

Local Government Reorganisation (LGR) – complexity of disaggregating funding in a multi-unitary business cases – systems and finance issues

1. In this briefing note we focus on the systems and financial issues faced by the new unitary arrangements. These risks are significant in the recent two-unitary arrangements but will be considerably more challenging where a county council is being split between more than two unitaries (in up to 5 new unitaries in Essex) and district councils are also being split (in both Norfolk and Suffolk there is a district council being split between three unitaries).
2. This is a level of complexity that has not been attempted before. In addition, district services and systems have never been split before. Experience in some recently-created unitaries highlights some of the risks. The pace of change, capacity to deliver, external support, and risk management will all need very careful consideration. There is a very high risk of reputational damage, both locally and nationally.
3. On a practical level, the new unitaries will need to be sure that they can operate from day-one. In very practical terms, cash management systems will have to be in place and operational from day one, including payroll, revenues, benefits and creditors, and service-specific systems, such as for schools. Other financial changes will potentially take years to implement.

Systems disaggregation

4. Where there have been simple one- or two-unitary splits in previous LGR rounds, the plan usually is to keep the existing systems going and pull together outputs for accounts on a manual basis (even this can be fraught with risk and difficulty). This potentially only works if new unitaries are based on existing district footprints.
5. In our conversations with recently-created unitaries, the key challenge on day-one is to manage how cash moves around an organisation, and to ensure that these systems are operational. This is much harder when splitting district councils as well, because the cash-management functions of these authorities also have to be split.
6. Districts often have more extensive cash-related systems than county councils. For instance, all districts are billing authorities (council tax, business rates), manage benefits payments, some have Housing Revenue Accounts (HRA), and have a higher proportion of fees and charges (e.g. car parks). Each district council will have its own financial system, payroll system, and creditors system. Cash received through these legacy systems will have to be moved around the new unitaries (in the case of South Norfolk and Mid Suffolk, cash will have to be split between three unitaries). This all needs to be done in a controlled manner.

7. In practice, these systems will not be reconfigured for day one, and new unitaries will often use legacy systems for years after going live. In one county split into two unitaries, a new financial system was implemented in year 1, but the legacy cash management and revenues systems were operated for 3-4 years. In this time, legacy cash management systems had to be integrated with a new ERP. Data quality inevitably reduces as new authorities manage the legacy systems, and splitting cash between two unitaries was very challenging.
8. In 2028-29, the LGR splits will be more complicated, which leads to further questions: can legacy systems be split between multiple unitaries (data, multiple clients in one system)? Can council tax and business rates be raised for two different authorities on one revenues system? Will there be sufficient data to be able to allocate transactions between unitaries? Which authority will host the legacy systems where these are split between more than one unitary?
9. Apparently simple matters, such as handling bank account mandates, will become much more challenging if district councils are split.
10. It is almost certainly too big a risk to get the new cash management systems in place from day-one. To some extent, Inter Authority Agreements (IAA) can be used where it is not possible to disaggregate in the time period – and this could also be used for district services.¹ But it adds a further level of complexity.
11. Has MHCLG taken this into account in terms of cost, risk and difficulty? Given that this is a huge amount of work, is this really feasible before 2028-29? And is it possible to reconfigure any of these systems before 1 April 2028?

Balance sheet split and accounts closure

12. Splitting the balance sheet between new unitaries is very challenging. In one LGR area, the negotiations to split the balance sheet took more than 3 years. Splitting the balance sheet is controversial because it cannot be changed later – it is permanent. For many of the new unitaries, the district balance sheets will have to be split as well.
13. For the first time, new unitaries will also have to split HRA accounts which will require systems to be split and require the operational teams to be split.
14. Most balance sheet items can be split following negotiation, but it is essential to make sure that both the assets and liabilities are split fairly. Some items are less easy to split, including the Capital Adjustment Account (CAA) and cash.
15. The risk is that the balance sheet split takes a significant amount of time, and consumes capacity. There is very little operational risk, but a very high risk that the production and

¹ Northamptonshire already had some services operating on a multi-client basis through the shared service, LGSS.

audit of the Statements of Account (SoA) is delayed for a number of years. There is a high reputational risk. A concern for the government will be that it is likely that there will be more disclaimer positions on audits in future years.

Managing the legacy organisations

16. During the lead-up years, there will need to be representation from the legacy organisations to the new unitaries (two or more authorities), plus political representation on each. Members and officers from each district will also need to be represented on the new Shadow Authorities where districts are being split. This will all need to be done whilst delivering services for the sovereign councils.
17. There is a risk to the new unitary in respect of the legacy systems on which it is relying. It will be a challenge to ensure there is sufficient capacity, skills and knowledge to run these legacy systems, particularly when staff have moved organisations. Who hosts? Institutional memory of prior years' accounts can be lost (e.g. financial accounts).
18. Staff from the districts would need splitting between the new unitary councils which brings challenges around retaining local knowledge. Furthermore, the people running the new systems will also be the people who will have to close the legacy accounts.
19. Finally, how do you run down the legacy authorities? Ought there to be an additional balance sheet for legacy operations? Will a residuary body have to be created, rather than assigning responsibility to one of the new authorities?

Specific service systems

20. There are numerous systems that are run on a countywide basis for specific services.
21. In Hampshire, there is a county-wide **systems for schools**, which is used by 469 maintained schools. All these schools are on the county's ERP infrastructure, use the county's bank account (so do not have to worry about cash), pay their invoices, raise their invoices etc, and have linked cash receipting systems. All area also under the county's VAT registration and Employer code (payroll) for HMRC; all are also part of the county for LGPS and have a single employer rate. A very comprehensive range of services is provided under SLA.
22. It will not be possible to continue providing the same service to schools on the same platform. But equally it is almost impossible to envisage requiring 469 individual schools to either transfer to standalone systems or to the ERP of the new unitaries. The existing unitaries only have a relatively small number of LA maintained schools by comparison and are not necessarily set up to support a large schools ecosystem.
23. No previous reorganisation has split **revenues (council tax and business rates billing, and benefit systems)** between unitaries. There needs to be an assessment about whether the new billing authorities can implement revenues systems in advance of 2028-29, and whether the VOA is capable of (and committed to) delivering

disaggregated valuations list from 1 April 2028. The plan usually is to keep the existing systems going and pull together outputs for accounts on a manual basis (even this can be fraught with risk and difficulty). This only works if new unitaries are based on existing district footprints, and will mean that the systems have to be reconfigured before 1 April 2028. Has MHCLG taken this into account in terms of cost, risk and difficulty? Given that this is a huge amount of work, is this really feasible before 28-29?

24. **Housing Revenue Account (HRA)** systems will also have to be split between the new unitaries. Again, this will be the first time this has done.

Conclusion

25. The scale and complexity of the new unitaries is unprecedented and will raise challenges that have not been addressed before. Systems and functions in district councils have never been split before.
26. System challenges and the ability to move cash around the new organisations will be particularly acute, and will potentially threaten the operational ability of the new unitaries on day one. There are also service-specific systems that in themselves are very complicated and will have to be split into the new unitaries.
27. Our view is that creating new unitaries on non-district boundaries is a quantum level more difficult than using existing district boundaries. If ministers are going to go ahead with it, then it needs a properly thought-through plan, and timescales need to be realistic.

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