



Llywodraeth Cymru
Welsh Government

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Invitation to Principal Local Authorities in Wales to submit proposals for voluntary merger

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1. INTRODUCTION

In Wales, we place great value on our public services and we expect them to be there for us when we need them. However, Wales and its public services are facing complex and unprecedented challenges, particularly the increasing demand for services at a time when we face continuing downward pressure on the budgets which support them. Recognising these challenges, in May 2013, the Welsh Government set up the Commission on Public Service Governance and Delivery to undertake a comprehensive review of public services in Wales. The Commission collected, analysed and considered extensive evidence from a range of devolved and non-devolved public services including Local Authorities, the NHS, and the Police and Crime Commissioners and police forces. It also gathered evidence from stakeholders such as the Welsh Government's statutory partners in the third sector and business.

The Commission produced a detailed and authoritative report, which provides us with compelling evidence of the scale of the inescapable challenges facing public services. In response, it set out the case for a radical and comprehensive programme of public service reform to address these challenges and improve public services in Wales. In particular, it recommended a reduction in the number of Local Authorities through a programme of mergers, and presented a number of options for doing so. However, their recommendations are far more wide-ranging and extend to all parts of public services and all aspects, from leadership and performance management to capacity and capability. It is in this context the Commission's recommendations relating to Local Authority mergers should be considered. Structural change is not an end in itself; the aim is to deliver better services to the people of Wales. We all want our children to be able to benefit from the valuable and unique contribution which Local Authorities make to Wales' communities. The status quo is not an option and attachment to existing structures and boundaries is not an argument to maintain it.

The Welsh Government accepts the Commission's diagnosis and we are clear about the need for fundamental change to address these challenges and for the service and organisational transformation on which success will depend.

We have already published two significant responses to the Commission's findings. *Devolution, Democracy and Delivery: Improving Public Services in Wales* sets out our response to the broad range of the Commission's recommendations, and the White Paper, *Devolution, Democracy and Delivery: Reforming Local Government* contains our specific proposals about Local Government, the nature of the reform needed and the form it will take¹.

Both papers set out our preferred current option, from those set out in the Commission's Report, for a series of Local Authority mergers which would result in 12 Local Authorities (the Commission's 'Option 1').

¹ (<http://wales.gov.uk/topics/improving-services/devolution-democracy-delivery/?lang=en>).

In *Reforming Local Government* White Paper, we also note there is insufficient time before the next elections to the National Assembly for Wales in 2016, to legislate for all of these mergers and reforms. We will, therefore, bring forward a Draft Bill in Autumn 2015 for consultation. Full implementation and further legislation will be a matter for the new Government after May 2016 and the Assembly which is returned at those elections.

However, we agree with the Commission's recommendation, we should support and incentivise those Authorities who wish to begin a voluntary process of merger, and in 'Reforming Local Government' we committed to issue a 'prospectus' for voluntary mergers. In this document we focus on our commitment to supporting and working with Local Authorities to come forward for voluntary, early merger and also working with those Authorities whose boundaries will remain unchanged, to shape the future of Local Government in Wales. By this we mean more than working through the practical challenges the merger process will entail. We mean shaping the role of Local Government within our collective ambition to improve services and outcomes for the people of Wales.

Taking the opportunity to merge voluntarily ahead of the main legislative programme will offer Authorities a range of opportunities to shape their own futures as well as extra flexibility to respond to current pressures across the public service. We understand and acknowledge change requires investment of time, effort and, sometimes, money, to make it work effectively so as to deliver a new approach, which is both better and sustainable.

We will work closely with those Authorities who wish to voluntarily merge to provide advice and support through the initial and subsequent stage of developing and setting out their case. During the preparation of the case, we will be considering the new freedoms and flexibilities which might be offered, as well as the potential for financial investment. We intend to make resources available, distinct and separate from the Revenue Support Grant, in order to support voluntary mergers. We understand local conditions may give rise to different cases and therefore a range of different support packages will be required. It is unlikely there will be a single 'one size fits all' solution.

We encourage those who are interested to contact us at the earliest opportunity so we can begin to explore the potential benefits early merger may bring and the potential support we might offer. We are not expecting a fully worked up Merger Proposal supported by detailed evidence or extensive financial modelling by 28 November 2014. The purpose of developing the Expression of Interest is to provide a clear structure for moving forward with the merger process. The aim is to provide a framework for thinking about core issues such as developing an integrated and transformative approach to planning for service delivery, the workforce, organisational development, financial management and shared support services. It

will also allow the proposals to be published so partners and the public can begin to express their ideas and views.

However, there is more to merger than structures and systems. There are people and services to be considered too. We will be setting up a Staff Commission to provide staff with the support and assurance they need and to offer employers advice. We also want to ensure the process of change realises the opportunities to integrate services across the new Authority effectively and to enable the new Authority to work with partners in new and innovative ways. The knowledge and expertise of staff will be critical to supporting the transition.

Our aim is to work with the whole of Local Government to deliver this Programme, however, those volunteering for early merger and those 'standing alone' following consultation on the Welsh Government's preferred option as set out in *Reforming Local Government*, will have a unique opportunity to shape the future at a practical level. They will be in a position to show how their leadership and vision has set the pace and shape of reform. They will be well placed to deliver better services and better outcomes for their communities, from the moment they take the decision to realise the opportunities for transformation and change offered by early, voluntary merger, and the Reforming Local Government Programme as a whole.

2. OUR OFFER

In *Reforming Local Government*, we said we would welcome discussions with and proposals from Local Authorities wishing to merge early on a voluntary basis. We also said we would publish a prospectus to set out what we expect from these Authorities and the assistance they could expect from us. We want to help Authorities realise the benefits from merger as early as possible and share the learning across Wales.

There are several major advantages to Local Authorities in merging voluntarily:

- Setting the pace and the standard for sustainable, strong and effective Local Government in Wales;
- A key role in shaping the future;
- Targeted support for transforming services and delivering benefits to communities much earlier, for example, expertise to design, manage and implement new and integrated models of service delivery, with a particular emphasis on services focused on prevention and/or integrating services for people or communities with complex needs;
- Realising the benefits of greater capacity and efficiency – more quickly;
- Delivering better services for communities sooner;
- The opportunity to influence the development of shared support services , accruing cost savings much sooner and retaining these locally to support front-line services;
- A much shorter period of uncertainty for staff and communities;
- The potential to gain greater freedom and autonomy two years earlier from April 2018;
- The status associated with being a forward-looking and progressive Authority which is better able to attract and retain excellent staff and act as a magnet for development;
- The opportunity to establish a reputation as one of the foremost Authorities, not just in Wales but in the UK, with clear aspirations to deliver the best possible local services for residents;
- Support for building organisational capability; and
- Only one set of elections in 2018, rather than elections in 2017 and 2019.

Given the severe financial pressures we face, it is unrealistic to expect the Welsh Government to provide large injections of cash to support a process of mergers. The object must be for Authorities to come forward with proposals to minimise the costs and maximise the early realisation of benefits. Nonetheless, we recognise there are

often costs involved in transformation, and we are committed to discussing the scope and nature of these during the preparation of the Merger Proposal.

In the following pages we set out:

- The Principles for voluntary merger proposals;
- The timetable for the submission of early merger proposals, the process and timeline to legislation and vesting day²;
- Developing a proposal - an outline of how you should approach the identification of potential costs, savings and benefits;
- Developing a process for merger which captures those benefits as soon as possible; and
- The support and incentives available from the Welsh Government and others.

² Vesting Day – the day on which a new Local Authority assumes the full range of Local government functions and responsibilities from its predecessor Authorities. Almost always 1 April to coincide with start of the financial year.

3. THE PRINCIPLES FOR VOLUNTARY MERGER PROPOSALS

The Welsh Government's current preferred option from those set out by the Commission on Public Service Governance and Delivery is "Option 1", which would result in the merging of:

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

Powys, Carmarthenshire and Swansea would retain their existing boundaries. However, they would be part of the overall reform programme outlined in *Reforming Local Government* relating to democracy, community governance, and improvement and performance. Further consultations will take place on these aspects of the Reform Programme in the Autumn.

We believe this pattern of mergers resulting in 12 Local Authorities provides a coherent overall template, and strikes the right balance between building organisational capability and ensuring local democratic responsiveness, in terms of being more connected with, and representative of communities.

Our preference is for Local Authorities to come forward with proposals for mergers in accordance with the configuration set out by the Commission in Option 1 and to maintain single Local Authorities as in the list above.

Different proposals and exceptions

As indicated above, the Welsh Government would prefer proposals for early voluntary merger which followed Option 1. However, we would be willing to consider alternatives which meet the following Principles:

1. Proposals consisting of mergers of existing, neighbouring Local Authorities to form the 'building blocks' of a new Authority. We will not entertain proposals for merging only parts of existing Local Authorities, or redrawing boundaries from scratch. We would however, consider proposals from Authorities seeking to group together into larger configurations than envisaged in 'Option 1' to create a new Authority.

2. Proposals must not jeopardise the Welsh Government's desire for coherence and the wider merger and reform programme by, for example, having the effect of leaving one Local Authority unable to merge³.

If Local Authorities seek to make an exceptional case for a merger proposal straddling the boundaries of Health Boards or police forces, they must clearly and comprehensively demonstrate they will still be able to generate the benefits of reducing complexity, strengthening strategic and operational collaboration, and improving integration of front-line services which the Commission identified as being achievable through the alignment of public service administrative boundaries. They would also have to demonstrate the firm support of their public service partners for this proposal, and demonstrate their commitment by being part of the voluntary, early merger programme.

Authorities should also consider the issue of alignment with the West Wales and the Valleys 'convergence' areas, which has links to European Union funding and state aid allowances. The Welsh Government believes this must be given serious thought, however, it should not necessarily override a strategic long-term case for merger, particularly if the Local Authorities involved accept the issues and the potential risks. Therefore, any proposals submitted which do not conform to convergence areas would need to demonstrate and provide evidence these risks had been considered in detail and accepted by the relevant Local Authorities.

We strongly advise early engagement with us on all proposals for early, voluntary merger. Details about how to contact us are included at the end of this document.

³ This excludes Powys, Carmarthenshire and Swansea which under Option 1 would stand alone in any event.

4. THE TIMELINE

STAGE 1: Expressions of Interest

Local Authorities wishing to proceed with a voluntary, early merger proposal should prepare an expression of interest to be submitted to the Welsh Government. We will support and work closely with you to develop your Expression of Interest.

We do not expect Expressions of Interest to be overly detailed or, at this point, set out firm details of costs, benefits and savings. The aim Expression of Interest is to help focus your discussions with partners and stakeholders and to support the development of a shared vision, and the identification of synergies and opportunities. We expect to see sufficient evidence to demonstrate you are fully committed to the process, are prepared to commit time, energy and resources necessary for successful delivery and are entering into the process because you believe it will deliver benefits for your communities and service users. Your Expression of Interest will also be the basis for the development of your Merger Proposal at Stage 2.

Expressions of interest should be submitted to the Welsh Government by **28 November 2014**. These must include:

1. Your vision for the new Authority, including your ambitions for community leadership, improving outcomes and services.
2. An outline merger proposal, considering for example issues such as capacity and capability and accountability and engagement.
3. Outline process and transition issues.
4. Your proposals on the opportunities that mergers offer for the sharing of support services.
5. Your Initial assessment of what support would be needed to effectively deliver the proposal.
6. Evidence there has been initial engagement with the public, local communities including Town and Community Councils, staff, staff representatives, and stakeholders in all of the Local Authority areas participating in the voluntary merger, with a commitment to undertake full and extensive consultation and engagement, expressed in the form of a comprehensive consultation and engagement plan, to be taken forward if the Expression of Interest is agreed.
7. Evidence local public service partners, especially Local Service Board members and other boards which rely on Local Authority input have been involved and engaged with the development of the Expression of Interest and are supportive of the proposal.

8. Evidence that Local Health Boards have been involved with the development of the Expression of Interest and are in agreement and supportive of the proposal. Mergers where the new organisation crosses LHB boundaries would be exceptional and would require, in addition to evidence of agreement and support of all the LHBs involved, evidence that there will continue to be close collaboration between social services and NHS provision so that the integration and quality of continuing care is not undermined, jeopardised or detrimentally affected.
9. Initial consideration of the new Authority's name and potential status e.g. county, county borough, city.

At the very least we would expect confirmation that the expression of interest has been discussed and approved by the Cabinets of all Local Authorities which will be participating in the voluntary merger proposal. Wherever possible, there should also be confirmation that the Expression of Interest has been approved in identical form by full Council in all Local Authorities which will be participating in the voluntary merger. If that isn't possible within the timescale, then you should endeavour to ensure this happens shortly after the 28 November 2014 deadline.

Annex A contains further details and information on how to make your submission. Information on who to contact for discussion and advice are included at the end of this document.

The Welsh Government currently proposes to respond **by 5 January 2015** to any Expressions of Interests received by 28 November 2014.

STAGE 2: Merger Proposal

A Merger Proposal should be submitted by 23.59 on 30 June 2015. Further details on the Merger Proposal are included at Annex B.

The Merger Proposal should build upon and expand the evidence submitted with the Expression of Interest (Annex A) and include:

1. A full analysis of all the points covered by the Expression of Interest and a transitions plan of how you will manage the change from your existing Authorities to a new Authority and how you will baseline and measure improvement.
2. A cost-benefit analysis, including the timings of costs and benefits realisation. This should also provide evidence of due diligence having taken place and risks being assessed, considered and addressed.
3. An Equalities Impact Assessment.
4. A Welsh Language Impact Assessment.

5. A summary of the responses to consultation undertaken with the public, staff, stakeholders and other public service providers, as per the consultation and engagement plan submitted in Stage 1.
6. Evidence the Merger Proposal has been approved in identical form by full Council in all the Local Authorities participating in the voluntary merger.

We are committed to working with you and supporting you in completing this analysis.

As the voluntary merger will be given effect by legislation to be made by the National Assembly, the requirement as regards the evidence to underpin any legislation is necessarily demanding and we will need to complete a number of statutory assessments, for example the UN Convention on the Rights of the Child assessment required by the Rights of Children and Young Persons (Wales) Measure 2011 and a regulatory impact assessment as part of this process. Therefore in addition to the work above, we will be looking to work alongside you to ensure there is robust evidence to underpin the legislative case we will need to make. We do not believe this is prohibitive and we believe will strengthen the overall planning and delivery process.

The Welsh Government currently proposes to respond to any Merger Proposals by 30 November 2015 (provided Royal Assent is received in respect of the Local Government Bill, to be introduced into the National Assembly in January 2015, by that date).

You should note at both Stages 1 and 2 the Welsh Ministers may ask for further information.

STAGE 3: Legislation

The *Reforming Local Government* White Paper sets out the Welsh Government's intention to introduce a Bill into the National Assembly for Wales in January 2015. We propose this Bill will both pave the way for the full merger programme of Local Authorities in Wales and enable the Welsh Ministers to make Orders to provide for any Local Authorities wishing to take advantage of the option to merge early voluntarily.

Our aim is to complete the legislative process for the Bill, including Royal Assent, by 30 November 2015. Between the time when you submit your Merger Proposal and the Bill receives Royal Assent, we will work with you to submit your Final Proposal which will confirm your intention to proceed with your voluntary merger. This will enable an Order (or Orders) for voluntary mergers to be introduced into the National Assembly for Wales in early 2016, with a view to completing the legislative process by 31 March 2016.

STAGE 4: Elections, Shadow Authority and Vesting Day

The key milestones for Stage 4 of the merger process would be as follows:

- The next Local Authority elections will be held in May 2017, however, existing Local Authorities taking advantage of the opportunity to merge early would not have elections at this time;
- A Shadow Authority for the new Authority would be established in April 2017. This will consist of the full body of serving Councillors of the merging Authorities. The functions of a Shadow Authority will be specified in the relevant Merger Order but its functions would be focused on preparing for the creation of the new Authority⁴;
- Vesting Day for the new Authority will be 1 April 2018 and elections would take place on 3 May 2018 on the basis of new electoral warding arrangements to be developed by the Local Democracy and Boundary Commission for Wales. New Councillors would assume their responsibilities four days after the election; and
- The next set of elections to the newly merged Authority will be in May 2022 when a full set of Local Authority elections will take place.

Matters to Note

The Welsh Government reserves the right to decide not to introduce an Order for early merger if it considers the circumstances are not right to do so, or, if for example, the Merger Proposal is not sufficiently robust. The Welsh Government will publish and make clear to all interested parties its reasons for not introducing an Order.

This need not rule out proceeding with the proposed merger. It may simply be that the case is not quite ready by the time an Order would need to be made. The merger might still proceed along with the other proposed mergers to be achieved by the second Local Government Bill which will be introduced after the next Assembly elections in May 2016.

If you withdraw your application at any point in the process, you should note the Welsh Government could still proceed with the merger as part of the main Local Authority merger programme. The Welsh Government may well, in those circumstances have regard to information you submitted in relation to any aborted plans.

⁴ The functions of the Shadow Authority would include (amongst others) appointing the senior management team for the new Authority, agreeing the first budget and setting the first council tax, all in advance of the new Authority's first year of full responsibility.

5. DEVELOPING A PROPOSAL

This Chapter sets out how Local Authorities considering proposing voluntary merger can approach their Expression of Interest and build on this to develop a worked up Merger Proposal.

Vision for the New Authority

The starting point is the vision for the new Authority. Local Authorities considering a voluntary, early merger should develop an ambitious shared vision for the new Authority which sets a direction consistent with *Reforming Local Government*. This should include:

- the new Authority's ambitions for delivering well-being and services to the people and communities it will serve;
- its approach to engaging with and involving those people and communities with its decision-making;
- how will it demonstrate accountability, openness and transparency;
- how will it demonstrate the difference it is making to outcomes for the people and communities it serves; and
- how will it support Elected Members and encourage diversity in amongst its elected representatives.

Local Authorities should also be considering how the new Authority will contribute to the delivery of the Well-being of Future Generations (Wales) Bill, when enacted, through strong community leadership and effective partnership working with their local public service partners.

Local contexts and priorities

The Welsh Government accepts the Commission on Public Service Governance and Delivery's analysis of Local Authority mergers delivering improved capacity and capability, greater efficiency, recruitment benefits and innovation. However, the potential for realising these benefits – how, when, and in which services – will vary from one area to the next.

Proposals for voluntary merger should, therefore, be grounded in an analysis of the particular challenges facing each of the Local Authorities concerned. They should seek to identify those priority areas and begin to establish how merger might address them.

The development of the Expression of Interest and Merger Proposal should be structured around the issues identified by the Commission in its Report. At the

Expression of Interest Stage (Stage 1) we are looking only for an outline description of issues and possibilities to show voluntary merger could deliver tangible benefits quickly.

We are not expecting a fully worked up Merger Proposal supported by detailed evidence or extensive financial modelling by 28 November 2014. The purpose of developing the Expression of Interest is to support Authorities and provide a structure for moving forward with the merger process. The aim is to provide a clear and concise framework for thinking about core issues such as developing an integrated and transformative approach to planning for service delivery, the workforce, organisational development and financial management. The Merger Proposal would then set out the Authorities' conclusions about what core issues need be addressed, and detailed plans for how they will approach these issues.

Capacity and capability

By 'capacity' and 'capability' we mean the staff, assets, resources and expertise available to provide the full range of services expected by people and communities. As the Commission noted, there are two dimensions to this.

There may be challenges around both the breadth and depth of capacity and capability – the range of skills and specialisms a Local Authority's current and future resources can sustain.

One of the aims of any merger proposal must be to make better use of existing capacity, especially in priority areas where there are serious problems, and to identify opportunities to build capacity and use it differently. Therefore, it is also important to consider how far the capacities of each of the merging Authorities complement each other, and the extent to which this could address issues of breadth or depth of capacity across a range of services, at the corporate centre and with local public service partners.

Issues to be considered will include retraining costs and redeployment, asset management and disposal, and aligning and transforming patterns and processes of service delivery. There may be some duplication of capacity at senior and corporate levels, and some initial consideration should be given to how this will be managed, and would offer opportunities for the sharing of services. Authorities should also consider how medium to longer term workforce planning will ensure the new Authority has the depth and breadth of skills needed to deliver and manage services effectively for its people and communities.

Leadership, recruitment and retention

Capacity and capability issues can also lead to problems for Local Authorities in recruiting and retaining high-calibre leaders and professionals. A lack of breadth or

depth may mean Local Authorities are unable to offer attractive career paths, especially to those with specialist skills or senior leadership potential.

Any merger should aim to address these issues: merged Authorities should be both large enough to offer attractive career paths to existing staff and to recruit from a wider pool of talent. Benefits in this area could be realised incrementally and clear and strategic approaches to workforce planning and talent management will be essential to realising these benefits.

For the Expression of Interest (Stage 1) Authorities should identify the specific capacity or specialist skills issues which will be addressed together with an outline of the benefits and risks of their chosen approach. Details of planned service integration or proposed joint appointments should be included. It will also be necessary for Authorities to identify the potential scale of rationalisation of senior posts and workforce harmonisation issues with indicative costs.

Stage 2, by June 2015, should include:

- Approach to strategic workforce planning from present to 'new Authority';
- Approach to leadership development for the new Authority;
- Approach to engagement with trade unions and staff;
- Approach to developing a single culture for the new Authority;
- Implementation plan to include the benefits realisation plan; and
- Costs for rationalising senior posts and harmonising the workforce.

Efficiency

The Commission on Public Service Governance and Delivery found good evidence of potential for economies of scale in corporate and democratic overheads and in the unit costs of some (mostly high-volume and standardised) front line and support services. There may also be savings to be made from rationalising the estates and asset bases in a merged Authority.

The relationship between cost and volume is not always linear or straightforward. There are many other drivers of cost, especially in services like education and social care, where the characteristics of the local population may have a significant impact. However, there should still be opportunities for some economies of scale, for instance from higher-volume procurement or the ability to spread management overheads across a more extensive service.

The details of where the potential is greatest will again vary between Local Authorities, and will depend on an outline assessment of current costs. In doing so, it may sometimes be appropriate to use the population served as the measure of scale, for example in corporate and democratic overheads. For others, it may be more

appropriate to use other measures, for example the length of a road network is a better measure of the scale of a highways service than the local population.

Realising economies of scale will require structures to be streamlined, operating processes to be aligned and transformed, assets disposed of and contracts re-let or renegotiated. We recognise this will take time and incur up-front costs. However, there is potential for significant long-term savings to be released in all mergers and Local Authorities will best understand how these savings could be released and reinvested in front-line service delivery.

All of the above have the potential to generate transactional and operational efficiencies which could support the new Authority's viability and sustainability in the short to medium term. However, long term sustainability will require a strategic approach to efficiency, linked to the Authority's overall vision through strategic and financial planning.

For the Expression of Interest (Stage 1), the Welsh Government does not expect more than an overview of the potential for efficiency to be delivered and the areas Authorities are likely to look at to deliver these efficiencies. However, for Stage 2, the Merger Proposal should contain a fuller assessment of the potential costs and benefits, including an assessment of the timings. This should include setting out how the Authority will go about ensuring it has a sustainable approach to planning and managing its services and finances going forward.

Accountability and engagement

Our vision for Local Government in Wales puts accountability and effective engagement with the public centre stage. With this in mind, we hope to see proposals for early merger which include innovative suggestions for a wide range of approaches to public involvement and engagement with the Authority, where openness and transparency are core values in the Authority's approach to governance. This is particularly important in ensuring public services can deliver the vision of working with people and communities to deliver better public services, as set out in *Devolution, Democracy and Delivery: Improving public services for people in Wales*.

This provides a powerful case for the new Authorities to take the opportunity to redesign their approach to accountability and engagement, to include how they interact with communities, how they support effective scrutiny, how they engage with the workforce to support service improvement and how they will promote openness and transparency of decision-making.

For Expressions of Interest (Stage 1) Authorities need only identify the opportunities amongst themselves for shared learning in these areas and their commitment to ensuring the new Authority will have openness and transparency as core values, with a high level plan as to how this might be delivered.

For the Merger Proposal (Stage 2) the Welsh Government will not be expecting Authorities to design the detailed constitutional arrangements for the New Authorities as this should be the business of the Shadow Authority. However, we would be looking for outline arrangements, in line with Welsh Government reform proposals.

Demographic, financial and demand pressures

The Welsh Government agrees with the Commission's analysis of the patterns of change in demography and demand for services over the medium to longer term, and the impact this will have on an already strained public sector.

We also know the extreme pressure on public finances will continue in the medium term, and the Welsh Government's overall budget is unlikely to return to 2011 levels in real terms until at least the middle of the next decade. This means Local Authorities will continue to face challenging settlements for several years to come.

The detail of those effects will vary across Wales, according to local patterns of population change and service demand and the particular financial position and outlook in each Local Authority.

The Local Authority merger and reform programme aims to confront these challenges, by improving efficiency and releasing savings, and more importantly, by increasing resilience and capacity to design and deliver services more effectively, innovatively and sustainably.

For the Expression of Interest, the Welsh Government will only be seeking assurances from Authorities they have considered their collective challenges across the range of their service and corporate activities, and where there are gaps in information and understanding.

For the full Merger Proposal at Stage 2, we will be expecting a more detailed analysis of plans and how they will be delivered.

Summary

Annex A contains further details to assist Local Authorities in their initial consideration of the voluntary merger option. If completed, this analysis should yield an indication of how the challenges affect the Authorities concerned, and how merger might address them. This in turn will help to shape the broad Merger Proposal, by identifying priority challenges to be addressed and the potential benefits of doing so.

Therefore, if the Expression of Interest is agreed and accepted by the Welsh Ministers, Authorities will then be able to build upon this initial analysis to develop their Merger Proposal. Further details are included at Annex B.

The next Chapter outlines how you can consider the process of change as part of the development of the Expression of Interest and Merger Proposals.

6. THE PROCESS OF CHANGE AND TRANSITION

The merger process presents an opportunity not only to integrate but to transform and redesign everything from constitutions to approaches to improvement and innovation. To help you capitalise on this opportunity, the Welsh Government will support and work with you to develop your proposal. You will need to consider the process of change, and how the transition from separate Authorities to a single organisation will be managed and what it will entail. It will also be important that you continue to work with partners during the transition to ensure the continued delivery and quality of services through the transformation process.

Factors to Consider

At the Expression of Interest stage we are concerned only to assess whether a voluntary merger proposal could proceed along the accelerated timetable we propose. This means identifying and outlining the main enablers and obstacles to delivering your vision for your new Authority.

It might be helpful in doing this to consider the practicalities of what exactly would need to be consolidated, aligned and transformed as part of any merger and how this transition will be managed and delivered. A high-level list might include the following:

- Political and scrutiny structures and practices;
- Staff structures, including in particular senior management structures, and operational structures in priority areas;
- Financial and budget structures and processes, including Council Tax;
- Internal support systems and processes, including ICT systems;
- Assets and estates; and
- Service delivery policies and practices, including accessibility, eligibility and charging policies.

For each of these, the Expression of Interest should identify in broad terms any obvious enablers or obstacles to change, including:

- How similar (or different) are each Authority's arrangements now?
- What would be the extent and complexity of change, especially in priority areas?
- What would be the timescales for making such change having regard to the timescales laid out elsewhere in this paper?
- What would be the likely one-off and recurrent costs and benefits and how soon could savings be realised? Main costs may include staff, property, information technology, corporate, consultation and communication while

savings may arise from asset and contract rationalisation, shared support services, streamlined processes and staff numbers.⁵

- Are there any significant obstacles to these processes? What proposals are there to address these?
- Will it be possible to build on existing collaboration or pooling arrangements?
- Will it be possible to rationalise structures, systems, processes and access channels, and/or adopt best practice?

This analysis should then be built upon to provide key elements of the full Merger Proposal required at Stage 2.

⁵ *Learning the lessons of public body mergers: good practice guide*, Audit Scotland, June 2012.
<http://www.audit-scotland.gov.uk>

7. ENGAGEMENT

Any voluntary merger must proceed with full consultation and engagement with people and communities (including Town and Community Councils), Elected Members, the workforce, trade unions, business, third sector, other local public service and any other interested stakeholders.

Therefore, all proposals accepted at Stage1 must include some evidence of initial engagement with all of the above. For example, this might involve articles in the local press or discussion at your Local Service Boards. You should provide a flavour of responses received including details of any emerging petitions or campaigns and correspondence. The Expression of Interest should be accompanied by a Consultation and Engagement Plan which demonstrates commitment to a range of activity with a wide range of interested parties.

As a minimum we would expect this Consultation and Engagement Plan to include:

- a) the public in the areas which would be affected by the proposed merger;
- b) any Local Authority affected by the proposed merger (this is to include Principal Authorities and Community Councils);
- c) any Fire and Rescue Authority for any area which may be affected by the merger;
- d) staff and any organisation representing the staff employed by the principal authorities to whom the merger relates and who have asked to be consulted;
- e) any Police Forces and Police and Crime Commissioners affected by the proposed merger;
- f) any Local Health Boards which might be affected by the proposed merger; and
- g) such other persons as the Authorities consider appropriate.

We accept it will not be possible for Authorities to conduct a full programme of engagement prior to the deadline for submitting proposals in November 2014 (Stage 1). However, some engagement must be undertaken which is sufficient to be able to gauge the level of support, or otherwise, for the proposal, and plans for consultation will need to be clearly laid out.

For Stage 2, the Merger Proposal, we expect Authorities to provide evidence of the consultation and engagement undertaken in line with their Consultation and Engagement Plan and a full and objective summary of consultation responses received.

8. WELSH GOVERNMENT SUPPORT FOR VOLUNTARY, EARLY MERGERS

The Commission on Public Service Governance and Delivery recommended the Welsh Government should develop a series of incentives to encourage voluntary early mergers amongst Local Authorities. We agree with this but we do not believe the Commission's intention was simply for the Welsh Government to make available a cash injection to pay for any potential costs associated with the merger process.

The rationale for voluntary merger is, as it is for the merger and reform programme as a whole, set firmly in Authorities realising the benefits for improved public services and better well-being, together with the reinvestment of the efficiencies generated to support these aims.

We therefore believe the Commission's intention was for us to develop a package of incentives which could be tailored to best support the service transformation, strong democracy and better governance the merger process is aimed at delivering. We will set aside resources that are distinct and separate from the Revenue Support Grant to support these ends. Local Authorities should consider how support could be tailored to best support the process of merger, as part of the development of their Expression of Interest. We suggest possible areas could include ensuring effective constitutional development of the new Authority, dealing with workforce issues such as job evaluation, and providing for service transformation.

To aid Authorities' consideration we have set out below the overall principles we believe to be important in identifying and tailoring support and some examples (not an exhaustive list) of support which Authorities could find helpful. We would be happy to consider other suggestions from Authorities provided these can be shown to be linked to effective and early delivery of the benefits of their proposal.

Our overall principles for consideration of providing support to Authorities proposing voluntary mergers are:

- i. Support may be provided both for scoping and implementing voluntary merger proposals;
- ii. Support could take the form of expert advice and capacity;
- iii. Support will be aimed specifically at developing and/or implementing the merger and will only be made available after the expression of interest is received in the appropriate format and agreed. However, we will provide you with support and advice during preparation of your expression of interest;
- iv. The level of support provided may differ in different circumstances – each merger proposal will be considered on its merits.

Examples of the kinds of support you might find helpful include:

- i. Provision of expert advice on transforming services, implementing new models of delivery, and integrating services, with a focus on prevention both within the Authorities and with public service partners;
- ii. Provision of expert advice in respect of service issues such as differences in outsourced, in-house or otherwise transferred service delivery models;
- iii. Provision of expert advice and capacity on evaluating, planning and implementing organisational change through merger;
- iv. Provision of expert advice on Organisational Development;
- v. Provision of expert advice and support on procurement and contractual matters;
- vi. Support for the development of constitutional and scrutiny arrangements;
- vii. Advice on design of outcome and performance frameworks, including establishing baselines for the most important service level improvements the merged authority may wish to pursue;
- viii. Support for development of leadership and capability;
- ix. Advice on development of financial and asset management plans; and
- x. Advice on integrated business planning.

The Welsh Government is committed to supporting Authorities taking part in the early merger process. The Welsh Government will review the initial estimates of such proposals set out in Local Authorities' Expressions of Interest and the costs and benefits in the more detailed cases for change to follow, and give them consideration within our own budget planning and allocation cycle.

The Welsh Government's own budget allocation beyond 2015-16 is not yet known, so we cannot yet be definitive about what resources will be made available. However, this joint approach will enable those Authorities seeking early merger to design and tailor their own transformation to best meet the needs of the people and communities in their area, on their own terms and at their own pace. In tandem, the Welsh Government will consider how this can be resourced. We are also committed to Local Authorities retaining locally any savings generated from the voluntary merger process.

We are also committed to making tailored use of existing funding streams such as Outcome Agreement Grants, the Local Authority Borrowing Initiative and Invest-to-Save. We believe this can provide a flexible resource to support the delivery of your proposal and we will work with you to identify how these could be used most effectively. We will help you consider how you can begin to address existing financial pressures as early as possible in the run up to, and as part of the merger process.

In addition, the Welsh Government currently proposes to set up a non-statutory Staff Commission to provide support to staff and expert advice to Local Authorities during the voluntary merger process on matters such as job evaluation, harmonisation of terms and conditions, equal pay and pension agreements.

A number of existing Local Authorities will not merge under the current preferred option. We also welcome proposals for support for organisational and service transformation from these Authorities as we recognise they may also wish to take a lead in setting the pace and direction for Local Government in Wales.

The precise package of support would be agreed in each individual case and Authorities should indicate in their Expressions of Interest what, if any, support may be required and how it could best be deployed to deliver their vision and realise the benefits as quickly as possible for the newly merged Authority.

9. FURTHER INFORMATION

For more information or an informal discussion in respect of any of the information contained in this document please contact:

Reg Kilpatrick
Director of Local Government
Welsh Government
Cathays Park
Cardiff
CF10 3NQ
Email: reg.kilpatrick@wales.gsi.gov.uk
Phone: 029 20825913

All Expressions of Interest should be submitted to the above address by 23.59 on 28 November 2014.

VOLUNTARY MERGERS

STAGE 1

EXPRESSION OF INTEREST

At this Stage the Welsh Government is not looking for a fully worked up Merger Proposal. The aim here is to organise thinking and discussion between you, your partners and stakeholders on a number of key areas which are intended to help you develop your shared vision for the new Authority and identify the opportunities which early, voluntary merger may present for you.

This should be your initial assessment of the issues and you are not expected to have undertaken extensive amounts of primary research. The focus here should be showing you have the commitment and initial support to proceed with your proposal.

When you submit your Merger Proposal (see Annex B), the information provided here in accordance with Annex A, will provide the baseline for the Case. It is at Stage 2 we would expect to see detail and underpinning evidence.

1. VISION FOR THE NEW AUTHORITY

Provide a brief summary of your vision for the new Authority. This should include:

- Your ambitions for the area and your services and how you will demonstrate commitment to achieving them;
- Your approach to community leadership: how you will engage effectively with people and communities and actively consider those views in its decision making, including feedback and on-going engagement;
- How you will ensure openness, transparency and accountability of the democratic process;
- How you will support Elected Members, and foster diversity amongst elected representatives;
- How you will drive service improvement, innovation and improved well-being and how you will measure this; and
- How you will develop and foster effective relationships with other public service partners, the third sector and business.

2. CAPACITY AND CAPABILITY

The questions below are not exhaustive but are intended as a guide to the issues you might wish to consider relating to breadth and depth of capacity and capability in respect of staff, assets and other resources. We would expect these points to be identified as a minimum:

- Have you identified any issues in respect of breadth and depth of capacity which a merger could seek to address (e.g. availability of specialist expertise, senior managers being drawn into operational planning) in particular services or generally?
- Is there significant demand for specialist services which cannot be met and/or must be procured from elsewhere?
- If demand for services and resources to meet it were pooled between the Local Authorities concerned, how far would this allow capacity issues to be addressed and duplication removed?
- Provide an initial outline of the challenges you believe would be involved in capitalising on merger to build breadth and depth of capacity in the new Authority.
- Provide an initial outline of the major benefits which could be released from this process and when they might be released.
- How will you ensure the benefits of workforce planning will be embedded in the new Authorities to ensure resilience in the workforce is maintained in the medium to longer term?

3. LEADERSHIP, RECRUITMENT AND RETENTION

These questions provide some areas for consideration as to how a merger might realise benefits in the areas of leadership, recruitment and retention:

- Do your Authorities have any difficulties in recruiting and retaining staff at leadership level, those with the potential for leadership or staff in other key areas involving either service specialisms or other specialisms such as finance, legal and project management?
- How would you use the opportunity presented by voluntary merger to provide attractive career paths to all staff, including those in specialist roles or with senior leadership potential? Are there services or functional areas where this is particularly difficult?
- What will the recruitment and retention and talent management strategies for the new Authority consider in particular? What will be the balance between

supporting and developing in-house talent and broadening the base of skills and experience through external recruitment?

4. EFFICIENCY

There are potentially significant savings to be released through the merger process, such as asset and contract rationalisation, shared support services, streamlined processes and staff numbers. It is important these initial savings are considered in the context of developing a plan for the long term sustainability of your Authority. The following questions offer areas for consideration and are not exhaustive. We would expect to see this information provided as a minimum at Stage 1:

- How will you build on the opportunities the merger process presents to design in medium and long term planning for sustainability in your new Authority?
- How could the corporate and democratic functions of the new Local Authority be established in such a way as to maximise the potential for releasing savings whilst still serving the Authority and Elected Members effectively?
- What is the scope for transforming services and service delivery in the new Authority to capitalise on approaches such as demand management?
- What is the potential for rationalising the estate, contracts and other fixed assets of the new Authority?
- What is your initial estimate of the scope to economies of scale in either overheads or unit costs, and to rationalise estates and assets, and in which areas?
- What would be the challenges of realising these benefits, including any potential up-front costs (staff, property, information technology, corporate, consultation and communication)?
- What is your initial estimate of a timeframe for incurring up-front costs and releasing benefits?

5. ACCOUNTABILITY AND ENGAGEMENT

What is your overall vision for how systems for accountability and engagement will be integrated and work with each other to drive service improvement in the new Authority? As part of this you should consider:

- What role will scrutiny play in the new Authority both in respect of driving service improvement and promoting well-being and holding the Executive to account?
- What is your vision for effective scrutiny and what role will it play in ensuring the voices of people and communities are heard, considered and acted upon?
- How will the new Authority engage effectively with people and communities- including showing how this engagement has impacted upon decision making?
- What role will Local Elected Members play in representing the views and voices of their communities in the new Authority? How will these views be harnessed and assessed to improve services?
- How will the new Authority engage with and work with public service partners?

6. DEMOGRAPHIC, FINANCIAL AND DEMAND PRESSURES

The aim of this section is to initially identify as early as possible the principal challenges facing your Authorities to enable the voluntary merger process to be designed to effectively address them. We do not expect you to conduct detailed research or evidence gathering to complete this section now but to use evidence which is informing your existing policies and strategies such as the Single Needs Assessment underpinning your Single Integrated Plan and Medium Term Financial Plan.

- What are the likely changes in the composition of the area's population in the medium to longer term?
- Are there other known or predictable significant changes in the nature of the area and/or its population during this period?
- What is the likely impact of this on demand for each affected service?
- What is the medium to longer-term financial outlook for your Local Authorities concerned?

7. WELSH GOVERNMENT SUPPORT FOR MERGER

Please indicate here what, if any, support may be required and how tailored support could be deployed as part of delivering your vision for your new Authority and realising the benefits of your merger proposal as quickly as possible.

Suggestions for support could be of the kind set out in the Invitation to *Principal Local Authorities to submit proposals for Voluntary Merger* but the Welsh Government is prepared to work with Authorities to tailor a package of support which might include other options or ideas.

8. THE PROCESS OF CHANGE AND TRANSITION

As part of developing your merger proposals you should consider designing your process to ensure the benefits of the merger can be realised at the earliest opportunity and how you will organise and manage the process of transition from separate organisations to a single body. In light of this for each of the following areas:

- Political and scrutiny structures and practices;
- Staff structures, including in particular senior management structures, and operational structures in priority areas;
- Financial and budget structures and processes and setting Council Tax;
- Working relationships and practices with the public and public service partners;
- Internal systems and processes, including ICT systems;
- Assets, contracts and estates; and
- Service delivery policies and practices, including accessibility, eligibility and charging policies.

please consider:

- i. How similar (or different) are each Authority's arrangements now?
- ii. What would be the extent and complexity of change, especially in priority areas?
- iii. What would be the timescales for making such change?
- iv. What would be the likely one-off and recurrent savings, and how soon could savings be realised?

- v. Are there any significant known obstacles to these processes? How might they be addressed?
- vi. How far would it be possible to build on existing collaboration or pooling arrangements?
- vii. How far would it be possible to rationalise structures, systems, processes and access channels, and/or adopt best practice?

9. ENGAGEMENT

We are not expecting you to have conducted extensive engagement at this Stage but we will be looking for some evidence of initial engagement and the reactions to your proposals.

Therefore you should include an outline of the engagement you have undertaken so far with public, communities (including town and community councils), the workforce, Elected Members, other local public service partners, business and any other potentially affected stakeholders. As part of this you should provide evidence of their views and opinions, for example any petitions, letters, Council or other debates.

Please also provide your Consultation and Engagement Plan for further consultation and engagement to enable you to submit your Merger Proposal in June 2015.

10. EXCEPTIONAL CASES

If you are making an exceptional case for merger, i.e. a proposal for merging two or more Authorities which may straddle the boundary of more than one Local Health Board and/or police force, or a case to merge Authorities into larger configurations within the Welsh Government's preferred configuration (Option 1 referred to above), please also provide the following:

- A detailed rationale and explanation for how this proposal will still be able to generate the benefits of reducing complexity, strengthening strategic and operational collaboration, and improving integration of front-line services which the Commission on Public Service Governance and Delivery identifies in its Report are achievable through the alignment of public service administrative boundaries; and
- Statements of support of the affected public service partners for this proposal, including other Local Authorities, LHBs, police and crime commissioners and

police forces.

If your proposal includes not conforming to existing EU Convergence area boundaries you will need to provide evidence you have considered and accepted the potential risks this involves.

11. INITIAL CONSIDERATION OF THE NEW AUTHORITY'S NAME AND POTENTIAL STATUS e.g. County Borough

You should provide your initial thoughts on a name for the new Authority and outline any issues which will need to be considered such as city status.

12. STATEMENT FROM LOCAL AUTHORITIES

Please provide evidence below that your Cabinet has discussed and agreed this Expression of Interest. Wherever possible, please also provide evidence that your Authorities have agreed the Expression of Interest at a constitutionally valid meeting of full Council. If that hasn't been possible, please provide the evidence as soon as possible after the deadline.

Please submit your Expression of Interest by 23.59 on 28 November 2014 to:

Reg Kilpatrick
Director of Local Government
Welsh Government
Cathays Park
Cardiff
CF10 3NQ
Email: reg.kilpatrick@wales.gsi.gov.uk
Phone: 029 20825913

VOLUNTARY MERGERS

STAGE 2

MERGER PROPOSAL

In Section 1, your Merger Proposal will build upon the evidence you submitted with your initial Expression of Interest (see Annex A). You will have further developed your vision for the new Authority and undertaken further and more detailed research and evidence gathering in respect of the issues you identified.

In Section 2, you should use your Merger Proposal to build the cost benefit analysis.

For Sections 3 and 4, we will work with you to ensure as full an assessment as possible of the equality and Welsh Language impacts.

1. YOUR MERGER PROPOSAL

Here you should start with your Expression of Interest and build your Merger Proposal by providing detailed analysis and evidence to support your initial considerations. Since completing your Expression of Interest, you may have identified further issues to build your case, this should also be included.

2. COST-BENEFIT ANALYSIS, INCLUDING THE TIMINGS OF COSTS AND BENEFITS REALISATION

This section should include evidence of the due diligence you have undertaken for example (this is not an exhaustive list) matters such as: the financial position of your Authorities, the value and condition of assets, the redundancy of business systems, legal proceedings in progress, the impact on contracts, leases etc, debtors and creditors and any contentious issues.

It should set out the quantitative measures that you will use to track merger benefits.

It should also include your assessment of risks and how they will be managed and addressed.

3. EQUALITIES IMPACT ASSESSMENT

4. WELSH LANGUAGE IMPACT ASSESSMENT

5. SUMMARY OF RESPONSES TO THE CONSULTATION UNDERTAKEN AS PER THE CONSULTATION AND ENGAGEMENT PLAN SUBMITTED WITH THE EXPRESSION OF INTEREST

This should include a description of the consultation responses and engagements undertaken with your stakeholders and the public, together with a summary of views and issues raised.

6. LOCAL AUTHORITY STATEMENT

Evidence this Merger Proposal has been approved in identical form in a constitutionally valid meeting of full Council in all the Local Authorities participating in the voluntary merger.

It should also include your proposal for the name and status of the new Authority, as approved by all Authorities which are proposing the voluntary merger.

Please submit your Merger Proposal by 23.59 on 30 June 2015 to:

Reg Kilpatrick
Director of Local Government
Welsh Government
Cathays Park
Cardiff
CF10 3NQ
Email: reg.kilpatrick@wales.gsi.gov.uk
Phone: 029 20825913