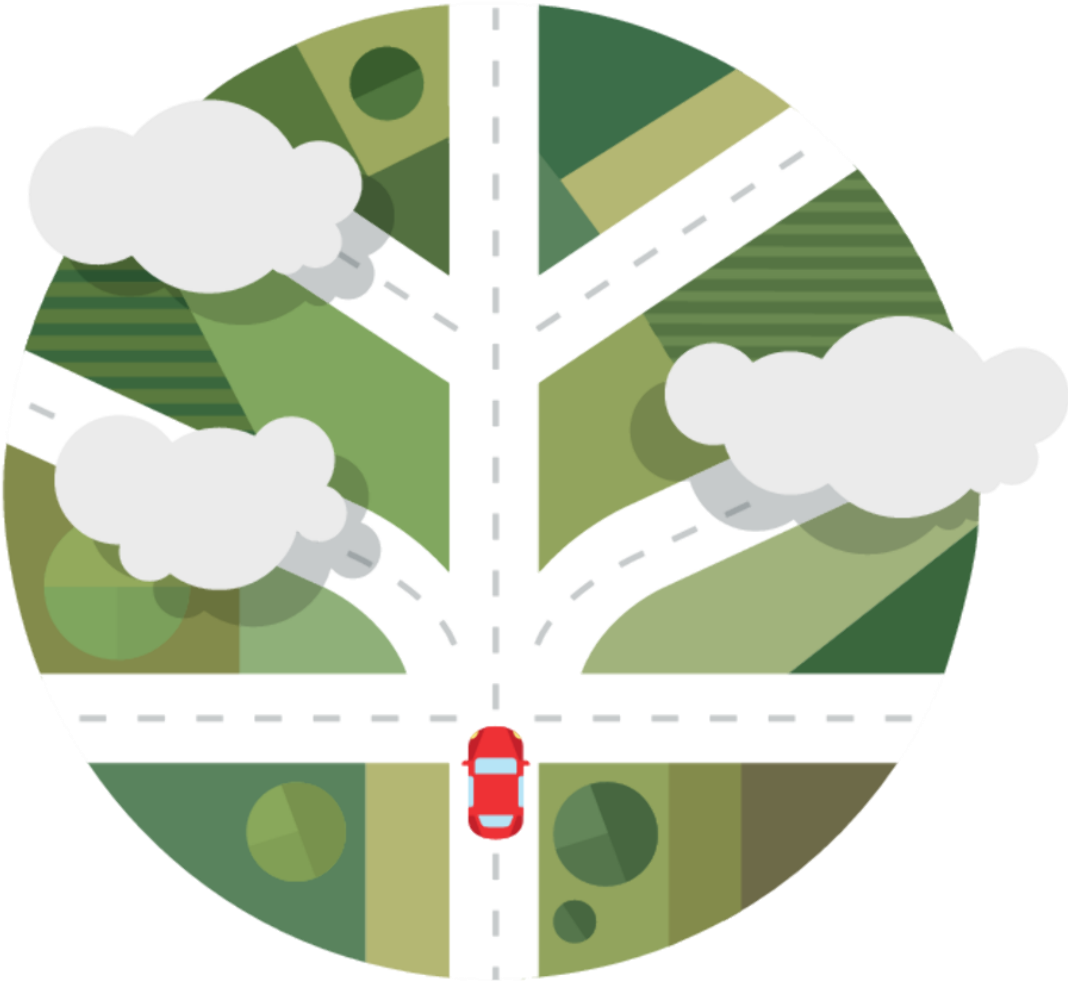

Warwick District Council and Stratford-on-Avon District Council

Creating a South Warwickshire Council

27 January 2021

Responsibility statement

This Report and the work connected therewith are subject to the Terms and Conditions of the letter of appointment dated 25th November 2020 between Deloitte LLP and Stratford-on-Avon District Council and Warwick District Council.

The Report is produced solely for the use of the Councils for the purpose of considering the options for future local government structures in Warwickshire. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Deloitte LLP will accept no responsibility to any third party, as the report has not been prepared, and is not intended, for any other purpose.

We take responsibility for this Report which is prepared on the basis of the limitations set out below. The matters raised in this Report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that may exist or all improvements that might be made. Any recommendations made for improvements should be assessed by you for their full impact before they are implemented.

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Deloitte LLP
Birmingham
January 2021

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Context

There is a growing trend towards local government reorganisation in England, with the creation of councils at greater scale. In addition, local government in South Warwickshire, as in the whole of the UK, is facing a number of significant financial and economic challenges. In particular the COVID-19 pandemic has led to huge economic and financial instability.

In this context, Stratford-on-Avon District Council and Warwick District Council are interested in exploring the option for merging the two councils to create a 'super-district' council. The two Councils have commissioned Deloitte to produce a high-level business case for a potential merger that outlines the benefits and risks of merging.

The strategic case for change

There are strong strategic reasons for merging the two Councils:

- Government policy appears to be encouraging councils to operate at greater scale, and super-districts have been encouraged by the Secretary of State for Housing, Communities and Local Government recently. Creating a super-district, therefore, fits with Government policy and thinking.

- A super-district would have a stronger strategic voice with stakeholders, be more able more easily to enter into partnership arrangements with other organisations, benefit from increased capacity and resilience with a larger pool of resources in all functional areas, deliver improved customer experience by delivering greater consistency of approach, and be a more effective employer by creating a structure that offers more career opportunities and greater appeal in the jobs market.

- The super-district would better reflect place. Travel to work data indicates that there is a single economic geography across South Warwickshire with a significant number of residents living in one district and working in the other. 5,248 residents commute from Warwick District area to Stratford District area and 5,881 residents commute from Stratford District area to Warwick District area.

- A super-district may be better placed to deal with some of the significant strategic issues facing South Warwickshire including the economy, housing and climate change.

- Both Councils face significant financial pressures and need to make savings. Merging the Councils provides the potential to improve the financial position and ensure that local government in South Warwickshire can continue to deliver and improve services for local communities.

- Merging the two Councils builds on a long-term strategic trend of significant collaboration between the two organisations. It also builds on strong foundations as there are similarities between the two Councils.

There is, therefore, a strong strategic case for change.

The financial case

Merging the two Councils could support local government in South Warwickshire to deal with the significant financial challenges it faces.

The imperative for resolving the financial challenges is to ensure that local government can continue to deliver or improve services for local communities. Making financial savings from creating efficiencies and removing duplication supports this goal.

In this context a financial assessment has been carried out of the potential costs and benefits. This has found a potential opportunity to generate annual net savings of £4.6m after Year 5. This saving represents a 3.9% reduction in the current combined gross expenditure of both Councils.

Savings have been identified from rationalising the executive teams and the number of Members of both Councils, and also making efficiencies from bringing services together through jointly commissioning contracts or removing duplication in staffing. There are clear opportunities in a variety of areas.

Costs will be incurred in delivering the transformation such as change costs and potential redundancy payments (although this would be minimised through natural turnover as far as possible).

Non-financial benefits

There would be significant non-financial benefits from merging the two Councils:

- The super-district would better reflect place and economic geography. It would represent a recognised place in South Warwickshire built around the towns and the key transport routes of the M40 and the Chiltern rail line. There is a consistent geography already established for the South Warwickshire Community Safety Partnership, the Shakespeare's England tourism organisation, and the South Warwickshire Health Partnership. Residents of the South have consistent needs and concerns around areas such as rural transport, traffic and congestion and affordable housing. The super-district could speak up for the interests of the place and the discrete local communities within it, creating a stronger, unified voice than currently exists, and ensuring the place's voice is heard at a strategic level. It would also maintain local political leadership and accountability which will enable engagement with residents and support local decision making.

- The super-district could support local government in South Warwickshire to deal with the significant economic challenges it faces by creating stronger services such as an aggregated planning function with one local plan that delivers for residents and business. Merging the Councils would also create a more powerful voice for the South Warwickshire economy that can work within and influence existing partnership organisations and structures such as the West Midlands Combined Authority (WMCA) and the Coventry and Warwickshire Local Enterprise Partnership. Within the WMCA, when Gross Value Added (GVA) is examined, the proposed South Warwickshire economy is the second biggest, second only to Birmingham.

- The super-district could improve service delivery across South Warwickshire through delivering economies of scale and making reinvestments in services to drive innovation. It could assess the variation in performance and cost of delivery of services across both Councils, and under a single management structure, deliver greater performance consistency by applying best practice and reducing variation. It could strengthen its managerial and senior leadership, as larger councils are more likely to be able to offer a better compensation package and varied career opportunities. There would also be the opportunity for the super-district to review areas where different services are provided by the two Councils and consider whether expanding services across the footprint may be advantageous. For example, the super-district may consider the future position on the Housing Revenue Account and associated housing service, and arts and culture service delivery.

Shared services or merging?

It must be noted that some of the financial and non-financial benefits identified above could also be delivered through a shared service arrangement between the two Councils, rather than a full merger.

However, there is a strong case that merging the two authorities would result in added benefits beyond a shared service arrangement:

- Only a merger could deliver the financial benefit from the democratic savings from, for example, reducing the number of Members. There are also likely to be further financial benefits from removing duplication through merging, including holding one Council meeting, producing one set of financial accounts and one budget, incurring one set of audit fees and holding one bank account.

- A full merger providers a greater likelihood of more savings being achieved from transforming services. It creates a greater cultural shift by creating one organisation, removing some of the politics around identifying which organisation benefits from savings under a shared service arrangement. The vision for the future can be simpler and more joined up, allowing greater impetus and greater delivery of savings.

- By contrast, a shared service or collaboration arrangement makes it less likely that benefits will be delivered. There are more likely to be variances in the policy positions and approaches from the two authorities which would create additional work, bureaucracy and cost.

Overall a full merger has greater potential to achieve both financial and non-financial benefits that result from economies of scale and a stronger strategic voice.

Risks and implementation

There are of course significant risks attached to any transformation programme of this magnitude. A risk analysis has been undertaken and some of the most significant are:

- The Government may not give assent to the merger proposal, which would mean that the Councils have to proceed in a different way;

- Lack of programme management and transformation capacity and capability to deliver effective transformation, creating effective single teams, managing interdependencies and delivering savings;

- Establishment of a larger local authority could lead to a 'democratic deficit' as a result of the reduction in the overall number of elected members. This could lead to diseconomies of scale as Members may not be able to respond to distinctive local needs and respect local identities within South Warwickshire; and

- Preparing for the transition may draw resource away from delivering other council strategies and plans, increase the risk of service disruption and reduce resilience of the existing Councils and new Council.

A strong implementation approach will be critical to mitigate these risks, which could easily turn into disbenefits if they are not managed effectively.

For example, lack of effective programme management and decision making could lead to lack of delivery of savings, which remove the benefits of proceeding and may even increase costs.

Therefore, when the Councils are choosing whether to proceed, they should consider whether the potential benefits outweigh the risks (and potential disbenefits).

Conclusion

This high-level business case has found a strong strategic, financial and operational case for merging the two Councils.

Such an initiative would have risks that could lead to disbenefits, but these risks could be managed through an effective implementation approach.

Should the two Councils decide to proceed with this initiative, substantial further planning and due diligence should be undertaken to establish a detailed implementation plan.

Introduction

Purpose of our report

There is a growing trend towards local government reorganisation in England, with the creation of councils of greater scale. In addition, local government in South Warwickshire, as in other parts of the UK is facing a number of significant financial and economic challenges. In particular the COVID-19 pandemic has led to huge economic and financial instability.

In this unprecedented context, Stratford-on-Avon District Council and Warwick District Council have agreed to explore greater collaboration, and in particular the option for merging the two councils to create a 'super-district' Council.

The two Councils have commissioned Deloitte to produce a high-level business case for a potential merger that outlines the benefits and risks of merging.

To produce this report the following activities have been undertaken:

- A review of the existing work undertaken on local government reorganisation in Warwickshire;
- Targeted workshops with the two Council Chief Executives, their deputies, and the S151 officers to collect views on merging;
- A high-level financial analysis of the financial benefits from merging by comparing budgets on a service by service basis and estimating potential savings;
- A comparison of the estimate of financial benefits to an estimate of the potential costs, thereby creating a payback period analysis; and
- Consideration of the risks and how the merger could be implemented.

Based on these activities, this report will outline:

- The Strategic Case for merging;
- The Financial Assessment outlining the costs and benefits of merging and potential payback period;
- An assessment of the non-financial benefits of merging;
- The risks of merging; and
- Implementation considerations.

Context – information about the two Councils

To provide some background and context, the table below summarises some comparative information about both councils:

	Stratford-on-Avon District Council	Warwick District Council	Total
Population	130,098	143,753	273,851
Electorate	104,569	112,857	217,426
Area (km2)	977.9	282.9	1,260.8
Councillors	36	44	80
Employees	323	533	856
Parishes	110	35	145
Council Tax (Band D) (£)	144.12	171.86	n/a
Taxbase (No. of Band D equivalents)	55,837	55,851	111,688
Net current General Fund expenditure (£m)	16.2	19.0	35.2

Please note that there are reasons for some of the differences in the table above. Although the Councils provide similar services, there are some differences.

The most notable of these is that Warwick has a Housing Revenue Account. This is an extra £21m of expenditure in addition to the General Fund and also accounts for 81 FTE posts. This accounts for some of the difference in staffing numbers between the two Councils in the table above. HRA expenditure is excluded from the financial assessment undertaken below.

In addition, Warwick runs an art gallery / museum facility and an entertainment centre; a crematorium / bereavement service, and the Council also runs a large number of parks and gardens across the three larger towns in the area.

Population

The population of the two Councils is further summarised in the table below:

Population by 20 year Bandings – Stratford-on-Avon District Council vs Warwick District Council

		0-19	20-39	40-59	60-79	80 +	Total
Stratford	**No.**	26,783	25,649	35,972	32,249	9,445	130,098
	%	20.6%	19.7%	27.6%	24.8%	7.3%	
Warwick	**No.**	31,283	41,105	36,857	26,611	7,897	143,753
	%	21.8%	28.6%	25.6%	18.5%	5.5%	

Stratford-on-Avon District Council has a more elderly population with 32% of residents aged over 60, compared to 24% in Warwick District Council.

Due in part to the large student population, Warwick has a much younger population with nearly 30% of residents aged 20-39, compared to around 20% in Stratford.

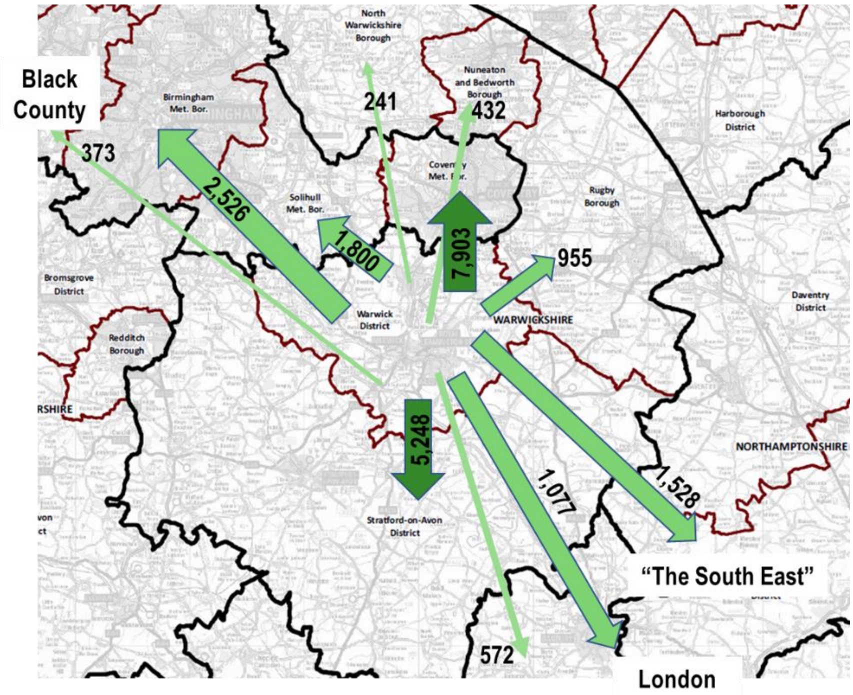
Travel to work data

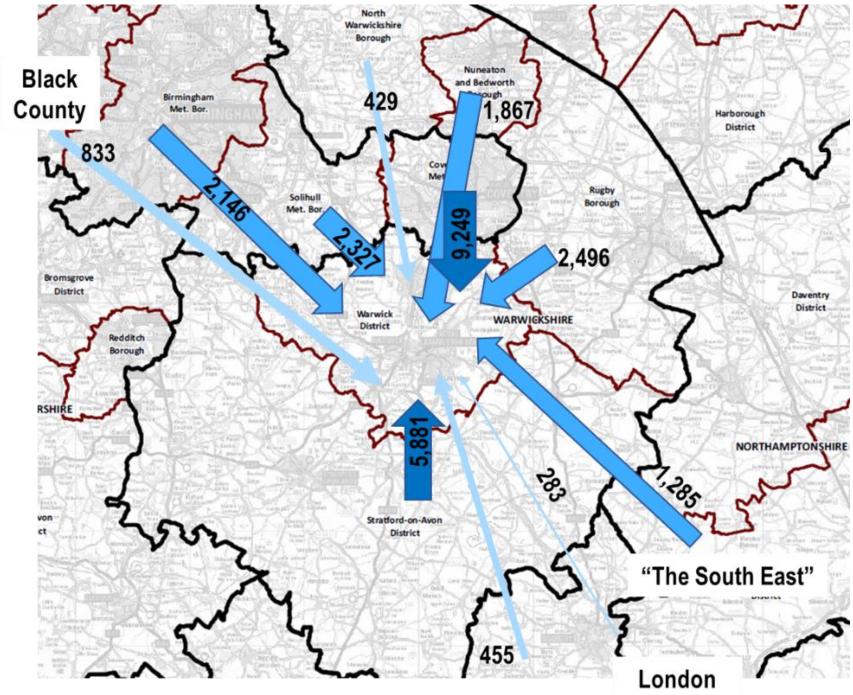
Travel to work data indicates that there is a single economic geography across South Warwickshire with a significant number of residents living in one district and working in the other.

5,248 residents commute from Warwick District area to Stratford District area and 5,881 residents commute from Stratford District area to Warwick District area.

These are the second highest flow numbers for Warwick District behind the flows to and from Coventry.

This is shown in the maps below.



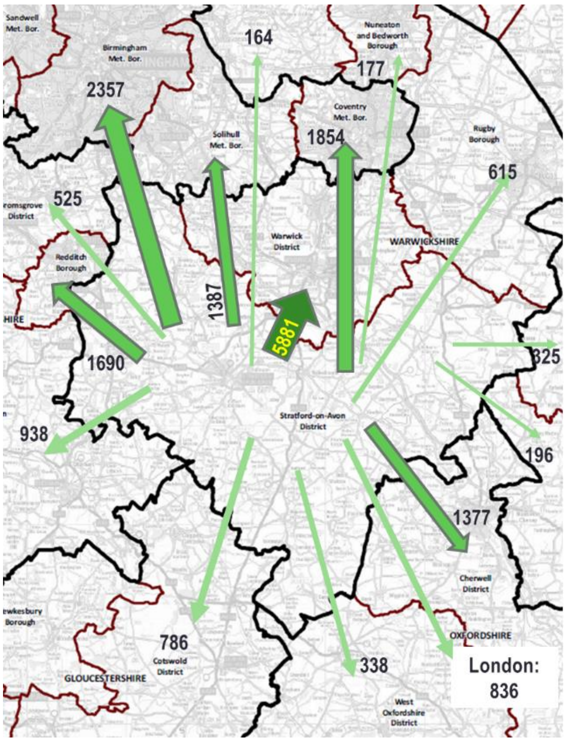


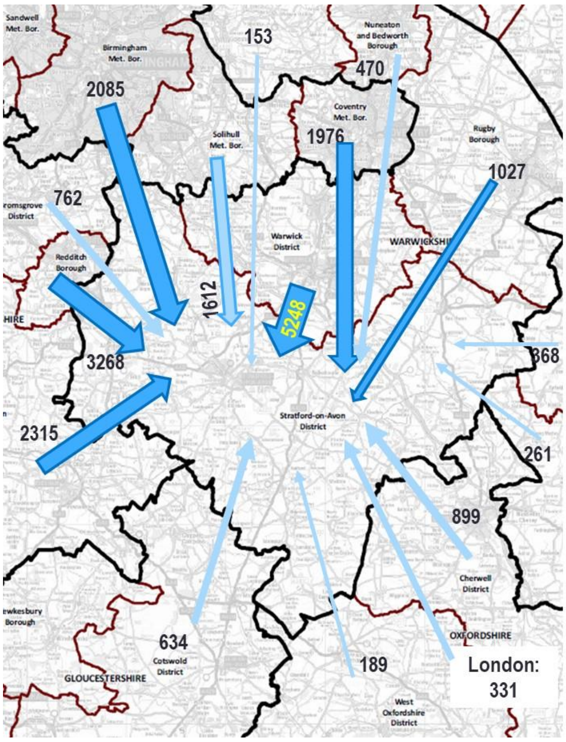
The maps below show the same commuting flows from the Stratford perspective.

5,881 residents commute from Stratford District area to Warwick District area. 5,248 residents commute from Warwick District area to Stratford District area.

These are the highest in-flow and out-flow numbers for Stratford District.

This is shown in the maps below.





The Strategic Case

This section of the report identifies the strategic context for the potential merger and outlines the strategic reasons for merging.

Government Policy

There is a growing trend towards local government reorganisation in England, and in particular the creation of councils that operate at a greater scale.

For example, several unitary councils have been created in Bedfordshire, Cheshire, Northumberland, Shropshire, Wiltshire, Cornwall, Dorset, Durham, Northamptonshire and Buckinghamshire.

Three super-district Councils have also been created in East Suffolk, West Suffolk, and Somerset West & Taunton.

Secretary of State for Housing, Communities and Local Government, Robert Jenrick, has indicated a possible intention to move towards reorganising local government into bigger structures. He recognised the positives of small scale structures bringing a sense of identity and strong community engagement, but commented that this was not the long-term future of local government:

> *'I appreciate the upheaval but I do think we need to move towards a model that provides better value for money for taxpayers, and you're able to look much more strategically at these challenges like housing and transport…I will certainly be encouraging local councils to move in that direction'* [1].

Subsequently Robert Jenrick's letter[2] to Conservative Councillors in England has demonstrated the government's desire to promote changes to the structure of local government.

This letter specifically mentioned "merging district councils", as a vehicle by which to "improve local service delivery, save taxpayers' money and improve local accountability". It was also made clear that it would be up to local areas to decide whether they do this and how to achieve this. The letter was sent in the context of the recession brought about by COVID-19.

The letter was also clear that 'it is up to local areas to decide on whether or not to reform their local structures.'

Therefore, there does appear to be a trend towards creating councils that operate at a greater scale. Merging two districts would be in line with this strategic direction of travel.

Strategic reasons for merging two councils and operating at scale

There is a strong strategic rationale for merging councils and creating a 'super-district'. Some of the key benefits are outlined in the table below:

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[1] https://www.room151.co.uk/funding/devolution-white-paper-announcement-accompanied-by-hint-on-unitary-push/

[2] "Local Government Reform & Joint Working", sent to Conservative councillors in England, 12 October 2020

Theme	Potential impact of merger
Enhanced Partnership working	A South Warwickshire local authority could pursue greater opportunities for integrated working in the wider public sector, due to the simplicity of a single democratic decision-making structure. Put simply, it is easier for one organisation to enter into partnerships than two who may disagree.
Strategic voice	• A super-district council could have a greater ability to speak with a louder voice on issues such as transport and planning and skills. • More specifically, a single super-district is likely to have a greater influence at a regional and national level with other bodies such as the Local Enterprise Partnership, County Council, Homes England and Central Government. It could have a louder voice among peers, investors and infrastructure providers (Highways England and National Rail). • A super-district could take a more strategic approach to areas such as external funding and communications. For example, a single integrated communications and marketing team could deliver campaigns more effectively on subjects that are universal across the existing council district areas, such as inward investment, litter, waste, council tax & benefits, getting online and community safety. • A super-district operating at greater scale would be able to do more on climate change by making bigger investments and setting policy at a greater scale.
Increased capacity and resilience	• A super-district would have a larger pool of resources in all functional areas, providing the ability to move work around when there are pressures in particular areas. This is particularly important in the light of the COVID-19 pandemic and the recovery period that will follow. • A super-district would also have greater capacity to undertake digitalisation and transformation activity – the lack of resources and capacity in this area is currently a barrier to driving through efficiencies and delivery improvements across service areas.
Improved customer experience	• A super-district would be able to offer greater consistency of approach, particularly for customers operating across different districts – for example, in planning, licensing and environmental health requests. • A super-district could take a coordinated approach to income generation opportunities across the region, providing clarity to customers.
Workforce	• A super-district could offer a greater level of career development and is more attractive in the job market. As a result, this allows the council to recruit and retain high calibre staff. This would help overcome difficulties in attracting and recruiting to specialist roles. In addition, small staff numbers in certain function areas can mean that capacity to respond is often impacted by factors such as long term absence and unusual service demand. • Increasingly, smaller local authorities have used external resources for support in specialist technical areas – for example, procurement advice. A super-district offers the possibility of employing specialist resources, if there is a recurring need for specialist resource, providing cost savings compared with external resources and advice. • A super-district would have a wider knowledge base which would exist in relation to highly specialist areas (such as contaminated land or air quality monitoring), as well as the potential to have a wider ranging skillset in house – such as town planners, transport planners, ecologists and urban designers. These are resources that are difficult to sustain at the existing district level.

Financial Position

Although local government in South Warwickshire has performed very well financially in the past, it is facing considerable financial challenges going forward.

Even before the COVID-19 pandemic hit, the financial context for local government was already challenging with reductions in government grants. The Local Government Association states that by 2020, local authorities will have faced a reduction to Government funding of nearly £16 billion from the preceding decade.[3]

This has been combined with a dramatic change in demography over the last decade in terms of an ageing population, growth in people with disabilities, and in a greatly increased school age population, all of which have had an impact on public service provision in terms of increasing costs. The twin challenges of reduced funding and rising demand driven by demographic change creates a significant financial challenge for all councils.

Local Government Association (LGA) analysis identified that council services face an additional funding requirement for their annual day-to-day spending of *'£13.2 billion by 2024/25, growing at a pace of over £2.6 billion each year on average. When compared to the assumed changes to council funding levels, this leads to a funding gap of £6.4 billion forming in the day-to-day council budgets in 2024/25 in comparison to 2019/20 budgets'*[4].

This predicted funding gap represents a huge challenge for local authorities in the next few years, to maintain council services under normal circumstances.

The unprecedented COVID-19 pandemic has also had significant impacts on local government finances in creating the need for additional expenditure and also resulting in loss of income.

In this context, the financial positions of both Councils are summarised in the boxes below:

Stratford-on-Avon District Council
Stratford-on-Avon District Council's most recent Medium Term Financial Plan (MTFP) covering a five year period was approved in February 2020. This shows a planned surplus for the years 2020/21 and 2021/22, a deficit forecasted from 2022/23 onwards, with a projected annual deficit of £3m at the end of the 5 year MTFP. The global COVID pandemic has caused an estimated deficit of £4m in 2020/21. This has brought the requirement to make savings forward, so that the Council has to make £4m of ongoing savings in 2021/22, or release sufficient reserves to off-set the anticipated deficit. The imperative is to make savings, as the release of one-off reserves simply postpones the need to make savings, and current reserve balances would be exhausted within 2 years.

[3] https://www.local.gov.uk/sites/default/files/documents/5.40_01_Finance%20publication_WEB_0.pdf
[4] https://www.local.gov.uk/sites/default/files/documents/Technical%20Document%202020.pdf

Warwick District Council

Warwick District Council's most recent MTFP was approved in August 2020. It highlighted that the budget would be balanced until FY 2020/21. From 2021/22, £3.2m (22.3% of total expenditure) would need to be saved to ensure a balanced budget, rising to £6.1m in 2022/23 (43.0% of total expenditure), before reducing to £5.3m in 2025/26, as shown in the table below. These are significant savings targets.

	2020/21 (£'000s)	2021/22 (£'000s)	2022/23 (£'000s)	2023/24 (£'000s)	2024/25 (£'000s)	2025/26 (£'000s)
Deficit - Savings Req(+) / Surplus (-) future years	0	3,190	6,139	5,701	5,355	5,306
Change on previous year		3,190	2,949	-438	-346	-49

Both Councils, therefore, have significant financial pressures and need to make savings in order to continue to deliver the same or better services.

Further, it is clear that the financial position for both Councils is going to get even harder given increased costs, reduced income from fees and charges, increased demand, and the impact from the pandemic.

In this context merging the Councils provides the potential to improve the financial position by:

- Making efficiency savings from areas of duplication and crossover between the two Councils, creating economies of scale;
- Jointly commissioning contracts, resulting in economies of scale;
- Rationalising property floor space based on removing duplication and the increased desire to work from home as a result of the COVID-19 pandemic;
- Allowing the review and harmonising of fees and charges schedules – potentially creating increased income; and
- Providing more opportunities for innovation as a result of being a larger organisation, given extra capacity and investment potential, in areas such as digital and technology.

These factors make it more likely that existing levels of service can be maintained.

Building on existing collaboration

There is also a strategic direction of travel towards greater collaboration between the two Councils, which the merger would build on.

Work has commenced in moving towards a shared management team. From the start of 2021/22, there will be five shared Heads of Services in place:

- Head of Neighbourhood / Community Services;
- Head of ICT;
- Head of Finance;
- Head of Revenues and Benefits / Customer Services, and
- Head of Assets.

Furthermore, conversations are underway between the authorities to agree sharing the Programme Director for Climate Change between the two Councils.

This highlights the progress the two local authorities are already making in closer working and collaboration.

Some of the other examples of collaboration include:

- A shared Information Governance Officer and shared business rates team;
- The two Councils have agreed to prepare a joint Local Plan;
- The two Councils have agreed to procure a joint waste contract;
- The Shakespeare's England partnership is a joint tourism venture for South Warwickshire. This is a not-for-profit membership organisation and a public private sector partnership supported by the region's key tourism businesses as well as Warwick District Council and Stratford-on-Avon District Council;
- On the community safety agenda the two Councils work together through the South Warwickshire Community Safety Partnership;
- On the health agenda the two Councils work together through the South Warwickshire Health And Wellbeing Delivery Group, with South Warwickshire considered as an individual place in the emerging Integrated Care System, built around South Warwickshire NHS Foundation Trust, and
- Other examples of joint working include the Community Assessment Impact Operational Group and Vulnerable Persons Assessment Group.

In addition, both Councils have similar approaches on some issues. Both councils have outsourced a number of services including refuse and recycling, street cleansing and grounds maintenance.

Given the similarities, and the record of collaboration, there is already a strong strategic direction of travel that merging would build upon.

Importance of the economy

The unexpected and unprecedented COVID-19 pandemic has led to significant economic instability. As a result of required lockdown measures to prevent increased spread of the virus, thousands of businesses have temporarily or permanently closed across many sectors, meaning unemployment rates have increased dramatically. Millions of workers have been assisted by government-supported job retention schemes.

In this context, promoting economic growth has to be a priority for local government in South Warwickshire.

There is a logical argument that a super-district may be more likely to be able to tackle these issues because of the ability to create a stronger voice within the major entities that focus on economic growth, such as the WMCA and the Coventry and Warwickshire Local Enterprise Partnership.

Having a stronger voice within these organisations that are focusing strategically on the major economy, skills and transport issues should support the needs of South Warwickshire as a place.

Creating the potential basis for a unitary council

There is a trend towards unitary local government in England, with several unitary authorities being created since 2009.

In line with this trend, Warwickshire County Council made a proposal to the Government to create a unitary local authority in Warwickshire in autumn 2020. This proposal has not been accepted at the current time.

There has been speculation that the Government’s White Paper (now expected in 2021) may further stimulate the drive towards unitary government. Local government must await the White Paper to clarify the Government’s intentions.

At the time of writing, the political enthusiasm for reorganisation of local government and the creation of more unitary authorities seems to have declined. The Secretary of State for Housing, Communities and Local Government’s letter mentioned above to Conservative councillors made clear that there is no requirement for unitary structures to be created at the current time.

However, it is always possible that creating unitaries will re-emerge as an agenda in the White Paper or beyond. If so, merging the two district councils to create a ‘super-district’ would lay the basis for a potential South Warwickshire unitary council that could provide an alternative solution to unitary local government in Warwickshire, instead of a single county unitary.

Merging the two Councils, therefore, helps to future-proof local government arrangements in South Warwickshire.

Conclusion

There is a strong strategic case for merging the two Councils because:

- It fits with Government policy and thinking in terms of local government operating at greater scale;
- A super-district would have a stronger strategic voice with stakeholders, be more able more easily to enter into partnership arrangements with other organisations, benefit from increased capacity and resilience with a larger pool of resources in all functional areas, deliver improved customer experience by delivering greater consistency of approach, particularly for customers operating across both districts, and be a more effective employer by creating a structure that offers more career opportunities and greater appeal in the jobs market;
- It could support local government in South Warwickshire to deal with the significant economic and financial challenges it faces, ensuring that local government can continue to deliver or improve services for local communities;
- A super-district may be better placed to deal with some of the significant strategic issues facing South Warwickshire including housing or climate change, and
- It builds on the current similarities and significant collaboration between the two organisations.

Financial Benefits

Summary

As part of the preparation of this report, a financial assessment has been undertaken of the potential savings and costs of merger.

The financial assessment indicates that creating a single council across Stratford-on-Avon and Warwick District Councils could deliver annual recurrent savings of £4.6m after five years.

This saving represents a 3.9% reduction in the current combined gross expenditure of both Councils.

Making savings of this kind can ensure that local government can continue to deliver or improve services for local communities.

This is shown in the table below.

The table identifies a prudent level of saving that could be achieved from the merger. However, the table does not include speculative savings which could be delivered from future transformation of service delivery. It would be for any new authority to establish the future vision of service delivery and priorities. Therefore, at this stage such unsubstantiated savings have not been included within the overall assessment of value for money.

Please note that rounding has been used to simplify the presentation. This means that there are areas where the addition may not precisely sum.

Please also note that the figures in this assessment are not adjusted for inflation.

Finally, the numbers within this assessment should be regarded as an estimate only. The actual savings will be driven by the detailed decisions made.

	Area	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
Costs (£'000s)	Change Costs	200	200	200	0	0
	Redundancy Costs	0	143	369	227	227
	Total Costs	**200**	**343**	**369**	**227**	**227**
Savings (£'000s)	Management Team savings	(305)	(611)	(611)	(611)	(611)
	Service Optimisation	(0)	(0)	(1,261)	(2,521)	(3,782)
	Democratic Savings	(0)	(0)	(0)	(172)	(172)
	Total Savings	**(305)**	**(611)**	**(1,872)**	**(3,304)**	**(4,565)**
Net Annual (Saving) / Cost		**(105)**	**(268)**	**(1,302)**	**(3,077)**	**(4,338)**

After five years, merging the two Councils could make annual recurrent savings of £4,565k[5].

[5]Redundancy costs are assumed as £0 after Year 5, therefore there would be no costs and all gross savings would be realised.

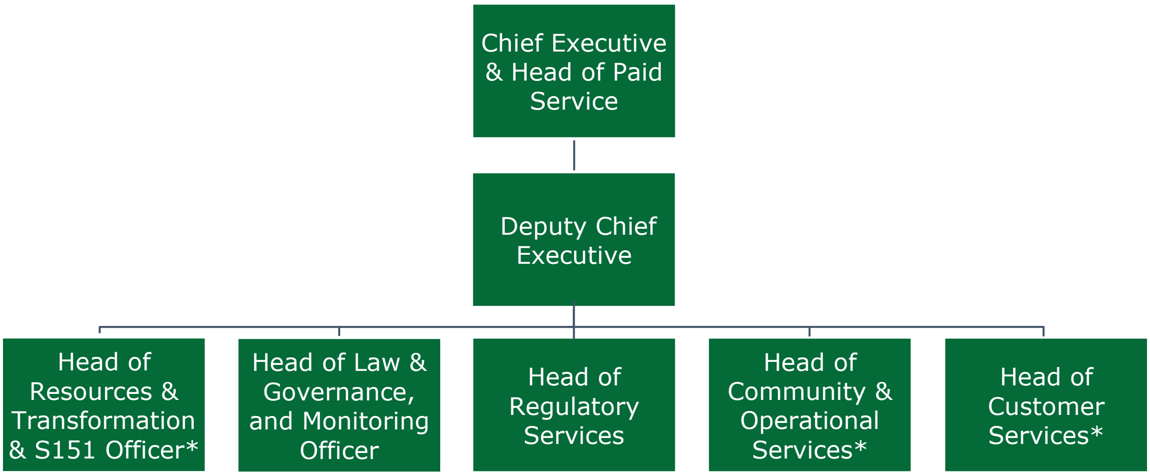
This model begins to make savings from Year 1, using the phasing assumptions made. It should be noted that some savings may be realised in later years, despite the change being made in Year 1.

Some further information is now provided on each of the areas considered.

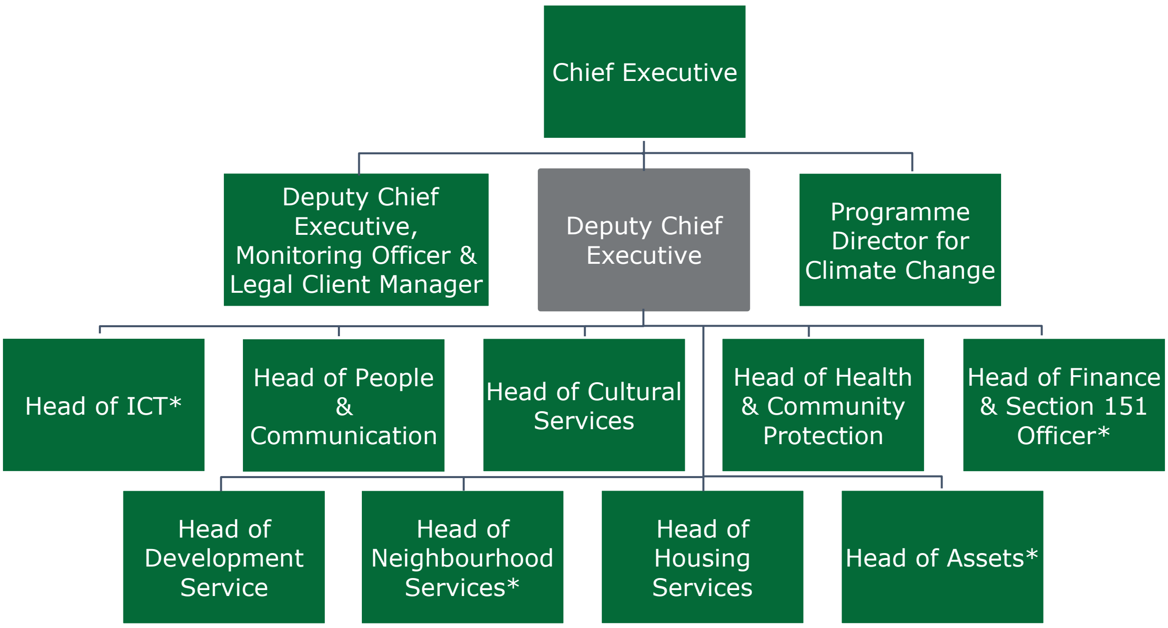
Management Team Savings

In merging the two Councils, there is an opportunity to rationalise the Management Team, reducing the number of posts. The below chart shows the Management Teams in place in the two Councils:

Stratford-on-Avon District Council



Warwick District Council



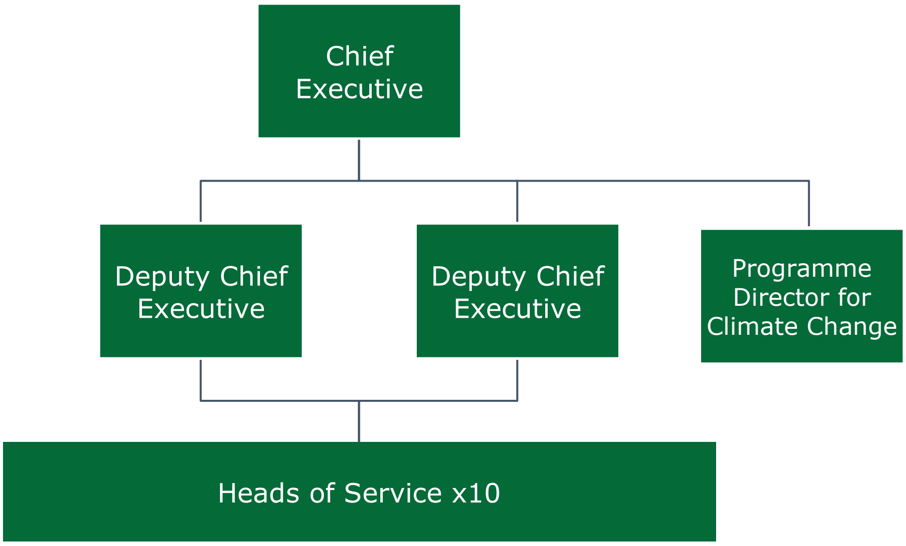
Please note the reduction of one Deputy Chief Executive post in Warwick (highlighted in grey in the diagram above) has already been proposed and is treated in a separate process. Any savings from this post have been excluded from the opportunity below.

It should also be noted that work has commenced in moving towards a shared management team. From the start of 2021/22, there will be five shared Heads of Services in place (Head of Neighbourhood / Community Services; Head of ICT; Head of Finance; Head of Revenues and Benefits / Customer Services, and Head of Assets). These shared posts are shown with an asterix next to them in the diagrams above (please note there are six shown in the diagrams as these are the structure charts before the sharing of the posts). Please also note that savings from these posts are still included in the analysis below.

Furthermore, conversations are underway between the authorities to agree sharing the Programme Director for Climate Change between the two Councils.

This highlights the progress the two local authorities are already making in closer working and collaboration, and sets the course for achieving the savings outlined below.

The optimal size for the future management structure of the super-district has been considered by reviewing the management structure of East Suffolk District Council, which is a similar size to the potential merged Council in South Warwickshire. Accordingly the structure below is proposed:



Using an average salary cost for the posts currently in place at both councils, the new structure above has been calculated to cost £1,255k (including on-costs).

This could, therefore, generate a potential saving of £611k, as set out below:

Council	**Current Management Team** (£'000s)	**New Management Team** (£'000s)	**Saving** (£'000s)
Stratford-on-Avon	686	1,255	611
Warwick	1,179		

The savings for rationalising the management team are assumed to take effect from Year 1, with total savings over the first five years of £2,749k.

Service Optimisation

Savings should be possible through bringing services together and optimising efficiency, using means such as:

- Reducing areas of duplication and crossover between the two Councils, creating economies of scale;
- Jointly commissioning contracts, resulting in economies of scale;
- Rationalising property floor space based on removing duplication and the increased desire to work from home as a result of the COVID pandemic;
- Providing an increased ability to invest to drive transformation with the efficiencies from economies of scale;
- Allowing the review and harmonisation of fees and charges schedules – potentially creating increased income; and
- Providing more opportunities for innovation as a result of being a larger organisation, given extra capacity and investment potential, in areas such as digital and technology.

To estimate the savings opportunity in these areas, a financial assessment has been completed. This used income and net expenditure data from both authorities.

An exercise was completed to extract this data for comparable and relevant services from both Councils.

Each Council's level of net expenditure on similar services was then compared.

This allowed the identification of service areas where services between the two councils were considered similar, but expenditure levels appeared different.

This highlighted areas of potential spend which could be reduced if one Council brought its costs down to the level of the other.

If there were clear and obvious reasons for differential spend, that service was excluded from the analysis. Every effort was made to only focus on comparable service areas.

Please note that where services are outsourced, outsourcing costs have been included. Net expenditure excludes transfer payment costs, capital charges, and Housing Revenue Account (HRA) recharges.

Using the expenditure for the comparable services, combined with population sizes for the two local authorities, the financial assessment identified the cost per head for each of the service areas, and identified the potential savings opportunity if the more expensive authority was to reduce its cost per head to:

(1) the average cost per head for the two authorities, or

(2) the lowest cost per head for the two authorities.

Using (1) and (2), the financial assessment identified a potential savings opportunity range against each service, based on the potential percentage reduction in expenditure for both Councils.

These potential saving opportunity ranges were then reviewed and adjusted based on local knowledge of the services from the Councils and the likely potential opportunity.

The saving ranges were also compared to previous Deloitte work on local authority mergers ("Sizing-Up: Local Government Mergers and Service Integration,"2011). This work indicated that by merging local authorities could reduce overall expenditure by 13.4%. This work also showed a potential savings range in individual services from 2% to 30%.

All of the potential savings identified below exist within this range and therefore appear reasonable.

The below table sets out the indicative opportunity ranges based on this exercise, and the associated financial savings using the midpoint of these ranges:

Savings opportunity - Council Data	**Indicative Opportunity Range**	**Expenditure Savings based on Opportunity Midpoint** (£'000s)	
Service Area		**Stratford**	**Warwick**
Policy	8%-16%	75	98
Property & Building Services	25%-25%	266	220
Parks & Open Spaces	10%-10%	56	96
Development Services	20%-25%	71	50
Revs & Bens	5%-9%	120	121
Licensing	7%-13%	9	11
CCTV	5%-10%	21	21
Environment	10%-10%	48	119
Social Inclusion	10%-10%	32	48
Housing	10%-20%	177	149
Parking	5%-11%	127	127
Waste	6%-12%	295	288
Street Cleaning	6%-12%	145	141
Democratic Core	3%-5%	27	25
ICT	7%-14%	145	137
Legal	12%-24%	66	97
Finance	10%-20%	147	206
Total		**1,827**	**1,955**

Please note, again, that rounding has been used to simplify the presentation. This means that there are areas where the addition may not precisely sum.

The total potential service optimisation savings for the two councils is £3,782k per annum, but the analysis has assumed some of the savings will not be achieved until Year 3, with part delivery in Years 3 and 4 due to the time required to merge the services and extract the opportunities.

It should be noted that the above analysis was undertaken as a high level review, and final achievable savings could vary. The analysis should be revisited on a regular basis to validate the savings opportunities, especially during implementation, to ensure they are realistic and viable.

Democratic Savings

Consolidating the Councils would be likely to result in efficiencies in democratic costs in areas such as having a single constitution, single governance structures and arrangements – for example, a single set of Cabinet meetings. These have not been costed here.

In addition, there may be a potential reduction in members. The Councils currently have a combined 80 councillors for a cost of £655k to cover member allowances and expenses.

Merging the two authorities will reduce the number of councillors needed as some of the district wards can be consolidated. Benchmarking the combined South Warwickshire population to other authorities, 80 councillors is significantly higher than the equivalent councils.

This Business Case sets out a reduction in the number of Members from 80 to 59 as a result of the merger, based on comparison to authorities such as East Suffolk.

Based on an average allowance per Member of £8,182 (across the two councils), this would result in a new Member service cost for South Warwickshire of £483k, a saving of £172k from the current cost.

<table>
<tr><th>Council</th><th>Current Members</th><th>Current Cost
(£'000s)</th><th>Cost per Member
(£'000s)</th><th>New Members</th><th>New Cost
(£'000s)</th><th>Saving
(£'000s)</th></tr>
<tr><td>Stratford</td><td>36</td><td>330</td><td rowspan="2">8</td><td rowspan="2">59</td><td rowspan="2">483</td><td rowspan="2">172</td></tr>
<tr><td>Warwick</td><td>44</td><td>325</td></tr>
<tr><td>Total</td><td>80</td><td>655</td><td></td><td></td><td></td><td></td></tr>
</table>

The analysis has assumed the savings from reducing member numbers will be achieved following the next election of councillors in 2023, with savings realised in Year 4 (2024/25).

The reduction in Members would have an impact on the ratio of Members to Electors. Currently, Stratford's ratio of Members to Electors is 1:2905 and Warwick's is 1:2565.

Moving towards the above model of 59 Members would increase this ratio to 1:3685 for across South Warwickshire.

It is true that moving towards a higher Member:Elector ratio potentially increases work for Members in future. However, it should also be remembered that as a result of this change a smaller proportion of Members may be involved in committee and executive roles, and so less time will be required on these aspects across all Members.

Redundancy Costs

To deliver the savings outlined above for both the management team rationalisation and from service optimisation, there will need to be a reduction in staff numbers. This could be achieved through natural attrition or the removal of vacancies, incurring zero costs to the Councils.

In 2019/20, the vacancy and staff turnover rates for each of the Councils were as outlined below, with the number of FTE posts this relates to. The vacancy rates in 2020/21 (April-December only) have been lower with lower staff turnover as well due to the COVID-19 pandemic.

Council	Vacancy Rate 2019/20	Equivalent FTE 2019/20	Turnover Rate 2019/20
Stratford	8%	17	13.8%
Warwick	17%	99	12.6%
Combined Average	**12.5%**	**116**	**13.2%**

If the vacancy and turnover rates for 2019/20 were replicated going forwards, the staff reductions identified above could be achieved through vacancy removals, resulting in no redundancy costs.

However, it may be unlikely that vacancies and turnover of staff will align precisely with the new structure. Therefore, assumptions around a number of redundancies required have been made in the tables below, with associated costs.

To calculate these costs, the analysis has used indicative redundancy package costs for the management team as set out in the tables below.

Management Team	Number of roles in New structure	Number of roles in Current structure	Reductions	Redundancies assumed	Average Redundancy Package (£'000s)	Redundancy Costs (£'000s)
Chief Executive	1	2	1	1	95	95
Corporate Director	3	3[7]	0	0		0
Heads of Service	10	14	4	2		190
Total	**13**	**20**	**5**	**3**		**285**

The analysis has also calculated costs for redundancies through the service optimisation programme of £680k. This was calculated using a notional pay and non-pay split of the £3,782k savings opportunity and the subsequent FTE reduction required to achieve the pay savings identified.

As a result, the analysis is estimating total potential redundancy costs of £965k, which have been profiled to be delivered in line with the below timeline, based on when savings are to be achieved:

Redundancy Profile		Y1	Y2	Y3	Y4	Y5	5 Year Total
Profile	Management Team	0%	50%	50%	0%	0%	100%
	Service Optimisation	0%	0%	33%	33%	33%	100%
Costs (£'000s)	Management Team	0	143	143	0	0	285
	Service Optimisation	0	0	227	227	227	680
Total		**0**	**143**	**369**	**227**	**227**	**965**

[7] The current structures have a combined 4x Deputy Chief Executive / Corporate Director roles, but 1 position has been excluded as it is already under a separate process of review for removal

Change Management Costs

Merging two local authorities will require some element of change management support to support and coordinate the process, as well as provide project management support for the delivery of savings.

Change management support is essential to help to realise savings and implement the efficiencies within each department.

The financial analysis has assumed a Project Manager and Project Support Officer will be required in change management roles to support and coordinate the delivery of the programme over a three year period.

Please note that implementation will not fall to these two individuals alone. It will be the responsibility of the leadership and management team of both Councils to drive forward the merger process and support their staff to create a new organisation. The effort required in this kind of wholesale cultural change should not be underestimated.

A further fund of £330k has been assumed for where the Councils may require external support or specific advice associated with the merger. This resource could also be used for specific costs arising such as creating a new corporate identity in the form of logos and branding.

In total, the analysis has assumed change management costs for the merger of £600k over a three year period as set out below:

Change Management Costs	
Number of Change Management staff required	2
Average Salary Costs (£'000s)	45
Estimated Annual Council Staff Cost (£'000s)	90
Estimated full cost over 3 years	270
External Support Fund	330
Total	**600**

Please note the average salary cost here is based on the typical cost of a change management professional.

Value for Money

It must be acknowledged that there are different ways of considering value for money, rather than just reducing base cost.

Reducing staff levels and rationalising services can lead to more stretched and less responsive services. It can also limit the potential for long-term transformation where the financial benefits may be far more significant.

Moreover, value for money needs to be provided for the council tax payer too.

Council Tax Harmonisation

In this regard the tricky issue of council tax harmonisation is particularly important.

The current discrepancy in Stratford and Warwick precepts is £27.74 (£144.12 and £171.86 respectively in 2020/2021). The Councils are currently both planning a £5 increase in precepts for 2021/22. Any changes to Council Tax to achieve harmonisation have been forecast to commence from 2022/23.

Members of a future merged Council would have a difficult choice to make.

Harmonising to the higher precept reduces income lost, but involves a significant council tax rise for Stratford-on-Avon residents, which represents poor value for money for the council taxpayer and would be politically difficult.

Harmonising to the lowest precept ensures Warwick residents would receive a council tax cut, and Stratford residents would receive no increase, but would lose a significant amount of money to local government in Warwickshire.

Harmonising to an average of the precepts in Stratford and Warwick as a compromise would involve some increase in council tax for Stratford residents, a cut for Warwick residents, but also forego some income.

Three possible options have been proposed:

1. Increase the Stratford precept by £5 per annum and freeze the Warwick precept until harmonisation is achieved between the two councils. Commencing in 2022/23, harmonisation would be achieved in 2027/28. This would result in loss of potential income of a total of £4.1m over a five year period by freezing the Warwick precept and not increasing it. This would represent a benefit to Warwick council tax payers as their council tax would not increase.

2. Undergo a two-stage harmonisation approach, by increasing the Stratford precept by £5 per annum for 2022/23 and 2023/24, while freezing the Warwick precept. This would be followed by a final increase in the Stratford precept in 2024/25 to the Warwick level following the creation of the new authority, achieving harmonisation. Commencing in 2022/23, harmonisation would be achieved in 2024/25. This would result in potential loss of income of a total of £2.4m over five years.

3. Harmonise to the weighted average of the precepts in Stratford and Warwick in 2024/25 when the new authority is formed. Before this, precepts for both Councils would be increased. There would be no change for tax payers in 2022/23 or 2023/24. In 2024/25 there would be an increase in council tax for Stratford and a decrease for Warwick council tax payers. This would result in a potential loss of income of £850k over five years.

In summary, merging councils either forgoes income that local government in Warwickshire could retain for services, or represents additional costs to the council taxpayer.

There is no easy way out of this difficult trade off and careful consideration is required. This will need to be a decision for Members to make.

Potential changes to the economy after the COVID-19 pandemic will also be relevant to these decisions. If housebuilding increases, and the current levels of council tax support reduce as the economy improves, these two factors should increase the tax base and could be helpful in therefore increasing income from council tax.

This exercise is clearly dependent on assumptions about what any future Council would choose to do.

Conclusion

The financial analysis that has been applied to identify potential savings from the merger of the Councils has set out a potential opportunity to generate net annual savings of £4.6m after Year 5.

Making savings of this kind can ensure that local government can continue to deliver or improve services for local communities.

The assumptions used in the analysis identify a prudent level of saving that could be achieved from the merger of the councils.

However, there are further opportunities for savings to be achieved from future transformation of service delivery. It would be for any new authority to establish the future vision of service delivery and priorities. Therefore, at this stage such unsubstantiated savings have not been included within the overall assessment of value for money.

Shared services or merging?

It must be noted that many of the savings identified above could also be delivered through a shared service arrangement between the two Councils, rather than a full merger.

However, there is a strong case that merging the two authorities would result in further financial savings.

First, only a merger could deliver the benefit from the democratic savings, including from reducing the number of members.

Second, there are likely to be further benefits from removing duplication, including producing one set of financial accounts, one budget, incurring one set of audit fees and holding one bank account. These are difficult to quantify at this stage but nonetheless still real.

Third, a full merger providers a greater likelihood of more savings being achieved from service optimisation. It creates a greater cultural shift by creating one organisation, removing some of the politics around identifying who benefits from savings under a shared service arrangement. The vision for the future can be simpler and more joined up, allowing greater delivery of savings.

On this basis we would assume that there would be a greater likelihood of achieving the top end of the savings ranges identified on p22 if the Councils were to merge.

Non-Financial Benefits

Community identity and effective local leadership

Any proposed model of local government should be reflective of the way people live their lives, including where they live and where they work. There is a coherent and recognised South Warwickshire place built around the towns and the key transport routes of the M40 and the Chiltern rail line. There is a single economic geography with a significant number of residents living in one district and working in the other. There is a consistent geography already established for the South Warwickshire Community Safety Partnership, the Shakespeare's England tourism organisation, and the South Warwickshire Health Partnership. Residents of the South have consistent needs and concerns around areas such as rural transport, traffic and congestion and affordable housing.

A super-district could speak up for the interests of this place and the discrete local communities within it, creating a stronger, unified voice than currently exists, ensuring the place's voice is heard at a strategic level. The super-district provides the opportunity for genuinely meaningful recognition and leadership of real places throughout local government structures.

A super-district can also provide local political leadership and accountability which will enable engagement with residents and support local decision making. It can promote the interests of the individual places and reflect the needs of the discrete local communities. The super-district can stay close to its communities, building a new set of relationships with individual communities at a local level, underpinned by visible and accountable leadership. It can support the action on the ground in communities that will prove to be truly transformational in securing improved outcomes.

For example, the Districts have already been discussing developing their relationship with parish councils with the Warwickshire Association of Local Councils. It should be noted that parish councils have different strengths and weaknesses and levels of capacity. Not all parish councils will want to or are ready to develop a new relationship. Where possible though, a super-district could take forward some of the following elements:

- The organisational structure could be focused on connection with local communities and their wellbeing rather than around 'old' departments which is the case currently. Ongoing liaison could be directed through one point of contact for parish and town councils going forward;

- A community governance review should be undertaken to understand the role of existing parishes and parish meetings, as some smaller ones may need to be considered for Joint Parish Councils;

- More effective governance training is required in some areas, similar to the joint training undertaken by Stratford-on-Avon, and further encouragement for individual councillors to undertake Continuing Professional Development (CPD) is recommended;

- A continuation of support to use the Quality Councils approach; strengthen Local Councils Agreement and retain the Parish Councils Champion role; and

- Building on the experience of work in Bishop's Tachbrook to develop Community Investment Packages for particular communities.

By working with and developing the local parish councils a super-district can preserve effective local leadership and local decision making and local democracy, and maintain the interests of the individual places.

The potential for improved service delivery

A super-district would have the potential to improve service delivery for several important reasons:

- As reflected in the financial assessment, a super-district could deliver economies of scale and make reinvestments in services, maintaining services at current levels for longer in a difficult financial environment;

- It could provide clearer representation between local government and other public bodies and a stronger voice, thereby creating better quality services that meet the needs of residents;

- The super-district may be able to assess the variation in performance and cost of delivery of services across both Councils, and under a single management structure, deliver greater performance consistency by applying best practice and reducing variation;

- It could strengthen the quality of its managerial leadership, as larger councils are more likely to be able to offer a better compensation package and varied career opportunities, with a wide range of duties, which may attract a larger pool of applicants; and

- There would be more opportunities for innovation in service delivery as a result of a larger organisation with bigger staff teams and more capacity and ability to invest in areas such as digital and technology.

There may be specific benefits to certain service areas. For example, the service areas of housing and planning could benefit.

South Warwickshire faces challenges in these areas. There is a clear housing market across the Southern area of Warwickshire covering the geographical areas of Stratford-on-Avon and Warwick District including Kenilworth, Leamington Spa and Alcester areas. Within this market, poor housing affordability is a major issue in some areas, with people on middle and low incomes struggling to afford any market housing, whether through ownership or private rented. For example:

> *'The average house in Stratford-on-Avon District is now £65,000 more expensive than the national average. The district has the worst affordability ratio in the county and is in the top 25% least affordable places outside of London. Since 2012, house prices in the area have increased 20%; only 5% less than the four years prior to the housing market crash in 2009, raising fears of housing bubble'.*[8]

Unfortunately the COVID-19 pandemic has made this worse. There will be an even greater need for affordable housing going forward – and the right tenures and types of affordable

[8]https://www.stratford.gov.uk/doc/207735/name/DECEMBER%20Stratford%20Industry%20and%20Economic%20Strategy%20FINAL.pdf p35

housing – across both Councils, which both have challenges regarding limited affordable or social accommodation.

A super-district could create a single planning function and a single aligned local plan, which could enhance and streamline housing growth. A single local plan provides a broader view of the infrastructure and housing need, setting a clear footprint for the area, whilst giving greater choice and options for those in need of housing. This could also result in reductions in the cost of producing such a plan.

A consolidated planning function means improvements in the management of major programmes, simplified business engagement, and increased talent retention (due to better progression opportunities in a larger team).

The development of the last Local Plans demonstrated that South Warwickshire was a useful construct. Warwick District area had several initiatives in common with Stratford around Gaydon and the south of Warwickshire (Warwick, Whitnash and Leamington and Bishop's Tachbrook) including infrastructure planning along the A46 and M40, and the impacts of housing proposals around Southam.

Back office services such as legal or internal audit could be brought together, or, if one model is considered to be superior, adopting that model across the whole council area.

Contracts could be commissioned by one council creating one service and the resulting economies of scale in areas such as leisure management. It has already been agreed by both councils to pursue a joint waste contract.

There would also be the potential to do more at scale on addressing climate change, an issue very important to both Councils, and one better addressed at scale where greater impact can be made in reducing carbon emissions.

The question of influence is also important. For example, the South Warwickshire council could work with South Warwickshire NHS Foundation Trust to open up the opportunity to better achieve place based integration of health and social care services. It is widely acknowledged that integration at a local place and neighbourhood level, built around primary care, is critical to good performance.

The super-district could be close to the voluntary sector and local communities, building community resilience and independence, and focusing on preventative solutions such as social prescribing, taking a whole population health approach to the health and social care needs of the population. This, again, is accepted best practice within NHS England's Long Term Plan. This model would overall deliver the King's Fund model of integration that the sub regional bodies want to achieve.

Creating the conditions for economic growth

A super-district could provide greater influence within the economic agenda, playing a bigger role in organisations such as the WMCA and the LEP.

The super-district should be able to create a strong unified voice in this area. The economy of the South of the county is fairly consistent, and is largely based on higher value industries, particularly in the fields of professional business services, computing and software, and high-value engineering and manufacturing. Tourism is a very important economic sector locally.

A super-district would create a more powerful voice for the South Warwickshire economy that can work within and influence existing partnership organisations and structures such as the WMCA and the Coventry and Warwickshire LEP. Within the WMCA, when Gross

Value Added (GVA) is examined, the proposed South Warwickshire economy is the second biggest, second only to Birmingham. This is shown in the table below.

Unitary	Gross GVA 2018	GVA change 2020	GVA change 2021 (projected)
South Warwickshire	9,413	-12%	9%
Birmingham	27,266	-10%	9%
Coventry	8,979	-12%	10%
Dudley	6,066	-10%	9%
Sandwell	6,729	-10%	8%
Solihull	7,529	-12%	9%
Walsall	5,742	-10%	8%
Wolverhampton	6,075	-10%	8%

As noted above, the economic challenges are significant. South Warwickshire faces particular economic difficulties due to the exposure to areas such as tourism, which have been decimated by the pandemic. Stratford-on-Avon has been identified as the fourth worst hit economy nationally due to COVID-19, due in the main to its exposure to the tourism and hospitality industry.

The super-district must stand up for these interests, and create local plans to meet these local needs, with real emphasis given to the local challenges, while working through the WMCA to focus strategically on major issues including transport, skills and Economic Development. This combination of activity should allow a more coordinated and strategic approach to the economy, supported by joined up planning, and this should have an impact on economic growth and productivity. The merged council would be well placed to provide better place leadership, also supporting travel to work patterns in the region, but also offer accountability and collective and collaborative local decision making across the South Warwickshire economic geographies.

A South Warwickshire council could retain its identity and maximise its ability to thrive through a more joined up strategic approach that tackles major issues including transport, planning and housing.

It is easy to envisage an approach that combines a South Warwickshire council with membership of WMCA, providing an ideal combination of strategic thinking on issues such as planning and transport, and local focus on the economy of place and the specific challenges that need to be faced.

Shared services or merging?

As with the financial benefits, it must be noted that many of the benefits identified above could also be delivered through a shared service or greater collaboration between the two Councils, rather than a full merger.

A shared service or collaboration arrangement also has the benefit of being more flexible, as the councils can select the services to be integrated, choosing those where they save money or improve the service. It also results in less disruption and cost of change.

However, a shared service or collaboration arrangement does make it less likely that the benefits identified above will be delivered. There are more likely to be variances in the policy positions and approaches from the two authorities which would create additional work, bureaucracy and cost.

A full merger has greater potential to achieve both financial and non-financial benefits that result from economies of scale and a stronger strategic voice.

Risks and disbenefits

Should the merger go ahead, the councils will need to anticipate and manage the inevitable risks.

Many of these are general risks associated with the delivery of large scale transformation programmes, and some are specifically associated with merging two councils, working across new geographies.

Some of the risks relating to local government mergers have been demonstrated in the table below.

Ratings have been included based on the likelihood of the risk arising and the severity of its impact should it materialise. 5 is the highest rating and 1 is the lowest. The severity and impact score have been multiplied together to give an overall risk score, before mitigations.

Mitigating actions have been outlined against each of the identified risks.

It is important to note that while the risks need to be considered carefully they are not intended to be a substitute for a detailed risk register.

Disbenefits

Perhaps most importantly, each of these risks could easily turn into disbenefits if they are not managed effectively.

For example, lack of effective programme management and decision making could lead to lack of delivery of savings, which remove the benefits of proceeding and may even increase costs.

Therefore, when the Councils are choosing whether to proceed, they should consider whether the potential benefits outweigh the risks (and potential disbenefits) in the table below.

Risk	Theme	Likelihood (1 to 5)	Impact (1 to 5)	Risk score (1 to 25)	Mitigation
Establishment of a larger local authority could lead to a 'democratic deficit' as a result of the reduction in the overall number of elected members.	Reorganisation	2	3	6	• Establish arrangements to help elected members encourage community participation in decision making. • Exploit the opportunities that modern technology offers to increase engagement between residents and elected members.
A bigger council may result in diseconomies of scale and risk long term sustainability of local government.	Reorganisation	2	3	6	Any changes to services should be carefully assessed and the right scale for all services should be found. Services do not have to be delivered at the super-district level if they are better delivered more locally. Economies of scale should only be made when suitable.
The Government may not give assent to the merger proposal.	Reorganisation	2	4	8	• Build a strong business case showing clear financial and non-financial benefits. • Continue to build a strong record of collaboration between the two Councils, strengthening the rationale for merging. • Consult the public and show the results of this consultation.
The larger the council the greater the risk the council may not be able to respond to distinctive local needs in its delivery of services.	Reorganisation	4	3	12	• Establish arrangements to help elected members encourage community participation in decision making. • Exploit the opportunities that modern technology offers to increase engagement between residents and elected members.
Lack of programme management and transformation capacity and capability to deliver the merger and transformation around the same time.	Large scale transformation	3	3	9	• Transformational funding will be required to fund additional Council Staff posts to manage the change. • A phased approach where the merger is implemented first along with robust change management processes before wider large scale transformation takes place will help ensure there is sufficient change management capacity

					• Where appropriate buy in the skills and capacity needed. • Ensure timescales are realistic based on the resources available. • Implement a robust Programme Management Office (PMO) to track and monitor delivery of the programme, realisation of benefits (with measurable targets), risk management, member engagement, governance and reporting.
Newly formed teams and organisational cultures are not integrated which may lead to staff issues such as reduced morale and increased staff turnover.	Reorganisation	3	4	12	• A communications strategy and plan should be produced explaining the transition process and the operating principles of the new authority. • Identify opportunities to create capacity through new staffing models. • Maximise the opportunities afforded by workforce agility, technology and partnership working with other public sector agencies. • Senior leadership should model the new behaviours and actively manage culture change during the transition. • Embed new ways of working into performance management and reward systems. • Identify staff change champions.
Anticipated savings are not achieved and/or transition costs exceed estimates which may impact on the financial resilience of the new council.	Large scale transformation	3	4	12	• Development of a clear approach to benefits realisation and establishment of appropriate monitoring arrangements through a programme management office. • Develop thorough and realistic cost and savings plans based on independent estimates. Use scenarios to stress test best and worst case outcomes. • Undertake regular reviews of the savings profiles and calculations during implementation to ensure they remain realistic and achievable.
Failure to effectively manage interdependencies between transformation activities may lead to increased cost of delivery and / or implementation delays.	Large scale transformation	3	4	12	• Establishment of a programme management office. • Development of a detailed implementation plan. • Implement a robust change management process.

The complexity of IT integration may undermine and put at risk the potential benefits of common working practices gained from IT integration.	Reorganisation	2	4	8	• The future IT architecture will need to be defined and the current position baseline understood. • A clear plan for migrating IT systems during the migration. • Be realistic about the pace of integration - it will take several years and a lot of investment.
Preparing for the transition may draw resource away from delivering other council strategies and plans, increase the risk of service disruption and reduce resilience of the existing and new councils.	Large scale transformation	4	4	16	• It is suggested that the Councils embark on a phased approach by firstly building shared services and then merging. • Test resilience to ensure crisis systems, risk capacity and risk management systems are in place. • Establish a clear split between those working on the merger and those running the operational business and bring in additional resources where there are capacity and skills gaps.
The Grading Review as part of this process may result in potential extra costs due to some posts being uplifted and others being protected. This may compromise the delivery of savings.	Reorganisation	3	3	9	• Review potential savings on a continual basis through the implementation phase. • Design future structures of joint teams to remain within allocated budget including potential implications of grading review.
If staff leave during the transformation process, and before efficiencies are realised, then the retained workforce will be insufficient to delivery services	Reorganisation	1	5	5	• Ensure service transition models are staggered so that there is sufficient staff to establish new processes and support the new organisation to manage the loss of knowledge and experience • Once new processes are established, consider efficiencies and potential redundancies
Implementation of a major change may be seen as a capacity risk at a time when there will also be a major focus on COVID-19 recovery activities.	Large scale transformation	4	3	12	• Set out clear timescales and resource implications for implementation, and ensure these can be met under the current ways of working and COVID-19 pressures (including any backlog of work due to the pandemic). • Review capacity against the timescales and resource requirements, and identify gaps where recruitment / external support is required.

The process of agreeing a new service design could lead to a service that is not ideal for either predecessor.	Large scale transformation	3	4	12	• Any changes to services should be carefully assessed and the right scale for all services should be found. Services do not have to be delivered at the super-district level if they are better delivered more locally. • Ensure the implementation plan allows enough time for services to be co-designed and agreed upon.
Changes in leadership can impact negatively on the appetite for shared services and joint working.	Large scale transformation	2	4	8	• A communications strategy and plan should be produced explaining the transition process and the operating principles of the new authority. • Identify staff champions. • Senior leadership should model the new behaviours and actively manage culture change during the transition.

Implementation considerations

The importance of a robust approach

With a transformation programme as ambitious and complex as this, it is imperative that it is adequately planned and resourced. When delivering ambitious programmes there needs to be an element of realism in terms of what can be achieved with the available resource and time. A lack of resource and capabilities is one of the most common reasons why organisational change fails. Implementing change, which is then tested, refined and reinforced, is often more expensive and takes longer than people realise. It is, therefore, paramount that sufficient resource is dedicated, including programme management and transformation capacity, to ensure effective implementation. If programmes are not planned and resourced adequately then there is a risk the full benefits will not be achieved.

In this regard, a specific budget to support and coordinate implementation has been included in the financial assessment above for two key project manager roles. However, it should be noted that implementation will not fall to these two individuals alone. It will be the responsibility of the leadership and management team of both Councils to drive forward the merger process and support their staff to create a new organisation. The effort required in this kind of wholesale cultural change should not be underestimated.

In order to ensure the smooth transition the Councils should consider the key issues for implementation and overall approach.

The two authorities are building on a strong foundation. They have already commenced closer working and are taking steps to move towards merging the organisations. For example, the senior teams of both Councils have commenced drafting of joint procedures to bring together their approaches to redundancy and redeployment. Further, as mentioned previously, work is underway to review and consolidate the senior team structures to remove duplication of roles.

Implementation plan

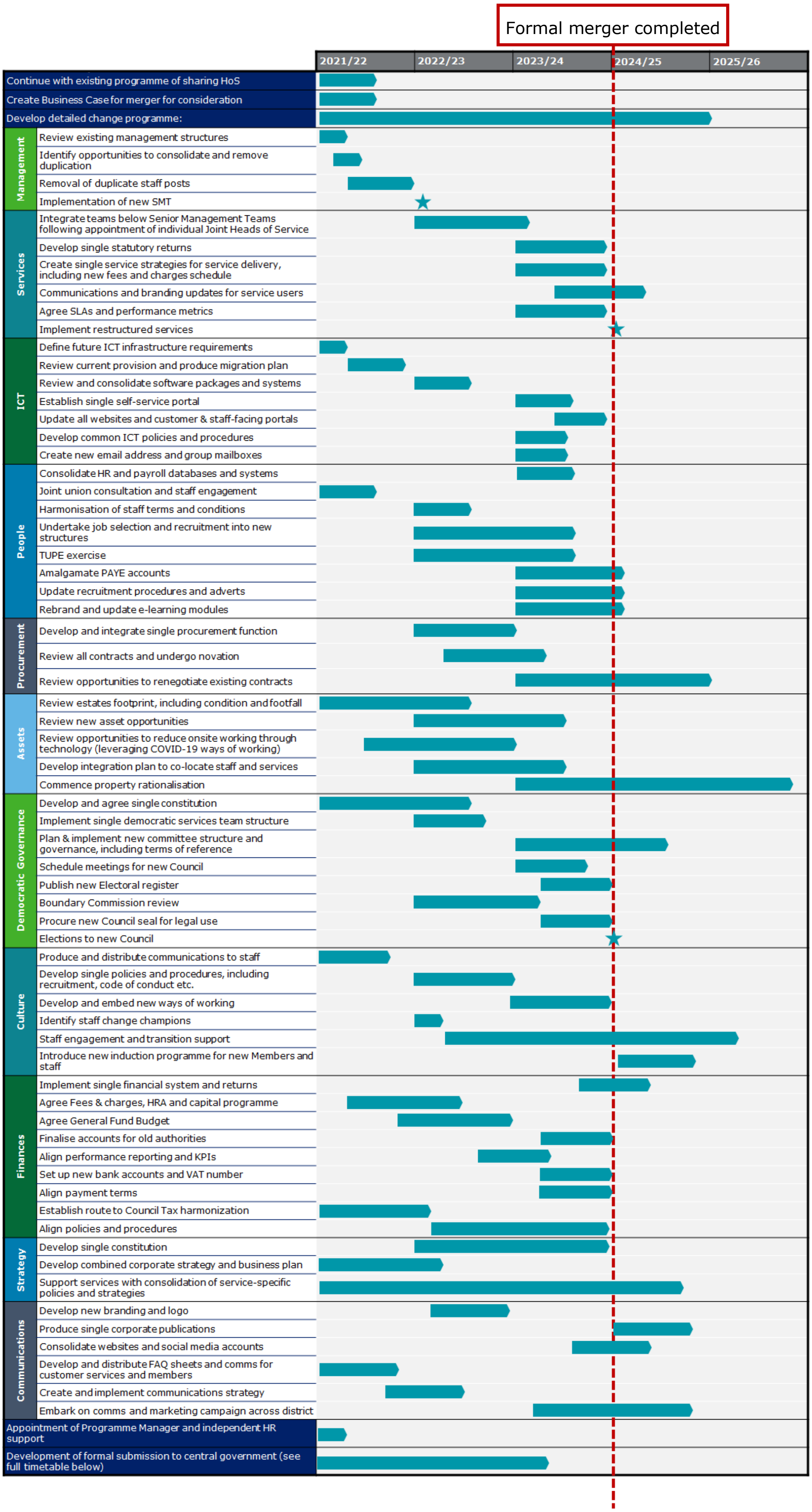
The diagram below outlines a high level implementation plan for the establishment of a super-district.

This outlines 11 proposed workstreams.

The implementation plan sets out some of the core activities required in these workstreams to move towards closer working and an eventual merger.

In terms of governance, the Heads of Service would lead the workstreams, with the Leader, Deputy Leader, Chief Executives and Deputy Chief Executives forming a governance board to oversee delivery.

The timescales below are indicative and subject to change as the Councils progress the business case through to formal approval.


Formal merger completed
2021/22
2022/23
2023/24
2024/25
2025/26
Continue with existing programme of sharing HoS
Create Business Case for merger for consideration
Develop detailed change programme:
Management
Review existing management structures
Identify opportunities to consolidate and remove duplication
Removal of duplicate staff posts
Implementation of new SMT
Services
Integrate teams below Senior Management Teams following appointment of individual Joint Heads of Service
Develop single statutory returns
Create single service strategies for service delivery, including new fees and charges schedule
Communications and branding updates for service users
Agree SLAs and performance metrics
Implement restructured services
ICT
Define future ICT infrastructure requirements
Review current provision and produce migration plan
Review and consolidate software packages and systems
Establish single self-service portal
Update all websites and customer & staff-facing portals
Develop common ICT policies and procedures
Create new email address and group mailboxes
People
Consolidate HR and payroll databases and systems
Joint union consultation and staff engagement
Harmonisation of staff terms and conditions
Undertake job selection and recruitment into new structures
TUPE exercise
Amalgamate PAYE accounts
Update recruitment procedures and adverts
Rebrand and update e-learning modules
Procurement
Develop and integrate single procurement function
Review all contracts and undergo novation
Review opportunities to renegotiate existing contracts
Assets
Review estates footprint, including condition and footfall
Review new asset opportunities
Review opportunities to reduce onsite working through technology (leveraging COVID-19 ways of working)
Develop integration plan to co-locate staff and services
Commence property rationalisation
Democratic Governance
Develop and agree single constitution
Implement single democratic services team structure
Plan & implement new committee structure and governance, including terms of reference
Schedule meetings for new Council
Publish new Electoral register
Boundary Commission review
Procure new Council seal for legal use
Elections to new Council
Culture
Produce and distribute communications to staff
Develop single policies and procedures, including recruitment, code of conduct etc.
Develop and embed new ways of working
Identify staff change champions
Staff engagement and transition support
Introduce new induction programme for new Members and staff
Finances
Implement single financial system and returns
Agree Fees & charges, HRA and capital programme
Agree General Fund Budget
Finalise accounts for old authorities
Align performance reporting and KPIs
Set up new bank accounts and VAT number
Align payment terms
Establish route to Council Tax harmonization
Align policies and procedures
Strategy
Develop single constitution
Develop combined corporate strategy and business plan
Support services with consolidation of service-specific policies and strategies
Communications
Develop new branding and logo
Produce single corporate publications
Consolidate websites and social media accounts
Develop and distribute FAQ sheets and comms for customer services and members
Create and implement communications strategy
Embark on comms and marketing campaign across district
Appointment of Programme Manager and independent HR support
Development of formal submission to central government (see full timetable below)

A brief overview of the 11 indicative workstreams which could form the implementation programme is provided below.

Management

This work stream would establish the management team and structure required under the new authority.

Services

This work stream would develop customer service strategies and focus on front line delivery, ensuring there is seamless transition to the new council for customers and that ambitions for performance standards are met. As part of this, the workstream will integrate teams below SMT once Heads of Service have been consolidated across the councils.

To develop and implement combined services, the authorities will need to work on creating consolidated strategies for service delivery and implement the service efficiency opportunities identified in the Financial Case as a result of combined service offerings.

ICT

This work stream would look at the key assets and enablers that the future council would need in order to deliver services effectively. The future technology architecture would need to be designed to support the transition to a new operating model and there would need to be a clear understanding of the phasing and pace of technology change required.

Further work is required to review and consolidate systems, software and online portals to remove duplication and align under a single entity.

People

This work stream would identify activities required to support the transition of staff to a new model of operation as defined by the organisational structures for the new council and their working practices. Time will be required for extensive consultation with staff. Staff need to be kept informed and decisions on their individual futures communicated as soon as possible. The work stream will also require updates and consolidation of HR procedures and policies, as well as producing a new training and development programme for all staff.

Procurement

To leverage the new scale and size of the authority, this work stream will look to create a joint procurement function across the two authorities, prior to consolidation under the new merged council. As part of this, the procurement service will also review all existing contracts, applying novation where necessary, but also identifying opportunities to renegotiate contracts where efficiencies and benefits can be delivered as a result of economies of scale.

Assets

This work stream would identify options to reduce and consolidate assets owned by both authorities to deliver cost efficiencies. Decisions would also need to be taken about the physical locations that the new council would occupy. This could involve investment but is likely to be offset by savings made from surplus elsewhere. This will need to take account of post COVID-19 working patterns and the anticipated greater levels of working from home.

Democratic Governance

Moving towards a new merged council will require a review of corporate governance arrangements and the implementation of new committee structures. This work stream will support this, as well as the development of a single constitution, democratic services team, and new governance structure.

Further work will also focus on combining the electoral services of both authorities and the reduction in democratic members as outlined in the Financial Case. This will require a Boundary Commission review to identify where councillor seats can be combined, with the final step in this workstream focused on the elections to the new Council in 2024/25.

Culture

The new council would need to consider what kind of culture they want to develop, as well as the initiatives they would put in place to support staff and the pay/salary structures. This will require a significant communications campaign to engage staff, develop single policies and procedures, and implement new ways of working.

Finances

A key task will be to establish the budget requirement, the council tax requirement and the Band D council tax for the year restructuring comes into effect. As outlined in the Financial Case, there will need to be careful planning and consultation required around the council tax harmonisation.

This work stream will also complete the consolidation of various financial instruments and policies, including the Fees and Charges schedule, financial reporting and KPIs, bank accounts, and VAT numbers.

This workstream may also need to look at the pension schemes of both Councils and how these transition to the new local authority, in particular, what is done around contribution rates.

Strategy

The creation of a new council will require the development of a single corporate strategy and business plan in the run up to, and after, the new single authority is created. All services and back office functions will also need to develop or consolidate existing policies and strategies to go live in 2024/25.

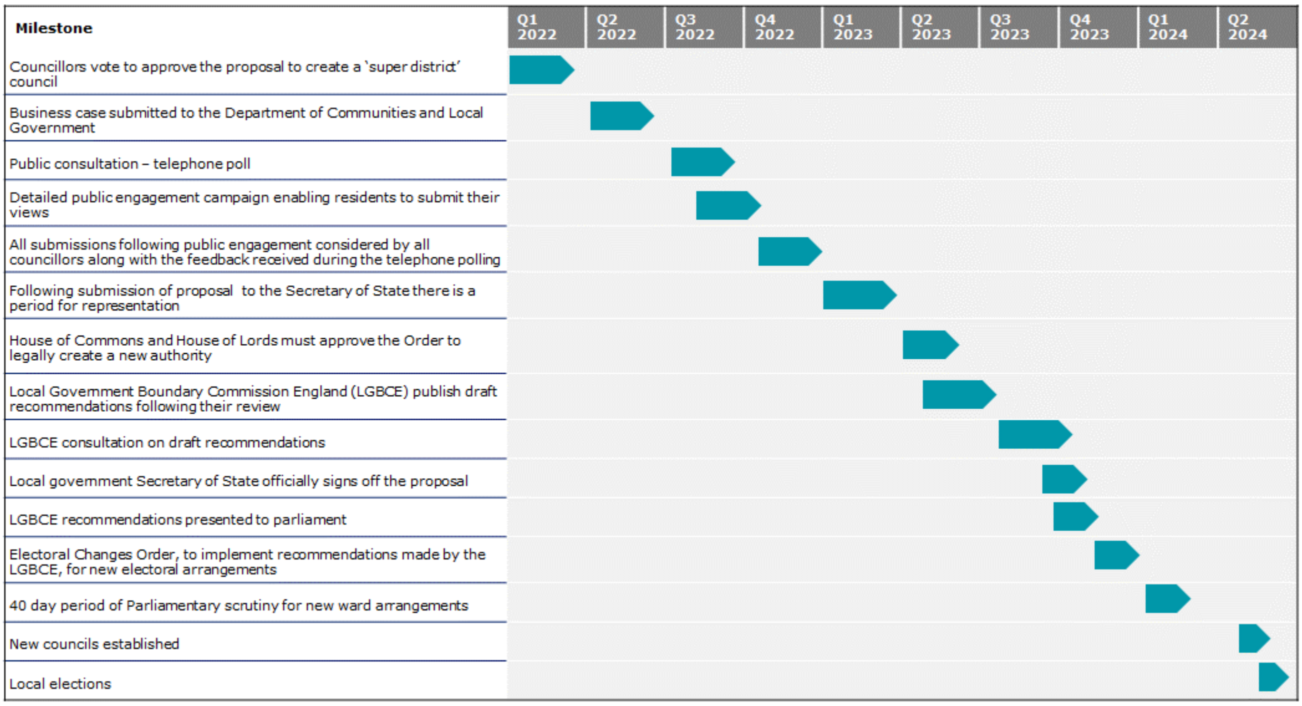
Communications

A significant work stream, this will focus on ensuring there is a plan for all stages of the implementation, appropriate for all audiences, to make sure everyone is well informed at the same time. This will include engagement with Members, Staff and the public to discuss the impacts of integration, timescales and what to expect once the new authority is established.

There will also need to be a programme of work to create a new corporate identity in the form of logos, branding, new websites and social media accounts for the new single authority.

Secretary of State Approval

Alongside the above workstreams, there is a formal process that will be required to undertake to gain Secretary of State approval to form a new super-district council. The timeline below is indicative of this process, with key actions required from the start of 2022 in order to meet the timescales for completion in 2024.



Conclusion

This high-level business case has demonstrated that there is a strong strategic, economic, financial and operational case for the merging of the two Councils for the following reasons:

- Government policy appears to be encouraging councils to operate at greater scale, and super-districts have been encouraged by the Secretary of State for Housing, Communities and Local Government recently. Creating a super-district, therefore, fits with Government policy and thinking.

- A super-district would have a stronger strategic voice with stakeholders, be more able more easily to enter into partnership arrangements with other organisations, benefit from increased capacity and resilience with a larger pool of resources in all functional areas, deliver improved customer experience by delivering greater consistency of approach, particularly for customers operating across both districts, and be a more effective employer by creating a structure that offers more career opportunities and greater appeal in the jobs market.

- Merging the two Councils builds on a long-term strategic trend of significant collaboration between the two organisations. It also builds on strong foundations as there are similarities between the two Councils.

- A super-district may be better placed to deal with some of the significant strategic issues facing South Warwickshire including the economy, housing or climate change.

- Both Councils face significant financial pressures and need to make savings; merging the councils provides the potential to improve the financial position and ensure that local government can continue to deliver or improve services for local communities.

- A financial assessment has been carried out of the potential costs and benefits. This has found a potential opportunity to generate annual net savings of £4.6m after Year 5.

- The super-district could speak up for the interests of the place and the discrete local communities within it, creating a stronger, unified voice than currently exists, ensuring the place’s voice is heard at a strategic level.

- It could support local government in South Warwickshire to deal with the significant economic challenges it faces by creating stronger services such as an aggregated planning function with one local plan that delivers for residents and business. Merging the Councils would also create a more powerful voice for the South Warwickshire economy that can work within and influence existing partnership organisations and structures such as the WMCA and the Coventry and Warwickshire LEP. Within the WMCA, when GVA is examined, the proposed South Warwickshire economy is the second biggest, second only to Birmingham.

- The super-district could improve service delivery across South Warwickshire through delivering economies of scale and making reinvestments in services to drive innovation, assessing the variation in performance and cost of delivery of services across both Councils, and under a single management structure, delivering greater performance consistency by applying best practice and reducing variation, strengthening its managerial leadership, as larger councils are more likely to be able to offer a better compensation package and varied career opportunities.

There are of course significant risks attached to any transformation programme of this magnitude. A risk analysis has been undertaken and some of the most significant are:

- The Government may not give assent to the merger proposal, which would mean that the Councils have to proceed in a different way;
- Lack of programme management and transformation capacity and capability to deliver effective implementation and transformation, creating effective single teams, managing interdependencies and delivering savings;
- Establishment of a larger local authority could lead to a 'democratic deficit' as a result of the reduction in the overall number of elected members, result in diseconomies of scale and may not be able to respond to distinctive local needs and respect local identities within South Warwickshire;
- Preparing for the transition may draw resource away from delivering other council strategies and plans, increase the risk of service disruption and reduce resilience of the existing Councils and new Council, this is especially important during the COVID-19 recovery period; and
- There is a risk staff leave during the implementation period due to uncertainties caused by the process and the retained workforce will be insufficient to deliver services and transformation.

These risks could easily turn into disbenefits if they are not managed effectively.

For example, lack of effective programme management and decision making could lead to lack of delivery of savings, which remove the benefits of proceeding and may even increase costs.

Therefore, when the Councils are choosing whether to proceed, they should consider whether the potential benefits outweigh the risks (and potential disbenefits).

Conclusion

This high-level business case has found a strong strategic, financial and operational case for merging the two Councils.

Such an initiative would have risks, but these risks could be managed through an effective implementation approach.

Should the two Councils decide to proceed with this initiative, substantial further planning and due diligence should be undertaken, with a detailed implementation plan established.