Evaluating the potential for Strategic Collaboration between Darlington & Hartlepool Borough Councils

Draft for Discussion Only

Executive Summary

8 August 2011

Version: 1

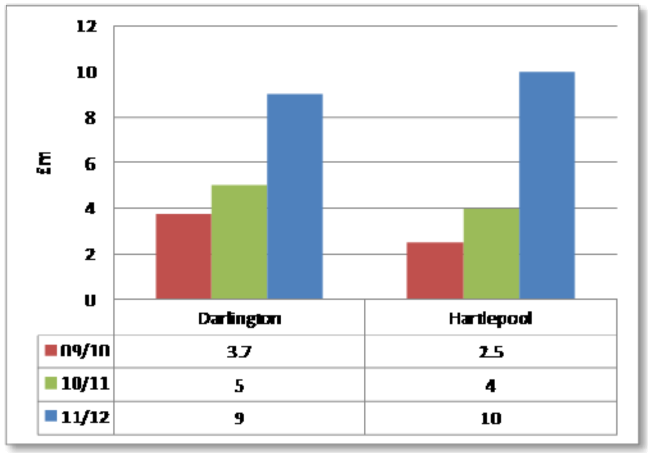
Contents

1 Introduction

1.1 Financial context

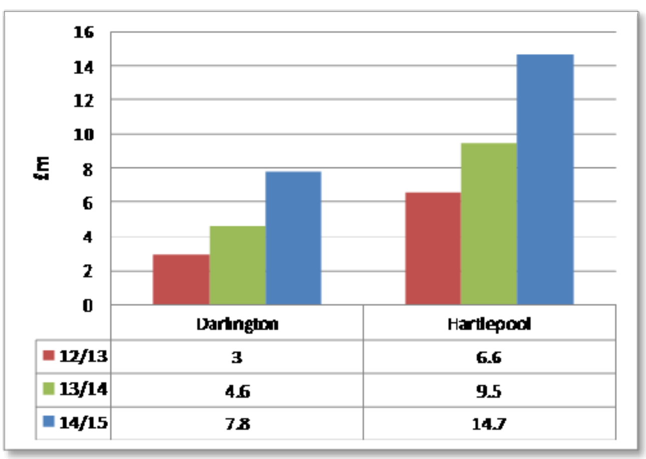
In December 2010, the local government finance settlement for 2011/12 and 2013/14 were announced. The Government's spending review figures indicated an intention of a real terms reduction in aggregate local government spending of 14%, from 2010/11 to 2014/15.

Darlington Borough Council (DBC) and Hartlepool Borough Council (HBC) are two of the smallest unitary authorities in England, with a combined net budget of c£160m (gross spend of £540m). However, much of this expenditure is both demand led and is used to meet statutory commitments for vulnerable people in care, schools, and other essential infrastructure services such as waste collection/disposal and management of highways.



Both authorities have made significant progress in reducing their cost base, through a range of innovative initiatives to eliminate waste and improve the utilisation of resources. The authorities have been working to cut costs by over 10% of net budget, without cutting services.

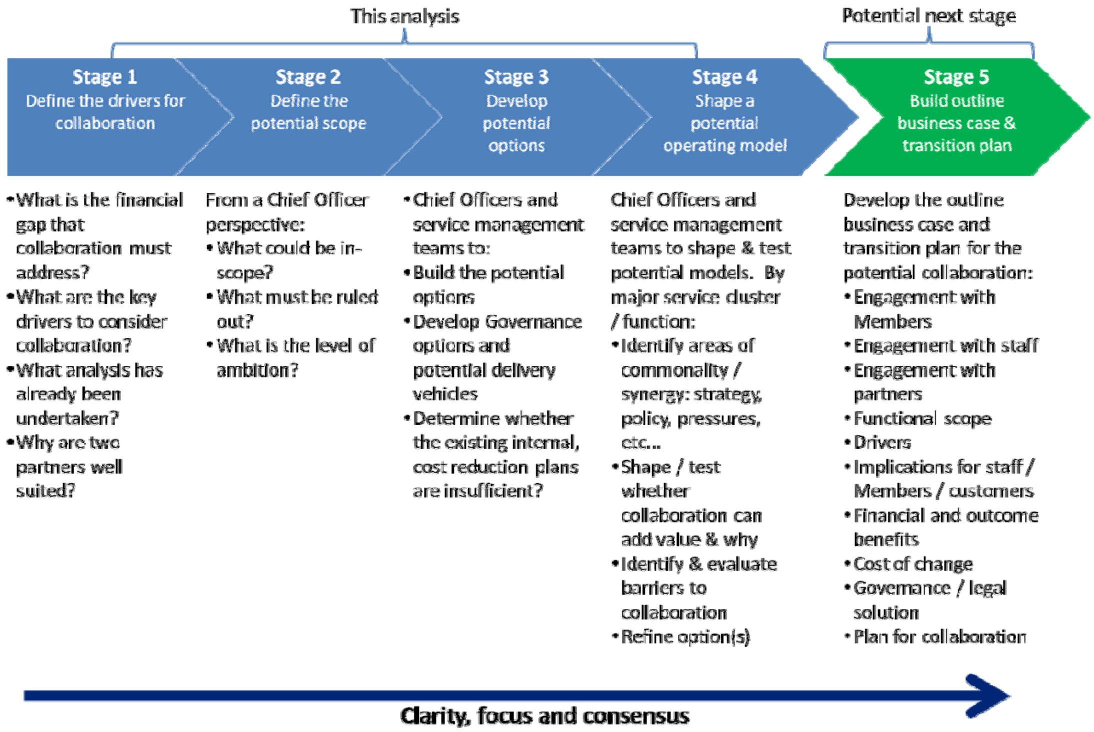
While the anticipated financial position for the two authorities in 2014/15 still contains some uncertainties, a combined funding deficit of £22.5m has been forecast (see table). Inevitably, difficult choices have to be made. There has been significant national press coverage of authorities cutting services to balance their books, and in today's financial environment, no Council could afford to rule that out. However, HBC and DBC have undertaken this analysis to evaluate whether working together more closely, integrating services and sharing resources, could achieve material savings, to reduce the impact on residents and service users.



In "Evaluating the potential for Strategic Collaboration", the authorities are looking to reduce the cost of overheads, improve their collective buying power and save management costs. The hypothesis is that council services can be more efficiently managed at greater scale. At the same time, this cannot compromise the sovereignty and political autonomy of the Councils, and must respect existing contractual obligations.

1.2 The approach to the review

Our analysis has been undertaken over four key stages:



The preparatory and four analysis stages were as follows:

- **Preparation: Baseline data** – having agreed a common definition of services, the authorities collated baseline data on gross and net budgets, activity & service levels where available, staffing information (FTEs), 3rd party spend and management structures.
- **Stage 1: Define the principles and potential boundaries –** This was developed by the two Corporate Management Teams and Chief Executives, and is summarised in this report.
- **Stage 2: Define boundaries of potential collaboration –** this was undertaken at a strategic level, informed by the design principles and evaluation criteria.
- **Stage 3: Develop potential options –** The potential opportunities and challenges for strategic collaboration were developed through a series of workshops and meetings with senior managers from both authorities. The sessions and analysis were structured by service cluster. The outcome of this stage has been a distinction between those services which could be shared and the associated benefit, those that should be excluded. This analysis would also highlight the addressable potentially within scope.
- **Stage 4: Potential operating model –** Through a series of facilitated workshops, we explored potential delivery models for collaboration and the overall feasibility of strategic collaboration. The indicative financial and qualitative benefits of collaborative were also outlined. Members will clearly be involved in evaluating these options within the context of their strategic priorities and wider sovereign needs, bringing a political and leadership perspective.

1.3 The purpose of this report

This report is a summary of the analysis undertaken from April to June 2011, led by the Corporate Management Teams from HBC and DBC, supported by Deloitte. The analysis laid out in the report demonstrates:

- The potential opportunity for collaboration: in terms of the potential scope and high level view of the benefits;
- A potential strategic operating model: evaluating the potential shape of integration and what this might mean, in terms of risks and challenges;
- Implementing the change: the potential timescales and approach to driving any integration agenda;
- Conclusions.

This executive summary report is supported by five working papers, one for each service cluster, as follows:

- Corporate & Transactional Services - including for example: HR, Finance, ICT, Property Management, Procurement, Customer Services, Revenues and Benefits administration, etc;
- Adult Social Care, Children's Services & Public Health - including social care service types and customer groups, housing policy and education services;
- Culture & Leisure Services - including for example: museums, leisure centres, theatres, etc;
- Regeneration, Policy, Planning & Infrastructure - including all aspects of policy, planning and management regarding the built and natural environment, such as highways policy, etc;
- Environmental Services - including the delivery of services, for example, waste collection, grounds maintenance, street cleansing, building maintenance and repairs, highways maintenance and construction, etc.

At a strategic level, housing management and delivery was ruled out of scope, due to only Darlington having retained its housing stock.

This report is not intended to be an outline business case and should not be seen as the basis to embark on a programme of organisational integration. This report aims to demonstrate the potential opportunity for strategic collaboration. If the both Councils chose to move a collaborative strategy forwards, more detailed analysis would follow to: appraise the cost of change, define the programme plan and undertake more detailed business case analysis.

2 The opportunity for collaboration

2.1 Learning from experience

These are challenging financial times. Consequently, authorities are now considering what may have been considered 'unthinkable' just 2 or 3 years ago. Several authorities are currently exploring strategic collaboration, like Darlington and Hartlepool, but this approach is new. To learn from past experience, there are no directly comparable programmes. Instead, we must look to previous local government re-organisation programmes and shared service projects, with an understanding that Darlington and Hartlepool will be protecting their political autonomy, sovereign identity, branding and local priorities.

Lessons can be learned from previous reorganisations across both public and private sectors over the past 20 years. Historically, the literature on the subject of collaboration points to relatively low levels of success with 30% at worst and 50% at best being considered successful. However, in recent years, lessons have been learned and organisations have become more adept at planning and executing mergers with greater focus on integration as well as the transaction itself. This experience has shown that collaboration based on a clear and aligned strategy, with a focus on outcomes and delivery of benefits, have a greater chance of success.

In understanding lessons learnt from other local authorities, some distinct parallels can be drawn from Local Government Reorganisation in 2009, irrespective of the political reorganisation element, which has demonstrated savings. On 1 April 2009, the two-tier council areas of Bedfordshire, Cheshire, Cornwall, Durham, Northumberland, Shropshire and Wiltshire were reconfigured to form new Unitary Authorities. Looking at a selection of service areas that should be significantly impacted by cross-tier merger, the comparison of their pre- and post- merger costs highlighted that merger had reduced expenditure by 13.4%, whereas the non-LGR authority expenditure increased by 2.1%. The variations for some services are dramatic:

- Housing Benefit administration costs reduced by £8.2m (27.4%) for LGR authorities, but increased by £33.6m (6.2%) for the rest;
- Corporate and Democratic Core costs reduced by £51m (30%) in LGR authorities, while non-LGR authorities saw an increase of £92m (5.5%);
- Waste Collection & Disposal costs reduced by £6.0m (2.4%) in LGR authorities, but increased by £14.4m (0.5%) on average for all others.

In relation to LRG and the context of this strategic analysis, it is important to recognise the need to balance the potential financial benefits of increasing scale with issues of local policy and identity, given that local political sovereignty and accountability will remain for both councils.

2.2 Guiding principles

To inform the assessment of scope and the potential options, four key guiding principles were developed by the two corporate management teams. These principles should be seen as the fundamental rules that govern how collaboration should be approached and how any proposed changes are design.

Each Local authority will retain their individual identity and sovereignty	• The ability of citizens to hold their Members to account must remain paramount • Each authority will define the outcomes for the local population and how these are delivered • Investment priorities and service levels will continue to be determined locally • Members have the choice to standardise or customise services, with a clear understanding of the costs and benefits of the decisions they make • It will be critical to recognise the difference between who is accountable for a service versus who is providing a service • Statutory responsibilities will not be undermined
Collaboration is not limited to Darlington and Hartlepool	• While the feasibility of collaboration between the two authorities is being tested, it is not the only option • Opportunities could include other authorities • Opportunities could include other public organisations • The benefits or dis-benefits of collaboration between the Councils will be looked at on a service-by-service and thematic basis rather than "all or nothing" • At the same time, the collective benefit of strategic collaboration through synergies will be evaluated
The authorities enter this process with a positive view of collaboration	• Strong leadership and clear direction will be key to ensure this study delivers an robust and balanced set of conclusions for consideration • The output of this project will be a strategic assessment of opportunities, symbolising the start of a decision making process, not the end. The timeframes and level of information available are proportionate to the status of the project and require a measure of pragmatism • Individuals who have been involved in transformation should be encouraged to champion the principle of collaboration during this study • It remains clear that 'doing nothing' is not an option for either authority.
Collaboration must deliver demonstrable additional benefits to working separately	• Collaboration will create a renewed level of resilience within each local authority. A resilient organisation will have the right skills, the right capacity and the critical mass to deal with future pressures • Collaboration will deliver the expected level of financial

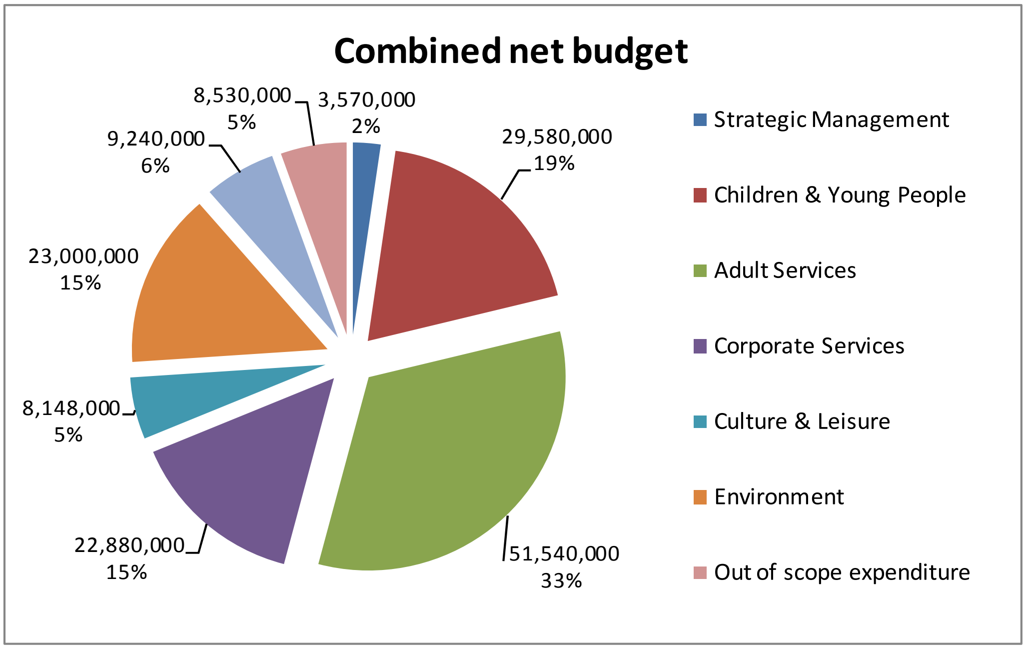
	benefits required to mitigate the financial risks projected • Collaboration will create the robustness to mitigate operational risks • Opportunities will consist of a combination of service-specific opportunities as well as cross-cutting opportunities / synergies

2.3 The potential scope

The aim of strategic collaboration should enable four key interrelated opportunities to reduce costs without degrading services or impacting on service users, whilst in certain areas, creating capacity and resilience:

- Senior management (including Heads of Service) structures;
- Increased market influence and, therefore, the ability to reduce the cost of service delivery arrangements;
- Redesigning services using the best approaches adopted by the authorities, reducing the cost and timescales for improvement, which may include alternative service delivery models;
- Reducing corporate and devolved overheads (such as financial management, human resources, ICT, property, etc).

While the two authorities are geographically separated, many of the Councils operations do not have to be based in a particular locality (for example, corporate functions, call centre, transport and highways management, social care commissioning, etc). Place-based functions (such as street scene, social care delivery) offer less potential opportunities, although management and procurement savings are available.



With this in mind, the consideration of scope has suggested the following service areas ("Key services") offer the most significant benefits from strategic collaboration:

Service Cluster	Key services	Approaches to realise value
Corporate Services	• HR • Finance • ICT • Revenues & Benefits	• Management rationalisation • Greater productivity through scale & standardisation • Self-service & development of skills for managers regarding financial and people mgt • Use of outsourcing / Xentrall / Joint (Collaborative) provision.
Environmental Services	• Integrated Transport • Fleet • Street Scene	• Management rationalisation • Aggregating purchasing requirements (equipment/assets/supplies) • Greater asset utilisation • Potential externalisation of delivery
Children's Services	• Commissioning • Education • Family Support • Fostering & Adoption	• Management rationalisation • Service restructuring • Increased volume and negotiating strength • Greater access to specialist skills • Shared best practice • Service/process standardisation
Adult Social Care Services	• Commissioning • Mental Health • Older People • Assessment & Care Management	• Management rationalisation • Service restructuring • Increased volume and negotiating strength • Greater access to specialist skills • Shared best practice • Service/process standardisation
Culture & Leisure Services	• Arts & Events • Museums • Leisure • Libraries	• Management rationalisation • Integrated back-office function • Alternative service delivery (e.g. Trust model, outsourcing)

The follow areas appear to demonstrate little or no value from collaboration or potential structural integration. However, this does not preclude these services from collaboration in some shape or form going forward:

Service Cluster	Key services	The challenge to integrating services
Corporate Services	• Democratic services • PR / Communication • Policy • Legal • Customer Services	Not only are many of these functions small, but they are also heavily aligned to each authorities' specific needs, particularly in the support of Members and the democratic core of the Council.
Housing	• Social housing management and delivery	This has been excluded from the scope of this exercise, as only DBC have retained their social housing. However, statutory housing functions could be potentially explored for collaboration.
Regeneration, Regulatory, Planning & Infrastructure Services	• Planning • Trading standards • Building control • Economic development & regeneration	While there are potential opportunities to make modest management structural savings, these functions are explicitly aligned to localities, making material savings difficult to achieve.

2.4 The potential benefits of integrating services

Having considered the bottom-up opportunities of integrating services, and also considering the potential top-down benefits of creating an integrated management team, the potential benefits could be significant, ranging from £5.4m (c 3.6% of net budget) to £8.4m (5.7% of net budget), broken down by service cluster in the table below. This is based on no degradation in service performance.

Service Cluster	Combined Net Budget	% of Total Net Budget	Potential Cost Saving Range Min	Potential Cost Saving Range Max	Potential Saving as % Min	Potential Saving as % Max
Strategic Management	3,572,448	2%	1,100,000	1,600,000	30.8%	44.8%
Children & Young People & Adult Services	81,123,000	52%	1,640,000	1,950,000	2.0%	2.4%
Corporate Services	22,881,693	15%	1,630,000	2,820,000	7.1%	12.3%
Culture & Leisure	8,148,010	5%	200,000	250,000	2.5%	3.1%
Environment	22,999,871	15%	780,000	1,560,000	3.4%	6.8%
Regeneration, Regulatory, Planning & Infrastruture	9,243,569	6%	30,000	180,000	0.3%	1.9%
Out of scope expenditure	8,529,455	5%				
Totals	**156,498,046**	**100%**	**5,380,000**	**8,360,000**	**3.4%**	**5.3%**

Against a forecast funding deficit of £22.5m (c14.4% of net budget), it is evident that integrating many aspects of the authorities would deliver a significant contribution, reducing the need to cut services to the public. Integration could reduce the deficit by over 37%.

Critically, if a strategic collaboration approach were not pursued, the two authorities would need to find between £5.4m and £8.4m savings from cutting frontline services. The emerging strategic option, highlighted through this report, provides an opportunity to find new cashable savings that do not damage frontline service delivery to the citizens and businesses of Darlington and Hartlepool.

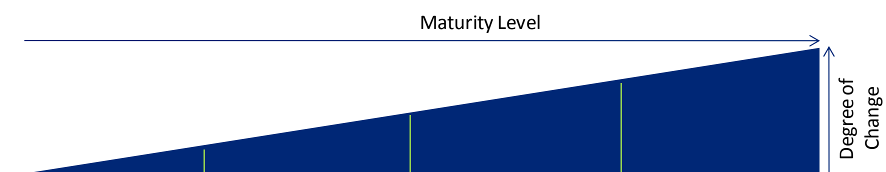
These are proposals and more detailed plans will follow if the proposals are supported. Critically, working collaboratively will promote better procurement of external services and allow more detailed comparisons and challenge to drive best practice. Through such new working we will achieve more from less.

To deliver savings across council services and contribute to reducing the deficit of both authorities through integration, it is proposed that:

- Many current council services can be more efficiently managed at greater scale;
- Services which are locally designed and tailored to meet local priorities will remain unchanged, but will be managed in an integrated fashion (e.g. joint management structures, combined resources, common delivery methods, etc)
- A small set of services, providing strategic support to Members, will remain dedicated to each Council and jointly managed.

2.5 Overview of options

From the outset, this analysis was geared to evaluating a range of options for the authorities to work together to reduce costs. There are typically four models that are available, as shown below:



	OPTION 1	OPTION 2	OPTION 3	OPTION 4
Forms of Collaboration	**Collaboration**	**Shared / integrated services**	**Operational merger**	**Political merger**
Example characteristics	• Sharing ideas • Sharing project resources • Procuring major contracts together (co-sourcing)	Integrating major front-line and/or back-office services with: • A single management team for in-scope services • Integrated teams • Common systems, processes & policies • A pooled budget • Delegating authority	Integrating all core services & management: • Effectively creating a single management team, corporate infrastructure and consolidated budget • Exploiting a range of legal vehicles and delivery models for different services • Retaining existing political structures	Creating one 'optimum-sized' council with: • One cost of democracy • Fewer elected Members • One management team across all services • A new constitution • Complete operational integration
Type of approach	Tactical	Service transformation	Strategic transformation	Political

Like most authorities, the two authorities are already working with the other Tees Valley authorities and the local health economy to share approaches, contracts and ideas (option 1). At the same time, there is currently no mandate to consider the extreme solution of political merger, akin to local government reorganisation creating one new council from DBC and HBC.

With this in mind, our analysis has been based on evaluating both the “integration of key services” (option 2) and the potential opportunities of “operational merger” (option 3). The latter is predicated by creating a single management and corporate services organisation to run services, some of which are locality based and some of which can be fully merged.

With both options, the core guiding principles described above remain paramount and uncompromised.

Due to the scale opportunity available and the breath of services that could benefit from being managed and commissioned as a single, but locally sympathetic service, “operational merger” appears to be a viable solution. Increasing scale, through integration, not only presents more options for reducing costs from a larger budget base, but also creates opportunities for service improvement which may not currently exist in services due to their current size.

If the concept of a combined management team were to be pursued, it would be responsible for a combined gross budget of just over £500m which would be on a par with an average upper-tier Council. However, many services would, necessarily, remain focused on locally determined service levels and priorities, as defined by Members representing their particular locality: Darlington and Hartlepool.

2.6 Achieving the benefits

Across the services that have been potential candidates for integration, the summary below reflects the ‘art of the possible’ to achieve major savings and to challenge the current approach to managing, commissioning and delivering services, as follows:

Organisational Layers	Minimum retained	Maximum shared
Policy	Ownership and accountability for setting the strategic direction of services will be based upon local priorities and statutory guidelines. Elected Members will determine these strategic priorities for their respective places.	Single operational policies and procedures can be created to govern/control the shared service.
Management	None	Although a management team could be established to manage the commissioning of services for

Organisational Layers	Minimum retained	Maximum shared
		both authorities, our analysis has demonstrated the need for 'locality-specific' management roles, providing continued place-based relationships with elected Members, reflecting their needs and specific priorities.
Commissioning	Strategic commissioning strategies would be determined for each Council, based on elected Member priorities. The development of these strategies could be delivered by joint commissioning teams, at both a strategic and operational level. Strategic policies could include, for example, the determination of eligibility criteria (influencing the assessment of demand), etc.	The joint commissioning of all services, supplies and works The development and implementation of commissioning strategies based upon local priorities/need. Sourcing activity (i.e., procurement) would be undertaken to maximise value, using national, regional, sub-regional or local contracts depending on the nature of the supply market and any specific strategic policies.
Delivery	None	The Commissioning teams will determine whether delivery is best undertaken by 'consolidated internal delivery functions', through provision with external organisations. The specification of delivery requirements will be determined by both Council-specific strategy and operational requirements to achieve value for money.
Assets	Ownership of assets would be retained by the sovereign organisations. Each authority would retain their financial accounts, reflecting their assets and liabilities.	The management of assets and all resources would be undertaken by the 'merged' management and commissioning organisation. Investment requirements would need to be funded by the respective authorities with appropriate authorisation, including elected Members where delegation levels require it.

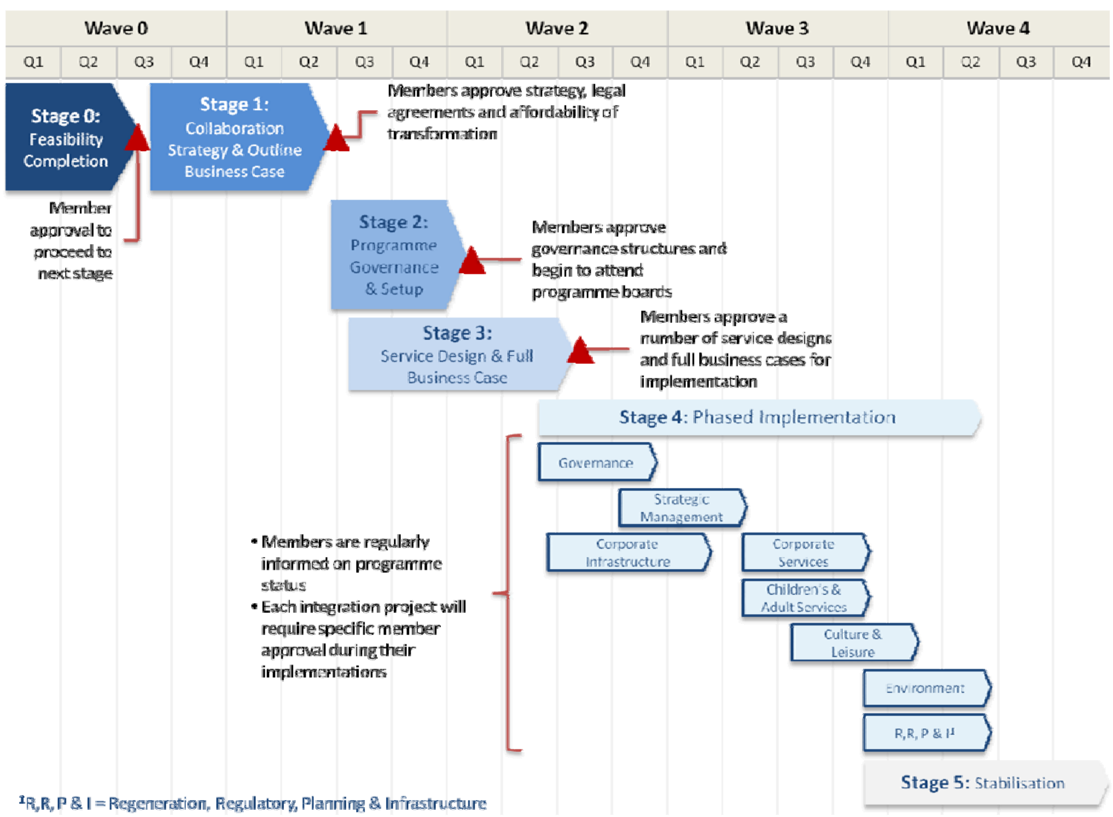
3 Implementing strategic collaboration

3.1 High level roadmap

The analysis summarised within this report serves to illustrate the potential opportunities from strategic collaboration. It can be used to inform initial decision making, as the beginning of a journey. However, this document is not a business case for a particular course of action. We would propose that if the potential opportunities and associated estimated benefits appear viable, the Councils would need to consider conducting a further process of planning, due diligence and business case development. The output of the next stage would enable a decision to implement strategic collaboration or not to be made.

Based on a potential major integration of core services or a potential operational merger, we have developed a high level approach and indicative timescales for the assessment, transition, redesign and stabilisation process (appendix 1 includes a more detailed plan).

In order to manage both the decision making process and overall transformation on such a large scale, high level plan is proposed which highlights the critical decision points for members, particularly in the short to medium term.



Each of these stages will vary in complexity and scale of work required and an overview of each of these stages including some of the key activities involved, are set out below:

Stage	Description
Stage 0: Feasibility Completion	This stage will conclude the Collaboration Feasibility Project by briefing members on recommendations and seeking approval to proceed to the next stage. **Key Activities:** • Member Engagement • Staff and union engagement • Partner engagement • Preliminary communication plan • Member approval to proceed to next stage
Stage1: Collaboration Strategy & Outline Business Case	Both local authorities will need to agree the details of the vision and affordability of the transformation in the form of a Collaboration Strategy and Outline Business Case document. These documents will represent the commitment from both authorities to progress the transformation into the next stage. **Key Activities:** • Definition and Agreement on Scope of collaboration • Implementation costs • Benefits Profile • Integrate into two sets of MTFPs • Communications and Engagement Strategy • Evaluating human resource management arrangements • Shaping Governance & legal arrangements o Constitution o Scheme of Delegation o Memorandum of Understanding • Impact Assessment • ICT Infrastructure Appraisal & Migration Strategy • Member approval to proceed to next stage
Stage 2: Programme Governance & Set up	Upon approval by members, this stage will require setting up the governance structure, programme resources and detailed plan to deliver the transformation. During this stage members will be expected to approve the structure of the programme and begin to attend and be briefed on progress. **Key Activities:** • Governance Structure • Detailed Programme Planning • Resource requirement and deployment • Programme Management Office o Benefits Management approach

Stage	Description
	o Risks and Issues Management
Stage 3: Service Design & Full Business Case	Once the programme has been approved to be underway, resources will be focussed upon designing the future integrated services supported by full business cases. These will be presented to members at various times for approval to implementation. **Key Activities:** Future designs of services will be developed supported by a full business case for the following key areas which will be submitted for Member approval before proceeding into implementation: • Strategic Management • Corporate & Transactional • Child & Adult Services • Culture & Leisure • Environment • Regeneration, Regulatory, Planning & Infrastructure
Stage 4: Phased Implementation	This stage will involve implementing the new integrated organisation starting with the new governance model for the organisation, followed by establishing the new strategic management structure to lead on delivering integration projects. During this stage members will be regularly briefed on progress and will be required to review and approve at particular points of implementation. **Key Activities:** • Governance o HR Policies, Terms and Conditions o Financial Procedures o Procurement procedures o Scheme of Delegation • Strategic Management • Corporate Infrastructure • ICT infrastructure and policy • Member Support • Corporate Services o Finance o HR o ICT • Child & Adult Services • Culture & Leisure • Environment • Regeneration, Regulatory, Planning & Infrastructure
Stage 5: Stabilisation	Following the implementation of each of the integration projects, this stage will focus upon stabilising the service through improving a range of tactical

Stage	Description
	process improvements, employee and workforce development initiatives. **Key Activities:** • Process Improvement • Employee performance management • Workforce development • Review of achievements and issues, as part of an on-going process

NOTES:

- An initial approval process will need to be completed following a review of this report and working papers, in order to confirm agreement to developing a business case & detailed plans
- The delay in integrating Environmental Services reflects the need to consider the implications of policy differences and the place-based nature of service provision. It also reflects the approach to tackle the larger services first.

3.2 Implementation effort and benefits realisation

The high level programme plan proposes the appointment of a new, strategic management team if and when Member approval has been given. This team would then be responsible for the delivery of the phase implementation programme.

However, an analysis of implementation costs has not been completed. It would be fair to estimate that to achieve the £5.4m to £8.4m savings, costs of between £5m to £8m would be possible. Much of these costs will relate to redundancy payment, pension liabilities and IT investment. With this in mind, the first year of net savings is likely to be during 2013/14, with a full net savings effect from 2014/15.

These are proposals and more detailed plans will follow, if the proposals are supported. The plans will be costed and underpinned by a revised and more thorough benefits assessment.

3.3 Key next steps

In order to move this potential programme forwards, we would recommend that the immediate next steps are to:

1. Consult with Members and undertake due diligence of the proposals to enable an informed decision making by both Councils within respective political governance structures.
2. Engage with Unions and staff to explore the potential benefits and implications to staff and service users, to minimise the impact on front line service quality.
3. Engage with the wider group of external stakeholders, such as police, health and schools.
4. Develop the business case for the key strategic opportunities to integrate services and potential merge strategic management. While this analysis has identified high level savings opportunities, an analysis of implementation costs and a more detailed implementation plan detailed necessary resources is required.

5. Develop the governance framework to manage the potential programme of change for the two authorities, covering both programme management, Member reporting and scrutiny.
6. Develop the governance and legal framework to enable the emerging proposals to be viable. Key challenges will include the approach to statutory officer posts (e.g., Head of Paid Service, Section 151, monitoring officer, Director of Children Services, Director of Adult Social Care and the Director of Public Health), delegated authority, finance and risk management, and scrutiny.
7. Undertake a fit gap analysis of HR policies and procedures to identify opportunities for greater alignment prior to any changes in employment or structures.
8. Consolidate the strategic management team and some corporate professional functions (e.g., legal, procurement, internal audit, etc) in order to facilitate the process of on-going integration and cost reduction.
9. Engage with Stockton and shape the appropriate delivery strategy for ICT, HR and Finance. Particularly in the light of the recent soft market test by Hartlepool of ICT, Revenues & Benefits. There is the opportunity to seek a joint venture with the private sector and Xentrall to improve its investment and gain business development expertise in order to trade, grow in size and deliver savings to both authorities.

4 Key challenges

To make any potential integrated operating model a reality, while respecting the sovereignty of each Council, there are several major challenges facing the authorities.

At the same time, these proposals are a response to today's wider public sector funding challenges. Therefore, difficult decisions must be made. Reducing overheads and achieving more from less must be seen as a priority. In the sections below, we outline key headline issues that will need to be addressed, both:

- From an operational perspective - to enable strategic collaboration to be successful; and
- In terms of implementation - to make the change process work.

4.1 Key operational challenges

The headlines operational challenges of a shared organisation are summarised below and are more fully explored in the working documents included within the appendices:

Theme	Explanation
Management Capacity	Integrating management structures between the two organisations will result in reductions in senior and middle management. This will mean a greater capacity pressures on individuals managing larger services across both localities than currently expected. Furthermore, both senior and lower level management will be required to engage with two sets of Members and other stakeholders which will add to the capacity pressures. To manage and mitigate this issue, different ways of working will need to be adopted that should be defined as part of the next steps, to ensure that management effectiveness is not compromised.
Risk of delivering savings	The current savings targets built into current Medium Term Financial Plan (MTFP) may reduce the level of savings achievable through integration. Furthermore current contractual arrangements may inhibit reductions in 'addressable' expenditure which could also impact the level of savings achieved. Changes introduced in local / national policy may reduce flexibility and/or level of integration possible. For each of the above, overlaps between current earmarked expenditure reductions and current/future contractual and policy implications upon these proposals will need to be fully understood.
Loss of local knowledge and	There may be a loss in local knowledge and relationships of the area, as individuals will be required to manage across

Theme	Explanation
relationships	both boroughs New relationships will need to be forged with politicians, the public and other organisations
Shared statutory posts	The authorities will need to seek legal and HR advice regarding the sharing of posts, for example: Head of Paid Service, Section 151 officer, Monitoring Officer, Director of Children Services, Director of Adult Social Care and the Director of Public Health. It is understood that such challenges can certainly be addressed, but they need to be planned and assessed.
Attitudes towards different delivery models	While both authorities appear to be keen to explore shared services and outsourcing for corporate functions, such as ICT, it is important that alternative delivery models are considered for front-line services such as the highways maintenance, transportation, fleet maintenance and waste collection, etc.
Addressing employing body & HR policy issues	The Councils needs to both agree whether to adopt the service integration or full operational integration model. Having decided on an approach, consideration must be given as to: which authority employs staff, how pension liabilities will be tackled, and how HR policies should be aligned.
Member relationships will be different	Moving towards a collaborative organisation will require changes to the relationship Members have with key officers in both authorities. Members will need to forge a different set of relationships with officers at both senior and lower levels. The transition to formalising these relationships will be supported by senior officers to ensure both formal and informal methods of engagement between Members and the appropriate officers is not compromised.
Conflicts of Interest	Conflicts of interest could arise where divergent local socio-economic issues and local political priorities exist, for example when competing for development funding. Potentially, legal disputes between the authorities could also arise. Legal agreements and protocols to deal with these types of conflict have been developed by other partnerships (e.g., when legal services are shared). They will need to be in place for the two authorities to ensure these conflicts are managed appropriately and political autonomy is not comprised.

4.2 Key implementation challenges

The key challenges to implementing such a strategy are described below:

Theme	Explanation
There is not a history of this type of strategic collaboration without central government mandate	While several authorities (for example, Oldham & Rochdale; Hammersmith & Fulham, Kensington & Chelsea and Westminster; Salford and Manchester) are exploring strategic collaboration opportunities, historic models of major service integration have been either mandated, through LGR, or are relatively small scale (such as specific shared service ventures). However, the experience of LGR and shared service ventures (such as Xentrall, Local Government Shared Services, etc) can serve to provide useful insights. The primary difference between past integration programmes and the Darlington / Hartlepool proposal is the importance of retaining political sovereignty and local priorities.
Existing contractual commitments	Currently, both authorities have existing contractual commitments in place with private suppliers and other public sector organisations for a variety of services. Before any full integration between services takes place, an agreement of a common strategy to converge these commitments will need to take place to fully realise the intended benefits. For example, such common strategies will need to determine the appropriate way forward in relation to Darlington's relationship with Xentrall which is until 2018 and Hartlepool's current procurement process to secure ICT and Revenues & Benefits service providers. Although this should not be a restrictive factor, Darlington and Hartlepool will need to explore a number of options such as widening the Xentrall partnership to include Hartlepool, subject to Stockton's agreement, potentially looking at joint venture opportunities with the private sector, if Xentrall is seen as the most appropriate delivery vehicle, or looking at other providers (public/private).
Cost of systems/process convergence	In addition to redundancy, the authorities will need to evaluate the cost of merging core applications and IT infrastructure (e.g., e-mail, calendars, storage, etc). This will need to be costed and planned. In addition, while Hartlepool has amended its ICT procurement strategy to incorporate the inclusion of both Darlington and Stockton (i.e., Xentrall's ICT provision), the authorities will need to urgently evaluate, alongside the procurement process, the most cost effective solution to converge the ICT architecture and service provision (i.e.,

Theme	Explanation
	outsourced or using a public-public Xentrall solution).
Timescales	In section 3.1, we highlight the medium term nature of the implementation activity. It is important to note that net savings from integration activity are likely to take between 18-24 months, from now. This is both due to the: • Time to implement; and • The cost of redundancy and operational merger. In reality, it is unlikely that significant savings will start to be achieved prior to the financial year commencing April 2013. With this in mind, it will be critical to create a sustained level of momentum, if both authorities are to achieve the desired benefits of collaboration. Furthermore, underpinning the pace of change will be the importance of an informed decision making process that ensures both authorities are moving forward in tandem. Consultation will be key to implementation, but it must be recognised that given the variety of stakeholders impacted, this will take time and will need to be factored as part of a detailed planning exercise from the outset.
Planned projects that could influence the strategy	In a number of areas, each authority is proposing to significantly reduce its operating costs and potentially reduce service levels. It will be important for any integration project to distinguish between existing service reduction initiatives and genuinely new cost containment and optimisation opportunities.
Cost of redundancy	In the next wave, as part of the business case development process, the cost of voluntary redundancy or compulsory redundancy will need to be calculated. This is expected to be a significant proportion of the annual savings.
Capacity for change	It is anticipated that this transformation will be a long term commitment upon both authorities and given the priority to minimise service disruption, both organisations will need to continuously balance business as usual cost reduction initiatives, while also driving a programme of service integration. Staff engagement and buy-in is integral to achieving such a collaboration, and it is recognised that staff will be balancing personal career uncertainty with the need to support this change.

5 Conclusions

5.1 Overview

Against a forecast funding deficit of £22.5m (c14.4% of net budget), integrating services across the two authorities would provide an invaluable opportunity to save between £5.4m (c 3.4% of net budget) to £8.4m (5.3% of net budget) without service reductions or reduced political control.

Making such a transformation a viable opportunity, will require a further assessment of implementation costs and dependencies. Furthermore, the relationship with Xentrall will need to be reviewed, in consultation with Stockton Borough Council.

5.2 Recommendation

Councils are asked:

1. To consider taking these proposals forwards to a more detailed business case and plan from October 2011. Once this business case has been completed in early 2012, the Councils should consider whether to agree to:
    - participate in establishing integrated services across Darlington & Hartlepool;
    - commit to a phased approach to sharing services including a firm commitment for wave 0 activities;
    - determine each councils planned commitment and timescales to implement wave 1 and wave 2;
    - commit to provide their share of the investment required to establish the shared service as set out in the detailed business case;
2. To agree to the guiding principles which will form the basis of the Partnership Agreement, which will be drawn up between the participating councils;
3. To agree to continue with the current joint working arrangements over the summer period to oversee and co-ordinate current planning and development activities, particularly regarding potential quick wins and jointly reviewing any proposed management appointments and supplier contract changes.