for the merged Authorities for a limited time, but this is not likely to be sustainable in the longer term. We will therefore work with Local Government and others to develop the needs-based mechanism for distributing Welsh Government funding.

129. We also recognise what the Commission had to say about the degree to which funding is earmarked (“hypothecated”) for particular purposes. However, the performance challenges outlined by the Commission and reflected elsewhere in this document mean this cannot simply be a question of immediately de-hypothecating all existing funding streams. As mentioned earlier, we will take the opportunity to review our approach to funding with a view to making

it simpler and more accessible, and focused on outcomes, with clear responsibilities and accountabilities for delivering those outcomes.

## Conclusion

130. In this paper, we have attempted to set out our ambitions for Local Government in Wales in the 21st century. We want high performing, well-run Local Authorities which operate transparently and openly, which plan effectively, and make best use of the resources available to them, resources which will continue to face significant pressure in the years to come. We also want a proper relationship between those who provide a service and those who rely on it, through stronger local democracy and more effective scrutiny. We know this will not be easy: all our public services face complex and unprecedented challenges, as the Commission has described. The merging of Local Authorities is an essential part of delivering this vision, but done in isolation, mergers will deliver nothing. We are clear these reforms are a package.

131. The Welsh Government cannot deliver the change we need on its own – we need Local Authorities, other public services, and communities themselves to work together. We also need views on whether our vision is the right one, and suggestions on how it could be further developed.

### Consultation Response Form

Your name:

Organisation (if applicable):

email / telephone number:

Your address:

## The future of Local Government – what should we expect of Local Authorities?

**Question 1:** How can Local Authorities engage more effectively with their communities, about the challenges of sustaining services as they are currently delivered and the need for change?

**Question 2:** What more could the Welsh Government do to assist Authorities with this dialogue to improve their performance in the delivery of priority services?

**Question 3:** What specific suggestions do you have for reducing and simplifying administration which would free up time and resources to deliver and improve services?

## Reforming Local Government – Strengthening democracy, sustaining and improving services

**Question 4:** What specific changes should be made to the way in which Local Authorities are currently constituted to ensure openness, transparency and clarity of accountability?

**Question 5:** How should the scrutiny support programme be shaped to support improvements in the effectiveness of scrutiny?

**Question 6:** In what other ways should scrutiny be strengthened to drive service improvement?

## Scrutiny and Governance – Fire and Rescue Authorities

**Question 7:** How might governance and scrutiny of strategic service and financial decisions be best secured?

**Question 8:** What suggestions do you have to ensure communities have an effective voice in the decision making of the new Authorities?

**Question 9:** What sort of consultation, engagement and feedback processes should the new Authorities have with communities?

## National Partnership arrangements

**Question 10:** How can we best engage with Local Government to take forward a programme of Local Government reform?

## How do we ensure Local Government performance is improving and continues to improve? – Improving Performance

**Question 11:** How can we help and encourage Local Authorities to be more proactive in identifying and responding to delivery or governance issues?

**Question 12:** What should be the principles and standards for performance management and performance reporting across Local Authorities, and the broader public sector?

**Question 13:** In what ways could we more effectively use the money we invest in supporting Local Authority improvement?

## The future shape of Local Government

**Question 14:** Do you have specific suggestions for powers and responsibilities which could be considered for devolution to the new Authorities?

## Facilitating and incentivising voluntary merger

**Question 15:** Does anything else need to be covered in a power to achieve a voluntary merger?

**Question 16:** Is your Authority considering submitting a proposal for voluntary merger?

## Local Authority electoral wards

**Question 17:** Is there anything else we need to do in order to ensure LDBCW is able to effectively consider and make recommendations for electoral arrangements in the proposed Authorities?

## Remuneration of Elected Members

**Question 18:** Is there anything else we need to do in order to ensure the IRP is able to effectively consider and make recommendations for payments to councillors in the proposed merged Authorities and any preceding shadow authorities?

## Disposal of property and assets

**Question 19:** Do you agree the proposed power for the Welsh Ministers will be sufficient for disposal of property and assets? If you do not agree the proposed power will be sufficient, what specific problems do you envisage?

**Question 20:** What sort of assistance or guidance might Local Authorities need?

## Collaboration, cooperation and preparation in advance of mergers

**Question 21:** Is there anything else which should be specified for joint transition committees to do in preparing for a merger of their Authorities?

**Question 22:** What other powers might the Welsh Ministers require to prevent harmful damaging behaviour?

## Staffing matters

**Question 23:** What should be the role and responsibilities of the Staff Commission?

Question 24: Is anything else needed to prepare the way for merging Local Authorities?

## Local Government Funding – Council Tax

Question 25: What would be the most equitable approach to raising revenues for local services?

## Other issues

Question 26: We have asked a number of specific questions. If you have any related issues which we have not specifically addressed, please use this space to report them:

Responses to consultations are likely to be made public, on the internet or in a report. If you would prefer your response to remain anonymous, please tick here: