

Agenda Item No: 9.3

Report No: 118/15

Report Title: Shared Services

Report To: Cabinet

Date: 24th September 2015

Cabinet Member: Cllr. Rob Blackman

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

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Purpose of Report:

To set the Council's strategy for the development of shared services.

Officers Recommendation(s):

Cabinet is requested:

- 1** To consider the Shared Services Outline Business Case set out at Appendix A, in particular, two options for wider integration of services with Eastbourne Borough Council:
 - i. integration of the staff and services of both Councils
 - ii. full integration of the management teams only.
- 2** To adopt a strategy for the development of shared services based on option i. above.
- 3** To authorise expenditure of up to £20,000 on the preparation by iESE of a more detailed business case for option i., to include:
 - I. Project plan and implementation timetable
 - II. Preferred model of employment
 - III. Technology arrangements
 - IV. Governance arrangements

V. Analysis of existing contractual arrangements.

- 4 Subject to approval of Recommendation 2, it is recommended that the Council halts planned procurements that are not consistent with the new shared services strategy. It has been determined that there is only one such large procurement underway: New Service Delivery Model Technology and Business Change Management. It is accordingly recommended that this procurement exercise be discontinued.

Reasons for Recommendations

- 1 The recommendations take into account the changed circumstances since the District Council Elections, and the in-coming administration's electoral commitment to share services where these will deliver improvements in quality, resilience and efficiency.

At Eastbourne Borough Council, similar commitments have been made to improve customer service and resilience whilst making efficiency savings. The Leaders of both Councils have publicly affirmed their commitment to partnership working.

- 2 Accordingly, an independent report from the Improvement and Efficiency Social Enterprise (iESE) was commissioned jointly by the two Authorities to set out the options for the development of shared services and, in particular, an Outline Business Case for wider integration between Lewes District and Eastbourne Borough Councils. Eastbourne's Cabinet will consider the report in October 2015.
- 3 This report invites Cabinet to consider the Outline Business Case produced by iESE and to adopt a strategy for the development of shared services based on option i: integration of the two Councils.

Information

4 Outline Business Case

- 4.1 The Outline Business Case produced by iESE considers three 'cases' for change, as laid down in the HM Treasury Green Book guidance for business case development. Key points include:

(a) The Strategic Case - *current thinking and outcomes of sharing services.*

- The national context of government policy points clearly to the need to integrate, collaborate and share, in order to deliver significant financial efficiencies; greater service resilience and flexibility, and a greater "strategic presence" within an area.
- The recent update to Eastbourne Council's Cabinet (8 July 2015) succinctly summarised the achievements of existing collaborations and the range of additional shared roles and services currently emerging between Eastbourne and Lewes. It also reaffirmed Eastbourne's commitment to future shared services.

- The adoption of a wide integration of services between the two authorities does not preclude other partnership working or affect the sovereignty of the two distinct governance structures.

(b) The Financial Case - *including the potential benefits of each option, and key considerations including leadership, culture, technology and staff impacts.*

- The Medium Term Financial Strategy (MTFS) target of £3.2m recurring savings by 2019/20 (Cabinet 12 February 2015) includes £1.7m from agile working, organisational development and business process efficiencies.
- The Outline Business Case estimates that, based on experience elsewhere, there is potential for an annual saving of £1.8m for Lewes District Council through integration of the two Councils. The salaries budget moves over time, so this estimate provides an initial benchmark based on currently filled posts and direct employee costs only. However, existing vacancies may potentially assist in benefits realisation without further upfront costs being incurred.
- Implementation costs, associated mainly with change management and technology changes, would be considerable but it is suggested that there would be positive 'payback' by year 2 of the integration programme. Indicative overall costs are estimated at £1.8m for the two authorities, based on experience elsewhere. However, depending on the chosen path for the development of integrated IT systems, there may be additional technology-related costs compared with the industry-level standards used in the Outline Business Case. There may also be the potential for additional savings generated by technology changes. These will be developed in the next phase of the programme. Any material changes to the overall business case would be reported back to Cabinet.
- Although Housing and Waste and Recycling services were excluded from the Outline Business Case (to recognise the position in Eastbourne where these services are operated by non-Council bodies) the analysis noted that further scope for savings in these services would exist if they were brought into an integrated service at an appropriate phase of the implementation plan.
- Potential redundancy costs are not included in the Outline Business Case as these would not be additional costs of integration. Savings required to meet MTFS targets by both Councils if integration was not pursued would also necessitate staff savings, and thus would incur similar levels of potential redundancy costs.

(c) The Management Case - *including risks and governance.*

- There are a number of different approaches to governance which could be considered. A merger of the two Councils is theoretically

possible, but experience elsewhere suggests that it would add to the complexity and risk of any proposals. The sovereignty of each Council would be maintained under either option explored in the Outline Business Case.

- There are a number of key financial, governance and cultural risks identified that will need to be controlled during implementation of shared services.

4.2 Option i. (integration of the two Councils) is recommended because it combines the greatest potential for efficiency savings with clear managerial accountability for integrated services, so that the aims to improve service quality and resilience can be better met.

4.3 The implementation of a wider strategy for shared services will be complex, and it is therefore proposed that iESE are commissioned to undertake further work to develop a more detailed business case for option i.

(a) The LGA report “Services Shared: Costs Spared?” emphasised the importance of a business case that identifies baseline financial and performance information to make the case for change and track the benefits of shared service arrangements in terms of efficiencies and service improvements.

(b) The implementation timetable and project plan will need to take into account technology requirements and existing contracts. Governance arrangements and models of employment also need to be considered.

4.4 It is recognised that ways of working and culture will need to change and align in order for shared services to be introduced successfully. Staff will be kept fully informed and asked to play an active part throughout the integration programme. Processes will include discussions with UNISON and formal consultation.

5 Planned Procurements

5.1 In order to prevent waste, ongoing procurement exercises have been reviewed in order to check if any would result in a procurement that is inconsistent with a new shared services strategy of integration with Eastbourne Borough Council.

5.2 One such procurement has been identified: New Service Delivery Model Technology and Business Change Management. Cabinet authorised this procurement to implement the Council’s Organisational Development Strategy (Cabinet 20 November 2014, Minute 45.2 refers).

5.3 A procurement process is being undertaken and has reached that stage where a decision is required whether to proceed to award contracts. If Cabinet is minded to approve Recommendation 2 above, this would be a

significant change in policy, moving from shared corporate services based on service level agreements to integration of the two Councils.

- 5.4** In these changed circumstances, it would not be logical or deliver best value to proceed to award contracts under the current procurement process because shared services will be delivered through the development over time of shared technology infrastructure, systems and processes that were not envisaged at the time the Invitation to Tender was issued. Efficiency savings anticipated through shared services would be reduced if parallel technology systems were implemented. It is considered that this applies to the subject matter of both Lots into which the procurement was divided.
- 5.5** For these reasons, it is recommended that the New Service Delivery Model Technology and Business Change Management procurement exercise be discontinued.
- 5.6** The need for, and delivery mechanisms of, the services such as those under the discontinued procurement process will be assessed as part of the new shared services strategy, with the potential for a joint procurement in the future if required.

Financial Appraisal

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- 6.1** As noted above, the Medium Term Financial Strategy incorporates a General Fund annual savings target of £1.7m to be generated from agile working (office rationalisation), organisational development and business process efficiency savings. This savings target is to be delivered incrementally over the five year period 2015/16 to 2019/20.
- 6.2** The outline Business Case prepared by iESE suggests that by fully integrating its management and services with those of Eastbourne BC, this Council could potentially reduce its staffing costs by £1.8m annually. The Council could, in addition, benefit from savings in the annual cost of IT and office accommodation. The phasing of these savings would be in step with the Council's target, being fully realised in 2019/20.
- 6.3** iESE have estimated the cost of change to be £1.8m in total for the two authorities. This Council has set aside £1.8m within the Strategic Change Reserve as funding for the New Service Delivery Model Technology and Business Change Management procurement and implementation. If that procurement no longer proceeds, as recommended in this report, that funding can be released to support the one-off costs associated with closer integration with Eastbourne Borough Council.
- 6.4** The cost of appointing iESE to prepare a more detailed business case for the integration of services, £20,000, can be funded from the allocation held in the Strategic Change Reserve referred to above.

Legal Implications

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The Legal Services Department has made the following comments:

7.1 Local Government Act 1999: As a best value authority the Council must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. For the purpose of deciding how to fulfil the duty the Council must undertake consultations with representative groups. The Council will consider the need for and develop and undertake appropriate consultations as part of the next stage of developing its shared services strategy.

However, the recommendations in this report do not commit either council to begin the actual process of integration, as Cabinet is merely asked to consider an outline business case and adopt a strategy for the development of shared services. The duty to consult will only apply if and when the principle of exploring the strategy further is accepted by both councils and, subsequent to that, an implementation plan drawn up for that purpose. For the same reason, there are no immediate employment law issues triggered by this report.

7.2 Powers: There are a number of legal structures which may be used as a basis for sharing services between local authorities and a considerable range of powers. These will be considered as part of the development of the strategy but the main powers are as follows:

- (a) Under the terms of sections 19 and 20 of the Local Government Act 2000 the Secretary of State may by regulations make provision to permit local authorities to make arrangements for the discharge of their functions by another local authority and under section 101(5) of the Local Government Act 1972 for the discharge of any of their functions jointly which are the responsibility of the executive of a local authority. The Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2000 permit such arrangements.
- (b) Under section 112 a local authority shall appoint such officers as they think necessary for the proper discharge by the authority of such of their or another authority's functions as fall to be discharged by them and the carrying out of any obligations incurred by them in connection with an agreement made by them under Section 113 of the Local Government Act 1972. Under section 113 of the Local Government Act 1972 the Councils may enter into an agreement with each other for the placing at their disposal the services of officers employed by them. Any such officer shall be treated as for the purpose of any enactment relating to the discharge of local authorities' functions as an officer of that other local authority.

- (c) Under section 1 of the Localism Act 2011 each of the Councils may do anything that individuals generally may do.
- (d) Under the Local Authority (Goods and Services) Act 1970 the Councils may enter into an agreement for the provision to each other of (amongst other things) goods, materials, and administrative, professional and technical services. Any agreement under this provision can contain such terms as to payment or otherwise as the parties consider appropriate.
- (e) Under the Public Contracts Regulations 2015 there are several routes whereby the Councils can work together to deliver public services without having to go through a procurement process to do so. These routes will be considered and built into the shared services strategy. In addition the Councils, as contracting authorities, may purchase works, goods or services from or through a central purchasing body. Where they make such purchases, then they are deemed to have complied with the public procurement rules, to the extent that the central purchasing body has complied with them. A central purchasing body is defined as a contracting authority which acquires goods or services, or awards public contracts or framework agreements for works, goods or services intended for one or more contracting authorities.

7.3 TUPE: In the event that both councils agree to pursue a shared services strategy and firm proposals developed, the “TUPE Regulations” (Transfer of Undertakings (Protection of Employment) regulations 1981) may apply. The effect of these is that staff will transfer from one authority to the other one on their existing terms, conditions and pension rights. There are statutory obligations on both local authorities to consult with the trade union in relation to those employees affected by the transfer.

7.4 Procurement Process Discontinuance: Under public procurement law the Council has a very broad discretion as to whether to continue with a procurement process or to award a contract at the end of the process. This discretion is subject to compliance with the general principles of transparency, proportionality, equal treatment and non-discrimination.

A decision by a contracting authority not to award a public contract need not be limited to exceptional cases or must not necessarily be based on serious grounds. Although the tenderers should be notified of the grounds for its decision if it decides to withdraw the invitation to tender for a public contract, there is no implied obligation on an authority to carry the award procedure to its conclusion.

The requirement to communicate the grounds for a decision to withdraw an invitation to tender is dictated by the concern to ensure compliance with the principle of equal treatment.

It is clear that such a decision can be based on the Council’s assessment of whether it is expedient and in the public interest to carry an award procedure to its conclusion. This decision may consider any changes in the economic

context or factual circumstances, or the needs of the Council which take place during the procurement process and can be based on the fact that the outcome would not achieve value for money.

In the case of the current procurement, the Council specifically reserved the right not to award a contract at the end of the New Service Delivery Model Technology and Business Change Management procurement process. It also made it clear from the outset that under no circumstances would it be liable to a bidder in respect of any costs incurred by a bidder (whether directly or otherwise) in relation to the preparation or Submission of an offer.

Risk Management Implications

8 A risk assessment was completed on 26th August 2015.

8.1 The following risks will arise if the recommendations are not implemented, and I propose to mitigate these risks in the following ways:

(a) If a strategy of extended integration with Eastbourne Borough Council is not adopted, management action will continue to be taken within Lewes District Council to streamline business processes and organisational structures to mitigate the risk that the savings targets in the Medium Term Financial Strategy will not be met. The current programme of shared corporate services will continue.

8.2 The following key risks will arise if the recommendations are implemented, and I propose to mitigate these risks in the following ways:

(a) Financial - ensuring that the desired levels of benefits and savings are realised when the shared services strategy is implemented

(b) Governance – ensuring decision-making and engagement arrangements are clear and robust

(c) Cultural – managing staff perceptions, and maintaining morale and commitment to change

(d) Technological - implementing technological and business changes in a coordinated and phased manner, to minimise the risk of service disruption and optimise the new arrangements.

Recommendation 3 is intended to mitigate these risks through the preparation of a more detailed business plan that includes a project plan and implementation timetable and considers the preferred model of employment; technology arrangements; existing contractual arrangements and governance arrangements.

A comprehensive plan for managing communication and engagement with Members, staff and customers will also be prepared to help manage these risks.

- 8.3** If the recommendations are implemented, the costs arising from these mitigating steps (preparation of a detailed business case) are detailed in the financial implications section of this report.

Equality Screening

- 9** On 25th August 2015 an Equality Analysis was undertaken by the Strategic Projects Manager on the draft of this Cabinet report.

Due regard was given to the general equalities duties and to the likely impact of the report on people with protected characteristics, as set out in the Equality Act 2010.

The assessment identified that at this stage, there are no equality implications arising from the draft Cabinet report on Shared Services, but that further analysis will be required once a shared services strategy is adopted and more detailed plans are put in place.

Background Papers

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LDC Cabinet, 2 June 2014 “Change Management at Lewes District Council – Next Steps in Organisational Development” (Report 76/14)

LDC Cabinet, 29 September 2014 “Corporate Services Review” (Report 138/14)

LDC Cabinet, 20 November 2014 “Procurement of New Service Delivery Model Technology and Consultancy Services” (Report 162/14)

LDC Cabinet, 12 February 2015 “General Fund Revenue Budget 2015/16” (Report 18/15)

LDC Cabinet, 19 March 2015 “Finance Update” (Report No 47/15)

Eastbourne Borough Council Cabinet, 8 July 2015 “Sustainable Service Delivery Strategy (SSDS) Update”

LGA 2012 “Services Shared: Costs Spared?”

Appendix

Shared Services Outline Business Case (iESE)

Appendix

Transforming



Shared Services Outline Business Case

Eastbourne Borough Council and Lewes District
Council
August 2015

Executive Summary

Eastbourne Borough Council and Lewes District Council commissioned iESE to undertake a high level Outline Business Case to examine the potential scale of benefits which may be delivered through a wider strategic integration of the two Councils.

The contextual arguments support the ambition. There is now a wealth of experience gained from other English councils which firmly suggests that financial and non-financial benefits can be derived from such collaborations, notably:

- Increased resilience within services and management, creating a stronger Council which can operate strategically within the region and create advantageous partnerships with similar partner councils. There are some notable partnerships and 'combined' Councils local to Eastbourne and Lewes which makes this ambition of real significance.
- Delivering efficiencies that can reduce the costs of services and improve the citizen experience.

iESE have undertaken an indicative analysis to identify the potential scale of efficiencies which may be pursued in an integration of the two Councils. These options have been modeled by considering other examples of integration in 'Future Model' Councils, tailoring the analysis to better reflect the local context in Eastbourne and Lewes. Two options have been considered:

- i. Integration of the two Councils. The potential scale of efficiencies suggested by the modeling is 12% of staffing costs, across the two Councils.
- ii. Integration of the Management Teams. The potential scale of efficiencies is 17% of management staffing costs, across the two Councils.

A Cost Benefit Analysis considering these levels of resource efficiencies, and the associated costs and other benefits of change (including IT and accommodation) suggests there is a Net Present Value to the Councils for a four year programme pursuing full

integration of around £4.6 million, with the total annual net benefits being achieved by year 4 being in the region of £2.9 million.

These analyses are indicative, although they have been considered and quality assured against the experience of other comparable authorities in the iESE client base. A more detailed assessment will be needed to enable decision-makers to choose the option which is right for the respective Councils, but it should be noted that the second option has generally been found by other authorities to be a vital stepping-stone for the first, the full integration of Council services.

Some of the key challenges, risks and issues around models of governance that may be raised through any integration of the two Councils have also been detailed within the report. Key risks include the following:

- Financial - ensuring that the desired levels of benefits and savings are realised
- Governance– ensuring decision-making and engagement arrangements are clear and robust
- Cultural – managing staff perceptions, morale and commitment to change is critical, alongside the necessary changes to processes and systems.

The choices around service and management structures, and models of governance will be an important consideration for the next phase of any programme for integration. Issues such as aligning respective schemes of delegation may be critical to implementing a shared approach to decision-making and governance, which can drive further integration throughout the organisations.

Background

iESE has been commissioned by Eastbourne Borough Council (EBC) and Lewes District Council (LDC) to produce an Outline Business Case document examining options for future integration of the Councils.

The work was to seek to deliver a strategic options appraisal of relevant models, which would allow Members to agree the strategic direction and most advantageous route for the further integration, building on the work to date. Subject to agreement on this strategic direction a more detailed Full Business Case could be developed for the preferred option.

It was agreed that this work would focus on two options:

1. Full integration of management and services (with the exclusion of waste and housing due to the current difference in delivery models)
2. A shared management structure.

The appraisal focuses on three 'cases' for change, as laid down in the HM Treasury Green Book guidance for business case development:

The Strategic Case - building on the recent iESE paper, which outlined the current thinking and outcomes of sharing services.

The Financial Case - including the potential benefits of each option, and key considerations including leadership, culture, technology and staff impacts.

The Management Case - including risks and governance.

As agreed, the report does not make recommendations on a preferred option. Members will be briefed on the business case to ensure they fully understand the options and are enabled to make an informed decision on next steps.

1. The Strategic Case

1.1 The National Appetite for Sharing Services and Management

Having already reduced revenue budgets significantly, both councils face further cuts in government grants. It appears likely that council tax increases to keep pace with inflation will be permitted by government and that Revenue Support Grant will be reduced substantially until 2020, which may result in a larger reduction locally. Other funding streams such as New Homes Bonus may not provide a secure source of revenue.

At the same time, it is clear that any of the key challenges facing local government, such as coordinated economic growth and infrastructure planning, as well as the integration of service delivery across the public sector, will require greater cooperation and capacity to deliver.

Lastly, communities and individual customers continue (rightly) to expect to receive high quality and modern services focused on local needs. They expect to engage with Councils utilising the benefits of new technology, and to keep personal taxation low. A majority also are keen for Councils to protect locally valued services and support those at particular risk or vulnerable.

Mindful of this background, it will be difficult to meet these challenges with fragmented district council structures and traditional methods of service delivery. The increasingly explicit agenda in government is to see councils create more efficient working practices through the sharing of staff and the redesign and sharing of services. In future, councils may well need to provide more integrated services together with other public service providers; principally the NHS and to cooperate across wider geographical areas and particularly with Local Economic Partnerships, to deliver strategic priorities.

The national context points clearly to the need to integrate, collaborate and share.

2.2. Advantages of Sharing Management and Services

Any proposed integration of Council operations is an opportunity for them to actively shape (rather than have shaped for them) their future so that local government can better serve residents at a time of financial challenge.

Across the country, benefits from collaboration have been proven in three particular areas:

- i. **Significant financial efficiencies** through greater cost savings, cost avoidance (e.g. increased service with same staff) and joint procurement. The LGA now estimate there are 416 shared service arrangements occurring between councils across the country resulting in £462 million of efficiency savings, of which £60 million are from 'Shared Chief Executive and Management' initiatives.
- ii. **Greater service resilience and flexibility** through a rationalisation of standards, operations and workload, leading to improved productivity and an enhanced capacity to handle customer needs.
- iii. **A greater 'strategic presence' within an area**, with better ability to address issues sub-regionally, and to have an appropriate voice in a local government landscape of increased delegation and devolution.

There is no right model for Councils' ambitions for shared management and services. However iESE's experience suggest some key themes as to why integration 'works'.

- Start at the top. A single Chief Executive (or alternative model such as joint Directors with no Chief Executive) appears to be a pre-requisite of successful integration, to give the singular leadership and clarity of purpose to take forward the programme of change.
- Senior teams will be small. 7 or 8 senior managers across the two Councils appears to be a maximum. Organisational structures encompassing four elements

broadly termed 'Delivery', 'Support Services', 'Digital and Customer' and 'Economy' seem to be prevalent.

- Visible support and collaboration from all Members. The notion of integration must be shared by Members across the geographical and political divides. A clear vision and unswerving commitment to its achievement is critical to provide assurance throughout the changes and the difficult issues which will emerge at some point, especially amongst staff.
- A clear financial message to staff. All examples provide substantiated evidence of significant savings through staff reductions. This is communicated clearly at the start of the process, and is monitored throughout.
- An equally clear communication with residents. Engagement with the residents will see them accept and appreciate arguments for change. Anticipating their reaction to a substantial change (such as the abortive full 'merger' between Babergh and Mid Suffolk Councils), without appreciating local sentiment, will create barriers.
- Choosing an evolutionary or transformational approach. The gradualist approach (shared services under a joint management on a case-by-case basis) is an attractive one to ensure success over a medium-term period. The goal may still be full integration within a relatively short timescale. However, when the obvious 'easy' efficiencies of gradual sharing in services and processes have been achieved, a transformative (and disruptive – in a positive sense) integration can engender a unique sense of momentum and renewal (as in South Hams and West Devon Councils). This approach will entail behavioural and cultural changes, and tends to require leading over the medium-term by a committed change 'champion'.
- A single programme of IT change is imperative. The integration of information systems is far more than a technical issue. Alignment of information is vital to bring together ways of working and shared functions.

IDeA suggest from experience to date that there were certain cultural factors which need to be in place to ensure two Councils can integrate:

• No large cultural differences in the organisations
• Similarities in the areas and communities covered by the Councils
• Both authorities must trust the Chief Executive
• Clear and well understood governance
• Politicians must be able to work together

iESE's experience of working with Councils suggest that there are core principles which apply to all councils in **designing a new organisational structure**. The model should take account of both (a) 'strategic fit' and (b) consideration around the structural design.

Strategic Fit

- Reflect the vision and values of the organisation
- Align to the strategic direction and financial and corporate plans
- Effect cohesive leadership
- Be aligned to and provide effective support to the governance of the organisation
- Reflect the community plan and ensure effective partnering to focus on the delivery of local services, which meet citizen needs
- Have clearly defined roles; accountability and decision-making
- Be adaptable and flexible to respond to new challenges and strategies
- Maximise the talent of the organisation and individuals

Structural Design

- Clear distinction between strategic; operational and transactional functions
 - Streamline the number of organisational layers which maximizes spans of control and has a clear rationale and necessity for the chosen model
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- Decision making is clearly defined with as few as possible hand offs and touch points
 - Manages specialisms and expertise to ensure citizen centric approach to service delivery
 - Breaks down silos and ensure cross functional operation
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2.3 Successful Integration in Eastbourne and Lewes

The recent update to Eastbourne Council's Cabinet (Sustainable Service Delivery Strategy (SSDS) - 8th July) succinctly summarised the clear achievements of previous collaborations and the range of additional shared roles and services currently emerging between EBC and LDC. It also reaffirmed the commitment to future shared services.

In particular it was noted following the Corporate Services Review project the Councils undertook with iESE in 2014, the human resources (HR) and legal shared services successfully went live on schedule in April 2015, with EBC hosting the HR shared service and LDC hosting the legal shared service. Staff transfer under TUPE had been completed successfully and all bar one staff member were in post. The next step will be the development of service level agreements (SLAs) for both services. The early success of the arrangements had already resulted in some interest from other authorities about potentially joining the service in future.

The businesses cases prepared as part of the review indicated that potential savings of £135,000 could be generated from a shared HR service in total over its first 4 years of operation. A joint Legal Service was projected to generate savings of £183,000 over the same period. The overriding focus of the shared services was however to increase resilience and capacity in the two services, and to a significant extent, this is already being delivered.

Additionally, the Information Technology shared services roadmap was currently being developed and envisaged a 5-year transition programme. Due to the different financial

systems used by EBC and LDC, the shared service opportunities for finance were currently focussing on sharing expertise across the two authorities and moving to common financial reporting formats. The alignment of the property teams across EBC and LDC was ongoing, with recruitment to joint posts underway and a shared statutory compliance officer in post.

Furthermore, in 2014, the Councils' Cabinets authorised their Chief Executives, in consultation with the respective Council Leaders, to take advantage of opportunities as and when they arose to align systems or posts in order to generate benefits in terms of quality, savings or resilience. Since then a number of opportunities had been taken to do this, namely:

- Two further shared roles at senior management level (Senior Head of Planning, Regeneration and Assets and Senior Head of Tourism and Leisure)
- Shared printing service, hosted by EBC
- Sharing of specialist skills around council tax and the community infrastructure levy (CIL).

It is evident that the 'track record' of EBC and LDC in evolutionary integration is wholly successful, and recognized across the country as good practice. The strategy of pursuing opportunities for sharing on a gradual and pragmatic has worked, and is delivering exactly the financial and operational benefits anticipated. It is now timely to consider whether a 'tipping point' has been reached.

EBC and LDC' s futures are now interconnected, and a continued relationship must be nurtured and grown to ensure the challenges of the next five years can be met. To that end, it may be felt that the point has been reached whereby operational and opportunistic integration is not enough to secure the full benefits that are available to EBC and LDC. A fuller, more strategic collaboration needs to be explored.

2. The Financial Case

2.1 The Options for Integration

iESE, in our work with Councils seeking to work together, and other recent UK experience, would suggest that there are three principal models for integrated structures of two or more authorities.

- a) An integrated Council - with a single officer structure to deliver fully integrated management and service delivery arrangements across the two Councils.
- b) An integrated Management Team - with a 'mixed economy' of services for the Councils, integrated as appropriate on a case by case basis.
- c) A 'merged' Council - existing Councils would be dissolved and a single Council would be created with its own identity, functions and budget and policy framework.

While the benefits of integration particularly in cash terms clearly rise as integration becomes greater, equally of course so does risk and political complexity. From our research undertaken across a number of notable shared service initiatives, we would suggest that the current national environment does not yet support appetites for a full 'merger', and the intricacies of structural reorganisation would be very challenging for any partnership of Councils seeking to be at the vanguard of such an approach. Therefore we suggest that the current options for a more strategic integration of EBC and LDC are (a) an integrated Council and (b) an integrated Management Team.

The exploratory modelling of these two options uses the approach taken in previous 'Future Modelling' of Councils. In these examples, existing staffing has been re-categorised according to best estimates against the functions within the Future Models. Then indicative levels of potential resource reductions have been allocated against each. These have been indicated according to the following assumptions:

- The baselines used for the reductions are the assessments undertaken for a combined Council undertaking 'Future Modelling' and for a traditionally structured Council seeking to join a 'Future Model' Council.

- EBC have already 'Future Modelled' customer-facing services – reducing resources by 20% - and therefore the indicative reductions from integration are decreased by this amount.
- EBC are seeking to maintain sufficient capacity in Regeneration and Corporate Landlord initiatives, and therefore indicative reductions have been decreased in relevant areas (corporate development and asset management)
- Service delivery functions are considered specific to the geographical district and therefore it is suggested that resources within them will not be reduced due to integration. The work areas categorised as Service Delivery are:

Service Delivery in Eastbourne

Theatres and Catering
 Cemeteries and Crematoria
 Sports Development
 Events
 Heritage
 Seafront Services

Service Delivery in Lewes

Caretaking and Scheme Management
 Repairs and Maintenance
 Waste and Recycling
 Housing Services
 Tourism

Although Housing and Waste and Recycling services have been excluded from the analysis (to recognise the position in Eastbourne where these services are operated by non-Council bodies) it should be noted that further scope for savings in these services would exist if they were eventually brought into an integrated authority, should arrangements for Eastbourne Homes and the Eastbourne Waste and Recycling contract be revised.

These assumptions around the level of resource reductions using for the options are illustrated in the model below:

Functions	TDC(2014)	SHWD(2013)	EBC%	LDC%	"Optimism" bias
Management	27%	29%	27%	27%	H
S&C(Strategy/corporate development)	26%	15%	10%	26%	M
S&C(Commissioning/perf/contract mngt)	23%	15%	23%	23%	M
Democratic Support	17%	15%	17%	17%	M
Service(Strategy&Commissioning(Specialist))	21%	15%	2%	22%	L
Community/(Customer Enabling)	-5%	12%	2%	22%	L
Customer Services Advisor	-2%	22%	2%	22%	L
Mobile Locality Officer	1%	27%	2%	22%	L
Service processing(rule based)/Case coordinator Specialist	25%	10%	5%	25%	L
Corporate Support(Customer Support)	33%	42%	3%	33%	L
Corporate Support(Service processing, Admin)	31%	30%	30%	30%	H
Corporate Support-Complex advice/cases	23%	30%	30%	30%	H
Corporate Support-Governance/compliance	36%	30%	30%	30%	H
Corporate Support-Delivery	37%	30%	30%	30%	H
Service Delivery	13%	10%	0%	0%	-
Facilities/Asset management	24%	22%	10%	24%	M
OVERALL	24%	24%	10%	18%	M

To attempt to mitigate overly “optimistic” assessments of potential efficiencies in areas at this stage, particularly in areas where a variety of options for transformation may exist (notably Management and Corporate Support), an optimism bias factor has been added, as suggested by HM Treasury guidance. (Here savings factors have been reduced by 20% for areas of ‘High’ bias, 10% for ‘Medium’ bias, and 5% for ‘Low’ bias).

2.2. An Integrated Council

The clear benefits for EBC and LDC in pursuing strategic integration would be in:

- Increasing the resilience of the councils, creating stronger management teams and allowing sharing of resources and deliver of joint services
- Offering better staff prospects, including investment in the skills of managers (particularly their capacity to act strategically on behalf of the organisation and area and not just to deal with operational issues)
- Leading to a cultural shift in the way each council works with greater delegation to and empowerment of operational staff to focus on with providing good quality public services
- Providing a stronger voice that gives councils a greater influence locally, regionally and nationally.

Closer alignment of the Councils would also typically include benefits for Eastbourne and Lewes residents:

- The creation of a shared modernised customer service offering with physical ‘hubs’ and other access to Council services, with a common technology platform to make the model work
- The focus on efficiency and redesign to better meet customers’ local needs and wishes as access channels to services are rethought
- Providing better resilience and business continuity providing greater assurance to citizens that their matters will be addressed in an effective and timely way
- Rationalisation of physical assets will enable the Councils to meet the priorities of local communities differently in terms of more contemporary approaches to access
- Creative opportunities to enhance citizen engagement can emerge to assure citizens that their local democracy is not being diluted.

The basic premise of an integration is that EBC and LDC would seek to be structured around the ‘Future Model’, which is being adopted in EBC, and whose principles are being used to change service delivery in LDC. The option is illustrated below:



A full Business Case for such integration would require detailed analysis of staffing, activities, processes and systems. It is a serious and intensive undertaking.

At this stage, for this Outline Business case, a framework for such an analysis has been produced, and – an initial model done. This has used purely indicative figures drawn from experience of similar options for integration in Future Model-type organisation.

The following illustration of the potential scale of the change has been estimated. It is this potential scale of change that this analysis seeks to highlight, not the actual detail of the numbers provided.

Functions	As-is#posts	To-be#posts	Savings#posts	%Change#	As-is#Cost	To-be#Cost	Cost#Saving
Management	15	11.8	3.2	21.6%	£1,216,131	£953,447	£262,684
S&C#Strategy/corporate#development	25	22.8	2.3	9.0%	£752,107	£684,418	£67,690
S&C#Commissioning/perf/contract#mngt	4	3.2	0.8	20.7%	£171,620	£136,095	£35,525
Democratic#support	12	10.2	1.8	15.3%	£324,932	£275,217	£49,715
Service#Strategy#&#Commissioning#Specialist)	7	6.9	0.1	1.9%	£350,539	£343,879	£6,660
Community/#customer#enabling#	2	2.0	0.0	1.9%	£28,724	£28,178	£546
Customer#Services#Advisor	31	30.4	0.6	1.9%	£671,465	£658,707	£12,758
Mobile#Locality#Officer	20	19.6	0.4	1.9%	£512,215	£502,483	£9,732
Service#processing#(rule#based)/#case#coordinator Specialist	55	52.7	2.3	4.3%	£1,223,519	£1,171,520	£52,000
Specialist	31	30.1	0.9	2.8%	£1,102,479	£1,071,059	£31,421
Corporate#support#customer#support	2	1.5	0.5	24.0%	£64,035	£48,667	£15,369
Corporate#support#Service#processing,#admin	38	28.9	9.1	24.0%	£907,913	£690,014	£217,899
Corporate#support-#complex#advice/cases#	10	7.6	2.4	24.0%	£405,860	£308,454	£97,406
Corporate#support-#governance/compliance	18	13.7	4.3	24.0%	£556,155	£422,678	£133,477
Service#delivery	73	73.0	0.0	0.0%	£1,899,186	£1,899,186	£0
Facilities#/#Asset#management	17	15.5	1.5	9.0%	£514,309	£468,021	£46,288
EASTBOURNE	360	329.6	30.4	8.4%	£10,701,190	£9,798,574	£902,616

Functions	As-is#posts	To-be#posts	Savings#posts	%Change#	As-is#Cost	To-be#Cost	Cost#Saving
Management	17	13.3	3.7	21.6%	£1,257,394	£985,797	£271,597
S&C#Strategy/corporate#development	6	4.6	1.4	23.4%	£252,711	£193,576	£59,134
S&C#Commissioning/perf/contract#mngt	6	4.8	1.2	20.7%	£235,905	£187,073	£48,832
Democratic#support	16	13.6	2.4	15.3%	£452,833	£383,550	£69,283
Service#Strategy#&#Commissioning#Specialist)	19	15.0	4.0	20.9%	£642,681	£508,361	£134,320
Community/#customer#enabling#	9	7.1	1.9	20.9%	£157,585	£124,650	£32,935
Customer#Services#Advisor	34	26.9	7.1	20.9%	£615,350	£486,742	£128,608
Mobile#Locality#Officer	15	11.9	3.1	20.9%	£397,556	£314,467	£83,089
Service#processing#(rule#based)/#case#coordinator Specialist	36	27.5	8.6	23.8%	£876,520	£668,347	£208,174
Specialist	31	21.3	9.7	31.4%	£1,130,438	£776,046	£354,392
Corporate#support#customer#support	9	6.8	2.2	24.0%	£191,026	£145,179	£45,846
Corporate#support#Service#processing,#admin	41	31.2	9.8	24.0%	£955,864	£726,456	£229,407
Corporate#support-#complex#advice/cases#	3	2.3	0.7	24.0%	£98,721	£75,028	£23,693
Corporate#support-#governance/compliance	20	15.2	4.8	24.0%	£842,468	£640,275	£202,192
Service#delivery	132	132.0	0.0	0.0%	£3,067,741	£3,067,741	£0
Facilities#/#Asset#management	11	8.6	2.4	21.6%	£319,268	£250,306	£68,962
LEWES	405	342.0	63.0	15.6%	£11,494,061	£9,705,429	£1,788,632
OVERALL#INTEGRATED#AUTHORITY	765	671.6	93.4	12.2%	£22,195,250	£19,504,003	£2,691,248

Additional financial benefits from comparative example suggest:

- A reduction in costs of legacy software licences in the individual Councils which are no longer required – in the region of £125,000 p.a.
- Reductions in accommodation revenue costs in the region of £150,000. There clearly may be capital reductions or receipts from the rationalisations of estates and assets.

Costs are clearly driven by local factors and operations. However, again to suggest the scale of the change and the resources requirements implied, the following have been estimated as the additional costs accrued for a comparative integration. (It should be noted that redundancy costs are not included as these would not be additional costs of integration. Savings required to meet MTFS targets by both Councils if integration was not pursued would necessitate staff savings and thus would incur similar levels of redundancy costs).

• ICT Software & Services	£600,000
• Licences per year	£60,000
• IT Infrastructure	£250,000
• Change/programme management	£400,000
• Training costs	£200,000
• Accommodation changes	£100,000

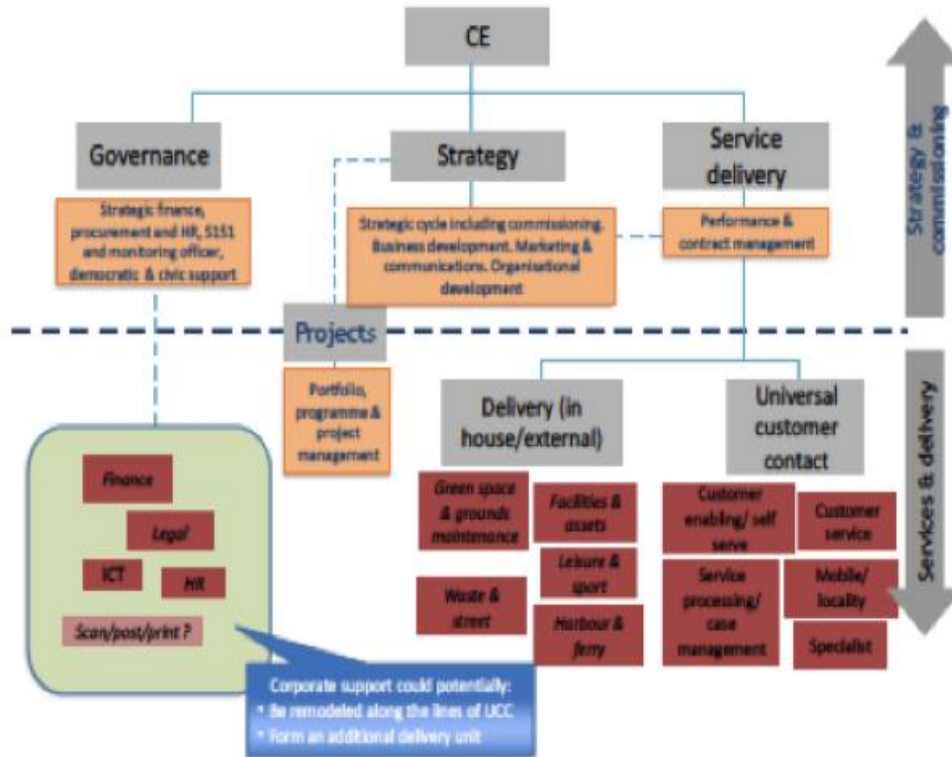
Using these indicative estimates, an initial Cost Benefit Analysis can be suggested. With the prudent working assumption that costs will occur early in integration, and benefits be realised only later in the programme, the analysis below suggests an overall Net Present Value of integration to the Councils (compared to the status quo), over four years of around £4.6 million, with the annual net benefit by year 4 being in the region of £2.9 million per year. It is further suggested that there will be positive 'payback' by year 2.

OUTLINE BUSINESS CASE COST-BENEFIT ANALYSIS						
COUNCILS:		Eastbourne Borough Council and Lewes District Council				
OPTION:		Integrated Council				
	Year 0	Year 1	Year 2	Year 3	Year 4	Total
COSTS						
ICT Software & Services	100,000	300,000	200,000			600,000
Licenses		60,000	60,000	60,000	60,000	240,000
IT Infrastructure	50,000	125,000	75,000			250,000
Change Programme Management	100,000	200,000	100,000			400,000
Training Costs		100,000	100,000			200,000
Accommodation Changes		50,000	50,000			100,000
COST TOTAL	250,000	835,000	585,000	60,000	60,000	1,790,000
BENEFITS						
Resource Efficiencies		500,000	1,000,000	2,000,000	2,700,000	6,200,000
ICT Licence Savings			125,000	125,000	125,000	375,000
Accommodation Savings			150,000	150,000	150,000	450,000
BENEFITS TOTAL	0	500,000	1,275,000	2,275,000	2,975,000	7,025,000
ANNUAL NET BENEFIT	-250,000	-335,000	690,000	2,215,000	2,915,000	5,235,000
CUMULATIVE NET BENEFIT	-250,000	-585,000	105,000	2,320,000	5,235,000	
DISCOUNT FACTOR @ 3.5% p.a.	1.00	0.97	0.93	0.90	0.87	
NET PRESENT VALUE (Annual)	-250,000	-323,677	644,115	1,997,709	2,540,131	4,608,278
NET PRESENT VALUE (Cumulative)	-250,000	-573,677	70,438	2,068,147	4,608,278	

2.3. An Integrated Management Team

The option of integrating management teams has a central benefit of bringing about one management organisation with one culture serving two independent councils; in short it allows independence and ability to serve community needs locally with the interdependence and strategic advantage of affiliated organisations managed by a single senior management team.

Using the Future Model principles of organisational structure, the option would centre on integrating those ‘above the line’ Strategy and Commissioning functions to provide a cost efficient coordinated approach policy setting and strategic planning and management. This would build upon the existing joint posts currently existing at the most senior levels of EBC and LDC.



There would be choices in defining ‘management’ or strategy and commissioning functions to be integrated. However using the indicative assessment suggested at option 1, the following functions may be within the scope of integration, and again, the below illustrative assessment gives an indication of the potential scale of the change implied by the option. (This represents all ‘above the line’ functions. It may be the definition of ‘management’ is drawn more tightly, e.g. just to “Management” – Director and Heads of Services).

Functions	As-is posts	To-be posts	Saving (posts)	% Change	As-is Cost	To-be Cost	Cost Saving
Management	15	11.8	3.2	21.6%	£1,216,131	£953,447	£262,684
S&C strategy/corporate development	25	22.8	2.3	9.0%	£752,107	£684,418	£67,690
S&C commissioning/perf/contract mngt	4	3.2	0.8	20.7%	£171,620	£136,095	£35,525
Democratic support	12	10.2	1.8	15.3%	£324,932	£275,217	£49,715
Service strategy & commissioning (Specialist)	7	6.9	0.1	1.9%	£350,539	£343,879	£6,660
EASTBOURNE	63	54.7	8.3	13.2%	£2,815,330	£2,393,056	£422,274

Functions	As-is posts	To-be posts	Saving (posts)	% Change	As-is Cost	To-be Cost	Cost Saving
Management	17	13.3	3.7	21.6%	£1,257,394	£985,797	£271,597
S&C strategy/corporate development	6	4.6	1.4	23.4%	£252,711	£193,576	£59,134
S&C commissioning/perf/contract mngt	6	4.8	1.2	20.7%	£235,905	£187,073	£48,832
Democratic support	16	13.6	2.4	15.3%	£452,833	£383,550	£69,283
Service strategy & commissioning (Specialist)	19	15.0	4.0	20.9%	£642,681	£508,361	£134,320
LEWES	64	51.3	12.7	19.9%	£2,841,524	£2,258,356	£583,168

OVERALL INTEGRATED MANAGEMENT	127	106.0	21.0	16.6%	£5,656,854	£4,651,412	£1,005,442
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Integrating chief executive and senior management functions is often seen as a necessary first stage of a fuller integration of services akin to that at option 1. This option can bring together first a range of skills and experience across change management, service development, finance and governance. This will enable a distribution of key responsibilities between a new management team to meet the aims of both Councils, while preparing for any second stage involving the redesign and combining of services and staff.

Savings will relate to reductions achieved from a new single Management structure for the Partnership, including a single Chief Executive. The once off costs within this area primarily relate to redundancy and any interim arrangements to support the changes, including professional assistance for planning and implementing a joint senior management team arrangement, and development of a model for democratic decision making and the interface between councillors, communities and senior management. This may be in the region of £125,000.

3. The Management Case

3.1 Challenges for Implementation

In bringing two organisations together through integration or creation of one council or a single management team, there will be challenges surrounding four main areas:

Political

- Clear political leadership, direction and governance needs to be established providing clarity on a vision for the future
- Joint Member and Officer understanding is needed across the two Councils to equip them for the new ways of working.

People

- Blending the cultural differences of the two organisations
- New common Terms and Conditions of service will need to be addressed including the harmonisation of pay.

Organisational

- Prior to the integration, a framework for apportioning costs, savings and benefits between the two Councils is needed
- Implementation of systems and process integration will be substantial, initially running separate IT systems, and working towards a single system.

Customers

- Implementation of seamless customer focused services to both our communities will be key
- Effective engagement with communities, partners and staff to ensure they understand the context and need for change will be required.

3.2 Risks in Implementation

There are a number of key risk issues that will need to be addressed within the initiative as a whole, and the business case in particular. These include:

Financial

- One-off implementation costs prove prohibitive – events may mean the pay-back period takes too long
- Apportioning costs between the two councils– the risk that it is not in the financial interest of one council to proceed
- Securing the financial benefits from the project – not making the anticipated savings will have a financial and reputational impact on both councils.

Governance

- Failure of governance arrangements – these may include joint committees not functioning effectively and lack of clarity about decision-making issues
- Ensuring Member engagement in the process – to ensure ongoing political support for the initiative.

Cultural

- The sense that one council is ‘taking over’ the other – especially should one of the current chief executives be appointed to the post of joint Chief Executive
- Staff morale – concerns about the prospect of changes to management structures and about job security through both organisations. There can be a danger is of losing good members of staff due to the uncertainty
- Technology implementation – implementing a new technology and process environment will be challenging, both from a technical and business change perspective.
- Readiness to change – if either council is unable to facilitate the change in process and working practices for managers within services, the success of the sharing will be significantly reduced.

3.3. Models of Shared Governance

It should be noted that within the models of shared management and services there are a number of different approaches to governance, which seek to enhance the benefits of joint leadership at political and strategic levels, while maintaining the democratic legitimacy of

the 'sovereign' Councils. The models show the range of shared governance which may be developed while maintaining separate Council identity and include:

- a. **Maintaining separate Committee structures, while creating advisory Member bodies for the oversight of the shared arrangements.** For example a joint committee has been established under the Collaboration Agreement adopted by West Dorset, North Dorset and Weymouth and Portland. The committee is responsible for advising both councils on the delivery of the shared functions. The committee does not exercise any executive functions but where appropriate will make recommendations to the respective Council's executive Committee.
- b. **Maintaining separate Committee structures, while creating specific executive Joint Committees for key matters associated with shared management.** East Hampshire and Havant operate such an approach, having a Joint Human Resources Committee dealing with the appointment of the Chief Executive, Managing Director, Directors and other senior staff, and handling superannuation matters, appeals, grievances and dismissals from the workforce of the two Councils.
- c. **Establishing a joint approach for governance of strategic issues including delegated functions, while maintaining separate executive and statutory committees.** Adur and Worthing operate a Joint Governance Committee, Joint Overview and Scrutiny Committee, Joint Staff Committee and a Joint Strategic Committee. The latter advises the Councils on any strategic matter relating to joint services, and has the following delegated functions:

- To determine all matters relating to Executive functions unless specifically reserved to the Executives of the individual Councils.
- To provide strategic management of the services.
- To provide strategic direction to both Councils in relation to all Executive functions unless specifically reserved to the Executives of the individual Councils.
- To set strategic targets in respect of the services.

- To agree draft revenue and capital budgets for the implementation of each joint service which comply with the agreed budget strategy set by the Councils and which clearly show the costs to be borne by each Council including the allocation of any resulting savings or efficiencies and to recommend them to the Councils.
- To annually agree draft revenue and capital budgets for the joint services which comply with the agreed budget strategies set by the Councils and which clearly show the costs to be borne by each Council.
- To receive any reports in respect of any Executive function.
- To determine significant changes to the nature of the services delivered to the public in one or both Council areas.