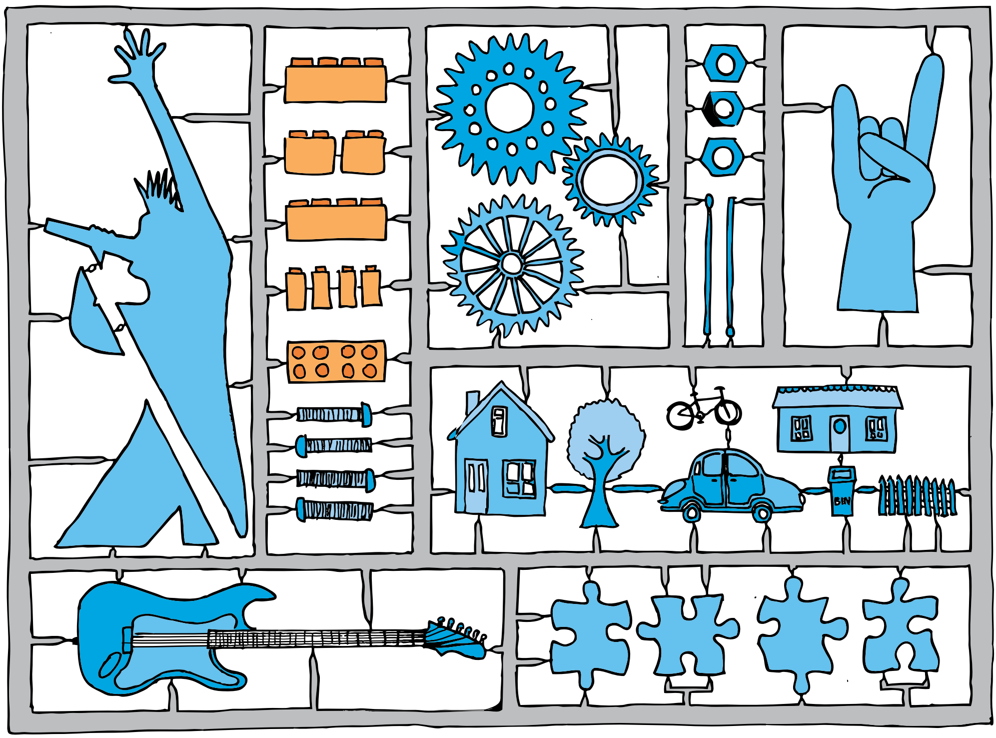
NEW LOCAL GOVERNMENT NETWORK

THE DIY ETHIC

BUSINESS MODELS FOR COMMUNITY INTEGRATION

Laura Wilkes



** Cover illustration by Jenna Collins*

New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the author and not necessarily those of NLGN.

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Any mistakes or omissions are, of course, my own.

Laura Wilkes
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FOREWORDS

JIM BLIGH

CONFEDERATION OF BRITISH INDUSTRY (CBI)

Local government faces very significant challenges. By 2030, the UK population is set to increase by 9 per cent to 70 million, and demand for old age services will increase by 71 per cent, meaning a cost rise in real terms of more than 50 per cent. The idea of integrating services is not new, from Local Strategic Partnerships to Community Budget pilots, consecutive governments have tried to harness the power of collective action to improve people's lives. But too often these efforts have come to nothing – or, even worse, the pilots have worked well but the political will hasn't existed to drive successful change across the UK's disparate communities.

As we approach the mid-way point of the government's austerity programme, the wind seems to now be in local government's sails, with the competing tensions of increasing demand and limited financial resource driving radical new approaches to how services are designed and delivered. Service integration must become the 'new normal', with councils taking a leadership role in redesigning services across their local areas, drawing on the knowledge, expertise and capabilities of those around them.

The CBI has long argued that in a time when resources are scarce, councils need to hasten their transition from being predominantly providers of services themselves, to effective commissioners and market managers. Markets play a key role in redesigning and transforming local services and so commissioners must be equipped with commercial skills that enable them to develop the right business models for service integration and to ensure effective partnerships between the public and private sectors. When developing new business models, commissioners will need to understand how to effectively drive innovation across the market, manage and share risk, ensure they receive value for money, promote market diversity and deliver on wider social value goals.

This report is a welcome addition to the discussion on service integration, moving the conversation forward into a space where local government, business, the voluntary and social sector, and the community, who must all be involved in the development and delivery of new models, can begin to explore how best to achieve them.

NEIL EUESDEN
PINNACLE PSG

The drive to address the challenges to reform public services to meet the on-going budget reductions is at the forefront of every local authority's agenda. The Community Budget pilots have demonstrated that savings and more importantly improvements to services can be achieved within a five year period. This report seeks to move this discussion forward and examines the opportunities to create a platform of change.

Managing customer's needs, expectations and involvement in local services will need new delivery models. This will require clear leadership with an emphasis on outcomes, costs and partnerships. New and different skills will be at the heart of this leadership and delivery model which will allow innovation and accountability to evolve. It is my belief that where service delivery is completely re-thought with improved services as the outcome, savings will automatically follow.

The report highlights the need to have the full spectrum of stakeholders and delivery partners involved in the design of these business models. This will result in commissioning models which allow the strengths of the public, private and third sectors to work together to deliver much needed services. The Social Value Act 2012 also allows additional opportunities for commissioning to create real value for communities. Key to achieving this is early dialogue and a willingness to explore true partnerships.

The report also raises the important role that housing has in supporting these new delivery models. Almost five million social homes are managed by local authorities and registered providers with at least four million homes privately rented. Local communities are built around these homes and residents make use and have need of many of the services provided by local authorities and other public bodies. The links between housing, health, education and employment are all well documented and are both the barrier and solution to social mobility. These communities are well established and provide the focal point for any service outcomes, involvement and emerging business models.

This report is a major step forward.

INTRODUCTION

Integration is the new vogue in local government. Initiatives such as Total Place and Whole-Place Community Budgets have demonstrated the real value of integrated working. The promise is of a route to both better outcomes and significant financial savings – not just in local government, but across the broader public sector. It has been estimated that up to £20.6 billion could be saved if councils partner up and integrate services with other local public sector bodies.[1]

In order to drive integration forward, the government is backing a do-it-yourself model of change, which encourages local areas themselves to devise and take forward their own plans. This means councils, public and private sector partners and communities themselves making deals locally around outcomes and financial distribution, rather than relying on central government mandates and targets.

Local government has long agreed what the future holds: integrated and streamlined services that deliver better outcomes for communities. Many areas have started to make significant progress towards this; but there are barriers holding them back from this locally-led approach.

Areas are starting to tackle the cultural challenges that are getting in the way of integrating. But the missing piece of the jigsaw has been the development of a new generation of business models, which gives partners answers on the practicalities of how to integrate. Given the range of stakeholders that need to be involved in making these choices – and the resource that this takes – many areas do not have the capacity to develop this new thinking completely independently.

Business models provide the local community with a clear understanding of the outcomes that public agencies are working towards. They also bring clarity to relationships, organise how money flows through the system and

1 Ernst & Young / LGA, *Whole-Place Community Budgets: A review of the potential for aggregation*, January 2013

establish structures to ensure resilience of these partnerships over time. If areas are to integrate successfully they need make choices around financial models such as payment by results and pooled budgets, and delivery mechanisms, such as alliance contracting and joint ventures.

This report outlines the business models that areas can build to operationalise integration. It sets out why these matter and identifies models that will help councils and their partners implement the changes they want to make. We hope that this work helps areas in making practical choices around how to integrate.

While this report maps out the sort of choices that areas will have to make to get integration moving locally, we are now left with the need to test these business models and make them real. Councils must enter into a period of rapid experimentation – starting small and scaling up over time – and to support a process of development and iteration across the sector.

This report is organised into three sections.

SECTION ONE explores the current practice in local areas, and the opportunities that exist for future integration, including the business models that areas are planning to use to support this.

SECTION TWO develops a business model for integration and a typology to map the various choices that areas have to make around financial models and delivery mechanisms to make this operational. It also works through the development of three business models in practice and considers the choices that have to be made when deciding on the right model.

SECTION THREE draws together six key themes emerging from the development of business models. These themes are:

- **Understand local characteristics:** business models must be designed to suit local circumstances and relationships.
- **Start small and grow over time:** rapidly test outline business approaches and deliver small but tangible results in order to prove the concept and encourage buy-in from a wide range of partners.

- **Maximise the value of the private and third sectors:** they have a clear role in moving integration forward – as service deliverers, in providing resources and infrastructure to operationalise integration and also in contractual co-design. This requires commissioners to develop their commercial skillsets and manage markets effectively.
- **Involve communities and start with neighbourhoods:** neighbourhoods and a community hub can act as a catalyst for community involvement and deliver more visible benefits of integration.
- **Track the benefits:** understand the alignment between social outcomes, financial savings, risk and the business model.
- **Manage risk:** areas need to understand and resolve legal issues around sharing risk, particularly in relation to statutory duties; strategies need to be developed for managing contracts over a long period of time.

The report concludes with comments on the next steps for local areas in taking forward integration, and makes three recommendations.

RECOMMENDATION ONE: RAPID TESTING

To make business models real, areas need to develop their own process to rapidly test models and grow them locally. This is likely to mean starting with something small where risks can be taken and political buy-in can be sought quickly, proving the concept and then growing the approach over time. Getting agreement locally to a small pooled budget for example, and working through the delivery models and the various risk, accountability, governance and financial choices that go alongside this, will enable areas to develop the right model with minimal risk, at speed. We recommend that government establishes a What Works Centre – evidence centres for social policy - for service integration by 2015 in order to support local areas in developing and sharing practice knowledge.

RECOMMENDATION TWO: GROW THE NEIGHBOURHOOD APPROACH

Expanding and focusing on a neighbourhood based approach could accelerate the process of shifting integration towards frontline services whilst demonstrating how it can deliver tangible benefits in communities. The next stage of integration must be about frontline services – but in order to integrate effectively, the community and users themselves need to be involved in this process and it must involve a wider pool of partners, including those in the third and private sectors. Building on and developing the Our Place approach to transformation at neighbourhood level could further accelerate the pace of change, whilst allowing partners to take risks with small, localised services; scaling practice up as the concept is proven.

RECOMMENDATION THREE: DEVELOP SYSTEMS FOR MANAGING RISK

In order to remove anxiety around sharing and transferring risk and delivering contracts in the long term, areas need to develop systems and approaches for managing short and long term risk of integration. In developing business models and working through the various choices that need to be made to operationalise integration, areas have to make choices around risk and around governance. But in order to do this, they need to understand where risk can be transferred and the legal issues that surround this. Particularly in relation to statutory duties, such as those in social care, councils need to understand the extent to which risk and responsibility can be shared with partners and the consequences of doing so. In order to resolve this, councils need to work through the associated legal issues and where answers cannot be sourced locally, consult with the Public Service Transformation Network.

1 PERSPECTIVES ON WHOLE-PLACE INTEGRATION

Local government, and indeed the broader public sector, is entering into the next phase of public service transformation, as integration increasingly moves from the back office to the frontline. Although councils have been grappling with the need to make significant savings for some time, the period looking forward requires a way of working that is untested. Councils will have to work with their public, private and third sector partners in order to make huge budgetary savings. This will involve whole-place working, where councils and partners integrate outcomes and services across place, rather than delivering in institutional silos.

The Community Budgets programme was launched in 2011, and envisaged as a way for public service providers to work together with communities to meet local needs through sharing budgets and reducing duplication and waste across the system. Through the Families with Multiple Problems programme, the Whole-Place Community Budgets and the Our Place neighbourhood programme, areas have demonstrated the value of this approach to working. Each of the Whole-Place pilots outlined the potential for significant budgetary savings[2] within five years of inception. Successful integration has the potential to improve outcomes for services users and communities by focussing on jointly delivering local outcomes through co-production.

Following the pilots, central government adopted a sector-led programme of reform; encouraging local areas themselves to take forward integration in a ‘do it yourself’ style approach to transformation, rather than relying on a central government mandate.

The need to accelerate sector-led reform has increased significantly and approaches to integration are at the forefront of the minds of many, if not all, local leaders and chief executives. Areas recognise the need to

2 National Audit Office, *Case study on integration: Measuring the costs and benefits of Whole-Place Community Budgets*, 2013

change; largely due to the suggested £12.4bn gap[3] in funding across the sector between resources and demand by the end of the decade. Old age spending alone in England and Wales has been projected to rise in real terms from £9.1 billion in 2013 to £15.6 billion in 2030 – an increase of 71 per cent.[4] As demand rises and budgets reduce, the challenge ahead is to accelerate the pace of change in order to close this spending gap.

THE INTEGRATION LANDSCAPE

NLGN carried out a survey of local authorities and their partners to establish the current integration landscape; in particular, we looked at which partners locally are integrating and what business models are being used to support this. It is clear that many local areas are starting to explore integration and the opportunities that this presents. NLGN research[5] demonstrated the desire within councils to integrate local services across partnerships. We asked survey participants to identify which organisations they are currently integrating with locally (see Figure 1).

The top organisations that areas are already integrating with were identified as:

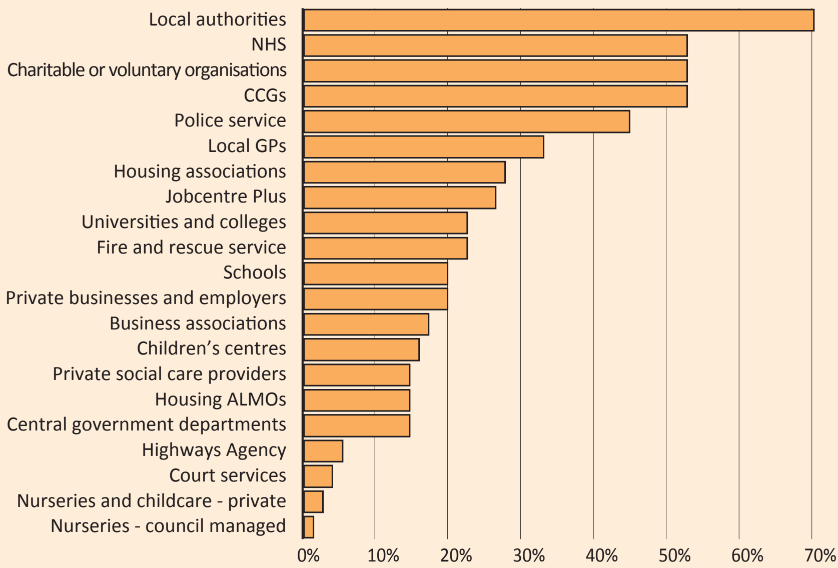
- Local authorities
- NHS
- Charities and the voluntary sector
- Clinical Commissioning Groups (CCGs)
- Police Service

Overwhelmingly – 70 per cent of respondents – noted that they were integrating with other local authorities. Sharing services between councils, such as human resources, IT and payroll is becoming increasingly common – particularly in two tier areas. It is perhaps unsurprising that integration is most widespread between individual local authorities. Given that councils have the same financial structures, reporting cycles and governance

3 Local Government Association, *Future Funding Outlook 2014: funding outlook for councils 2019/20*, July 2014.
4 CEBR research for CBI, May 2014: unpublished.
5 NLGN, *Break on Through: Overcoming barriers to integration*, 2014, p. 9.

arrangements, integration of 'like with like' is much more straightforward than with organisations that do not have the same structures in place.

FIGURE 1 Which partner organisations are you currently integrating with in your local area? (n=76)



Around 50 per cent of respondents said that they were integrating with the NHS, the voluntary sector and CCGs. Given the recent transfer of public health back to local government, the Better Care Fund and the Care Act which requires local authorities to ensure the integration of care and support provision with health provision, it is encouraging to see that areas are pursuing integration with health related colleagues. Health and social care integration and tackling the wider determinants of health are both high on the agenda and this is clearly reflected through the partners that councils are integrating with.

These responses also suggest that areas are presented with a significant opportunity to develop integration with 'untapped' partners. This of course will be essential in pursuing whole-place approaches to outcomes, rather than organisational integration of 'like with like'.

Yet, while many areas have started to integrate with their partners as demonstrated above, on average only 2 per cent of organisations have integrated activities fully operational across all or most service areas.[6] This is worrying given the pace and scale of transformation that is needed to bridge the spending gap between resources and demand in the sector.

There are a series of barriers that are getting in the way of action. This lack progress on sector-led transformation largely tends to be because of barriers relating to two principal areas.[7] The first are cultural barriers and relate to leadership and relationships. On the whole, councils understand these cultural barriers and how they play out in their local areas, and although difficult, are starting to tackle them head on.

However, a large number of the barriers that provide an obstacle to local service reform are more practical. Areas are yet to develop the final piece of the integration jigsaw – the development and implementation of a new generation of business models. NLGN's earlier work on integrated services[8] identified that a significant barrier to taking forward integration locally has been a lack of understanding of the business and delivery models that can enable and operationalise projects.

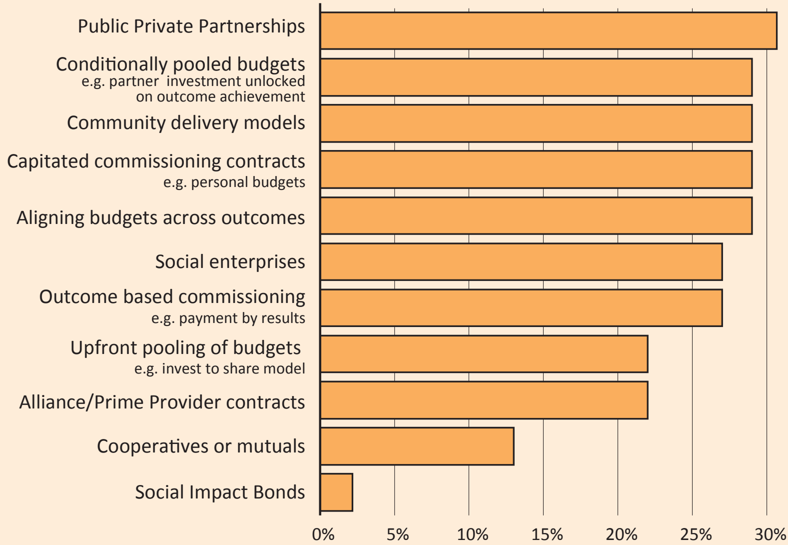
To explore this, we asked survey respondents to identify the financial systems and business models that they are currently using to enable integration in their areas.

6 NLGN, *Break on Through: Overcoming barriers to integration*, 2014, p.11.

7 Barriers identified previously in: NLGN, *Break on Through: Overcoming barriers to integration*, 2014.

8 See: *Integrating Newtown: NLGN Policy Summit*, NLGN, 2014.

FIGURE 2 What financial systems or business models have you and your partners used to enable integration in your area? (n=55)



As Figure 2 demonstrates, less than a third of survey respondents are using any one of the business models and financial systems identified. Just 22 per cent or under of all survey respondents are identified as using pooled budgets, alliance contracts, mutuals and social impact bonds.

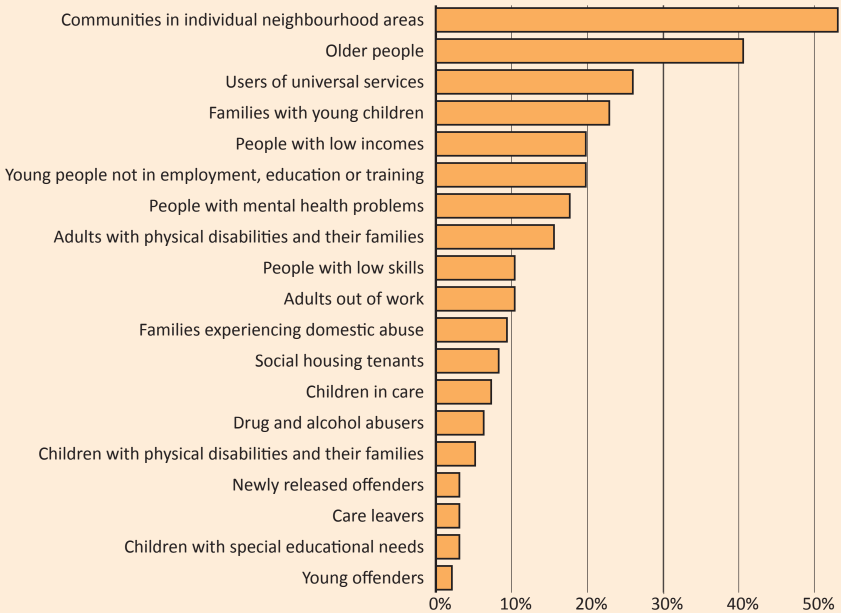
Areas are entering into new and untested ways of working across partnerships and across place, and many do not have the experience and knowledge required to develop the business models needed to operationalise integration. Without the use of business models to support integration, which provides a structure for making difficult and vast choices around financial savings, approaches to risk and governance arrangements, it is incredibly difficult to move forward. This data suggests there exists a significant opportunity to develop practice in use of business models to support integration.

The challenge therefore is less about exploring the cultural enablers supporting transformation, such as developing a vision, building relationships and effective leadership, as areas understand these challenges and are beginning to tackle them. It is increasingly about focussing efforts on developing business models and understanding the practical choices that areas have to make to operationalise integrated working.

THE OPPORTUNITIES AHEAD

We know that there is significant potential to develop the use and understanding of business models to operationalise integration. But in order to work through where and how these can be developed, we first must understand where the opportunities for future integration are: which outcome areas and partner organisations offer the greatest potential and which business models may be used in the future.

FIGURE 3 When new forms of service integration and transformation such as community budgets are done effectively, which three groups do you think will benefit the most? (n=96)



We asked survey participants to identify which groups of people they thought would benefit most from community budgets and other forms of services integration (see Figure 3). 53 per cent of survey participants said that they felt communities in individual neighbourhood areas would be the group that would benefit the most from integration, 41 per cent of respondents noted older people as beneficiaries and 26 per cent noted users of universal services. It is perhaps unsurprising that older people were rated highly as beneficiaries of service integration, given the progress that is starting to be made in health and social care integration.

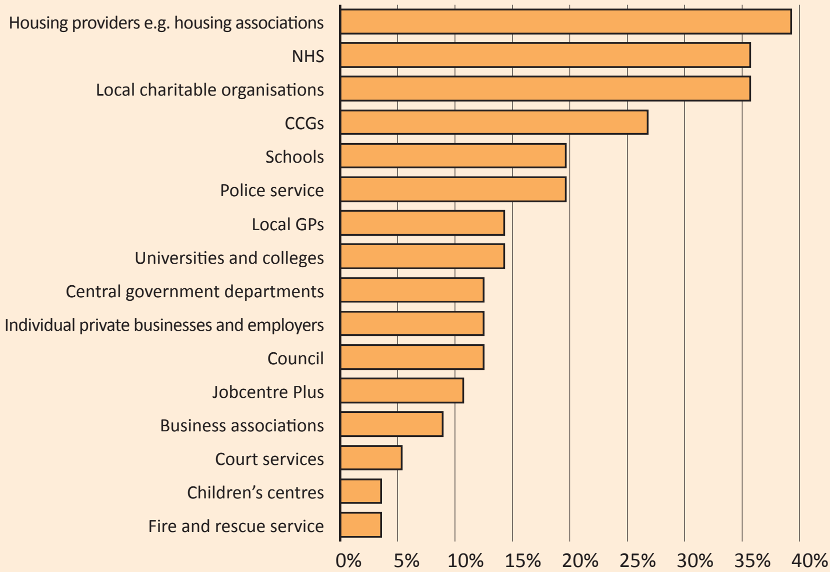
The top rated beneficiaries were those relating to geographical rather than outcome area. This tends to correlate with findings elsewhere in the research (see section two) that integration could work best when it involves a defined geography or neighbourhood as it could be easier to engage individuals in co-design and co-delivery. What is more, at a neighbourhood level the sort of issues that integration projects could engage with are vast and might involve a broad range of outcome areas such as worklessness, skills, families and mental health. Starting with the geography and engaging people at neighbourhood level, then working outwards to interact with the broad issues within the place could be a means to deliver the most significant benefits.

We next asked survey respondents to identify which partners they felt would be most beneficial for future integration (see Figure 4). The top named organisations were:

- Housing providers, both social and private
- NHS
- Local charitable organisations
- CCGs

There were also a series of organisations identified closely behind these top named organisations including schools, police, GPs and the private sector. These responses suggest that councils are now looking towards a wider range of partners for integration and they see the value of broadening this towards a more focussed neighbourhood based approach.

FIGURE 4 Which organisations do you see as most beneficial for future integration? (n=56)



The top rated organisation – housing providers – correlates with answers relating which groups will benefit the most from integration, where neighbourhoods were identified strongly. This seems to point towards clear opportunities for the next phase of integration moving into defined geographical areas and with social and private housing providers as key partners to this.

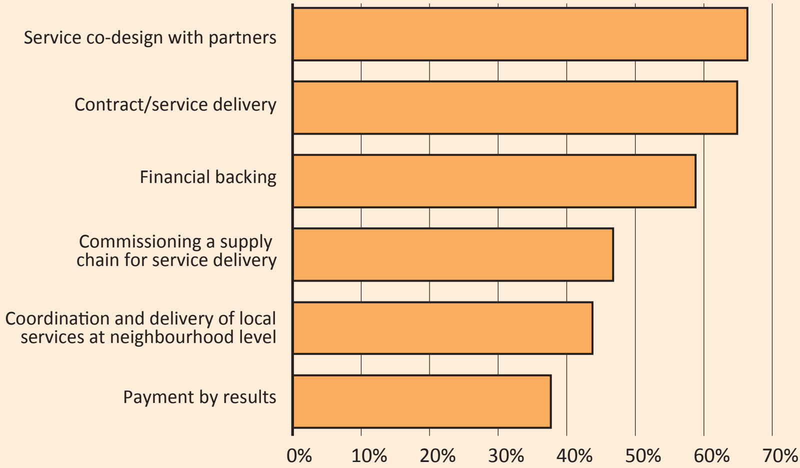
As already identified, many local authorities are already starting to integrate with health colleagues around outcomes in social care, such as keeping older people independent for longer. The introduction of the Better Care Fund has started to incentivise integration, and the next stage towards integrating for better health outcomes is to move towards prevention and early intervention. This requires partners in the acute health sector to engage in integrated working. Much has been said[9] about the challenges of working more closely with the acute health sector, not least because acute hospital trusts are paid on volume of activity rather than a fixed amount per person, which does not always give acute trusts the incentives to move towards a more preventative model. Therefore the fact that CCGs and the NHS have been identified both as organisations that areas are already integrating with and organisations where there are opportunities for future integration perhaps demonstrates the need to move into a much broader programme of work around health outcomes for place which reaches into acute health needs. When breaking down the results between district councils and all other council types, the NHS emerges more strongly for upper tier authorities than districts. This is to be expected however, given their responsibilities over public health.

Local charitable organisations and the voluntary sector have also been identified as organisations that local partners are currently working with, and those that could be most beneficial for future integration which could reflect the fact that locally, there will be many and varied voluntary sector organisations covering a wide variety of outcome areas. Given their broad spread and different outcome areas, organisational structures and managerial personnel, it is evidently an ongoing challenge to integrate with the local voluntary sector, but suggests that there are still opportunities – particularly as part of diverse supply chains.

The private sector has a key role to play in the delivery of local services. Given their financial constraints, councils have increasingly looked to markets to deliver required savings and drive service innovation. The role of markets in local government is well rehearsed – from the introduction of Compulsory Competitive Tendering to the Localism Act – markets are mature and diverse and can bring innovative opportunities to improve local services and develop new models of service delivery. Given that integration is still in the early stages of development, we asked survey respondents to identify the roles that they thought the private sector could take in integration.

9 See *Break On Through: Overcoming Barriers to Integration*, NLGN, 2014.

FIGURE 5 What role(s) can the private sector take in local public service integration? (n=49)



Unsurprisingly, contract and service delivery was identified by survey respondents as one of the top three rated answers regarding how the private sector could be involved. However, the majority of respondents said that their main role should be in co-designing services. This chimes with our thinking that service redesign will be best achieved when utilising all available partners.

Informal and pre-procurement market engagement through communicating strategic priorities and specified outcomes of integration is particularly important. This helps to ensure that the market has time and scope to deliver the services required, adds critical challenge to any assumptions that might be made in the design and spec about what suppliers may be able to do, and ensures that the tender is commercially attractive to potential bidders. Private partners may also have experience of the range of financial and delivery models which could be deployed, therefore engaging the private sector in contractual co-design is also a significant opportunity.

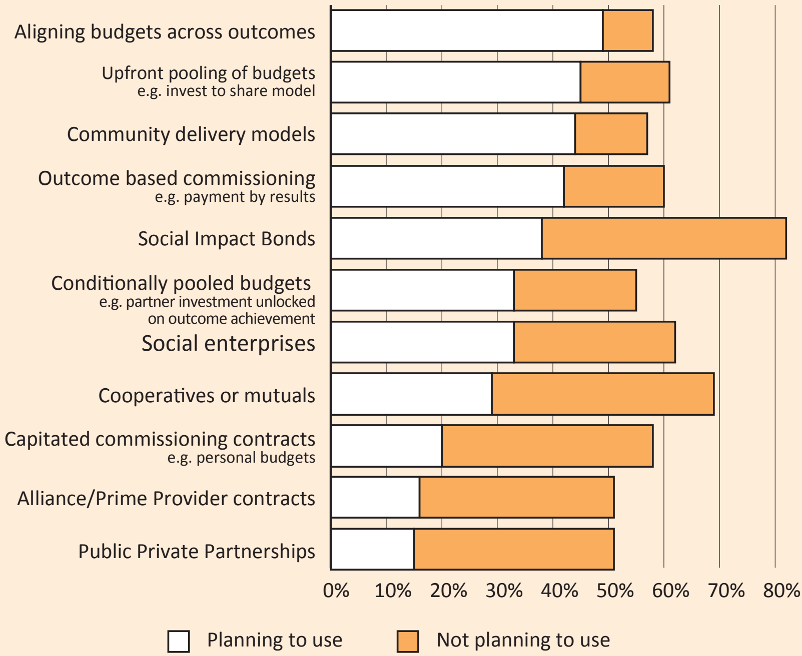
Survey respondents identified financial backing as one of the top rated responses for how the private sector can take a role in integration.
A clear role that business could take is to provide the infrastructure, capability and capacity to enable better joint working between public authorities, in addition to providing additional resources to operationalise business plans. Finding sources of funding to develop integration locally – particularly prevention and early intervention projects – is absolutely crucial in operationalising integration. This is most evident in the early stages where upfront funding is often required to invest in preventative measures that will yield savings or generate revenue later down the line.

Given the well documented need for many public sector organisations, particularly local authorities, to make savings now rather than later, generating upfront funding has been a real challenge for many areas. If areas are able to leverage funding from the private sector to establish integration initiatives, this could potentially tackle the problems of 'double-running', whereby authorities have to deliver services to meet demand now whilst investing in preventative services to manage future demand. This could also help to unlock savings later down the line once preventative interventions start delivering intended outcomes.

Through the survey we have identified that not even a third of survey respondents are using any one of the business models and financial systems identified. We also asked survey respondents to outline which business models they were planning to use in the future.

As Figure 6 illustrates, survey respondents most commonly cited (49 per cent) aligned budgets across outcomes as the business model that areas are planning to use in the future. Aligned budgets tend to involve less sharing of risk and savings, more organisational autonomy and work for relationships in their fledgling stages. It is perhaps no surprise therefore that aligned budgeting is the most commonly cited business model that areas are planning to use. In many ways this business model could represent the 'first step' on the journey towards integration.

FIGURE 6 What financial systems or business models are you and your partners planning/not planning to use to enable integration in your area? (n=55)



The model that survey respondents least commonly identified as planned for future use is alliance contracting; the model that requires the most mature and transformative relationships to develop. Alliance contracting requires a shared approach to risk, accountability and to savings generated through integration – at present very few areas will have developed the sort of relationships that will enable this type of business model to flourish.

It is interesting that the responses under this question broadly follow the same pattern whereby the most commonly used or planned to use business models are those that tend to involve more transactional, fledgling and siloed relationships. Business models requiring mature relationships are less commonly cited. It is unsurprising that this is the case; business models which require more collaborative and transformational relationships are likely to take longer to develop and will be more complicated to implement in practice. As many local partners are still in the first phases of developing integration models and forming new partnerships in order to do this, it will take time until areas move towards more transformational business models.

The next section of this report will explore business models and how these can be applied to different outcome areas.

2 EXPLORING BUSINESS MODELS

Broadly, the survey tells us that the biggest opportunities for future integration are at the interface between neighbourhoods and health and social care and that key partners to this are social and private housing providers, and the health and voluntary sectors. It is also worth noting that the private sector in health and social care, or housing for example, could take a key role in integration – particularly in relation to financial backing and co-design of service solutions.

There is significant opportunity for areas to develop their use of business models. The survey shows that not even a third of survey respondents are using any one of the business models and financial systems identified and that future planned practice tends to rest with models that retain organisational autonomy and savings generated.

Business models are really important for successful integration. They provide a structure to make deals locally between partners, giving confidence to partnerships regarding resilience over time, and as personalities move on or central government mandates structural change. But business models also bring clarity and structure to relationships, a means for moving finances around the system and organising accountability and provide the community with a clear sense of what outcomes are being sought. Establishing new structures for working together and sharing finance with partners is vital – business models enable partnerships to do this.

Local areas need robust business models if they are to operationalise integration, but they must understand the various choices that they can make. This includes key considerations around the components of financial and delivery mechanisms such as risk, accountability and how to share financial rewards. Developing this understanding will enable areas to make decisions around which business models are most appropriate for their own local relationships and partnership arrangements.

Various attempts have been made to explore models and the steps required to implement successful integration. The National Audit Office (NAO)[10] set out requirements around outlining the value and commitment to integration, implementation capability and sustained effort to improve. Similarly, the Centre for Economic and Social Inclusion (CESI)[11] and the Kings Fund[12] have set out the ingredients for success and lessons learned from integration, which outline a number of cultural steps that areas must have in place to make integration work.

The Local Government Association (LGA) has produced a guide to whole-place working, which identifies the steps that should be taken to design new models for integration.[13] This guide is useful in setting out the process of developing models, the principals underpinning them and how to establish a project group, but it does not identify the business models themselves, nor the choices that areas have to make to suit different local characteristics.

Building on this previous work and in order to explore the different elements that are required to operationalise integration, NLGN has developed the following outline business model for integration.

This business model outlines basic elements – the financial model and delivery mechanisms – which operationalise integration. The different financial and delivery elements are explored below.

As Figure 7 demonstrates, the partnership must start with a clear concept of which outcome area or areas they want to concentrate the integration activity on – this will give the partnership a clear sense of vision and goals.

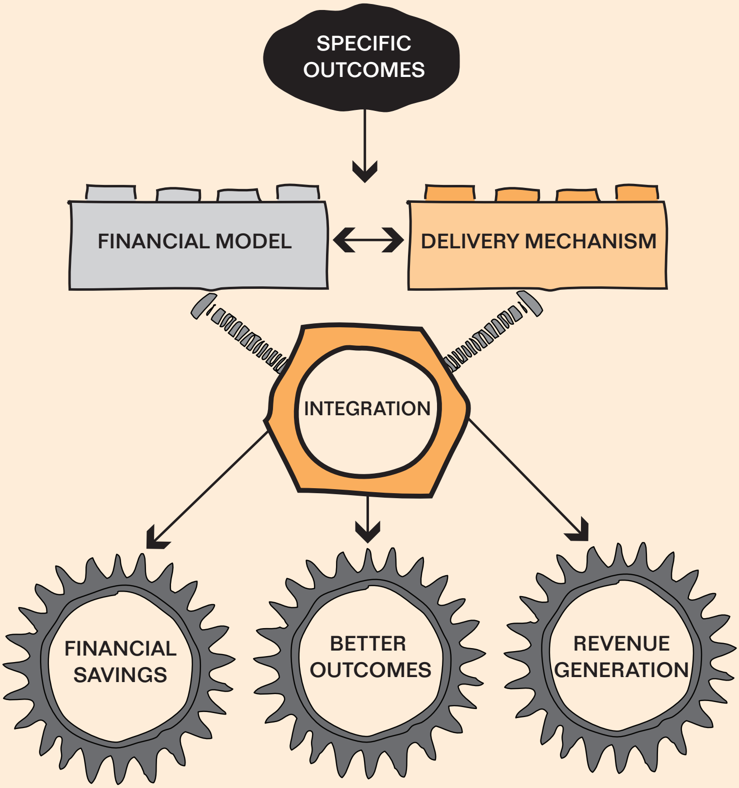
10 National Audit Office, *Integration Across Government*, 2013. National Audit Office, *Case Study on Integration: Measuring the costs and benefits of Whole-Place Community Budgets,* 2013.

11 Centre for Economic and Social Inclusion, *Community Works: putting work, skills and enterprise at the heart of Community Budgets,* 2013.

12 Kings Fund, *Making integrated care happen at scale and pace*, March 2013.

13 LGA, HMT, *Local Public Service Transformation: A guide to whole-place community budgets*, 2013.

FIGURE 7 Business model for integtration



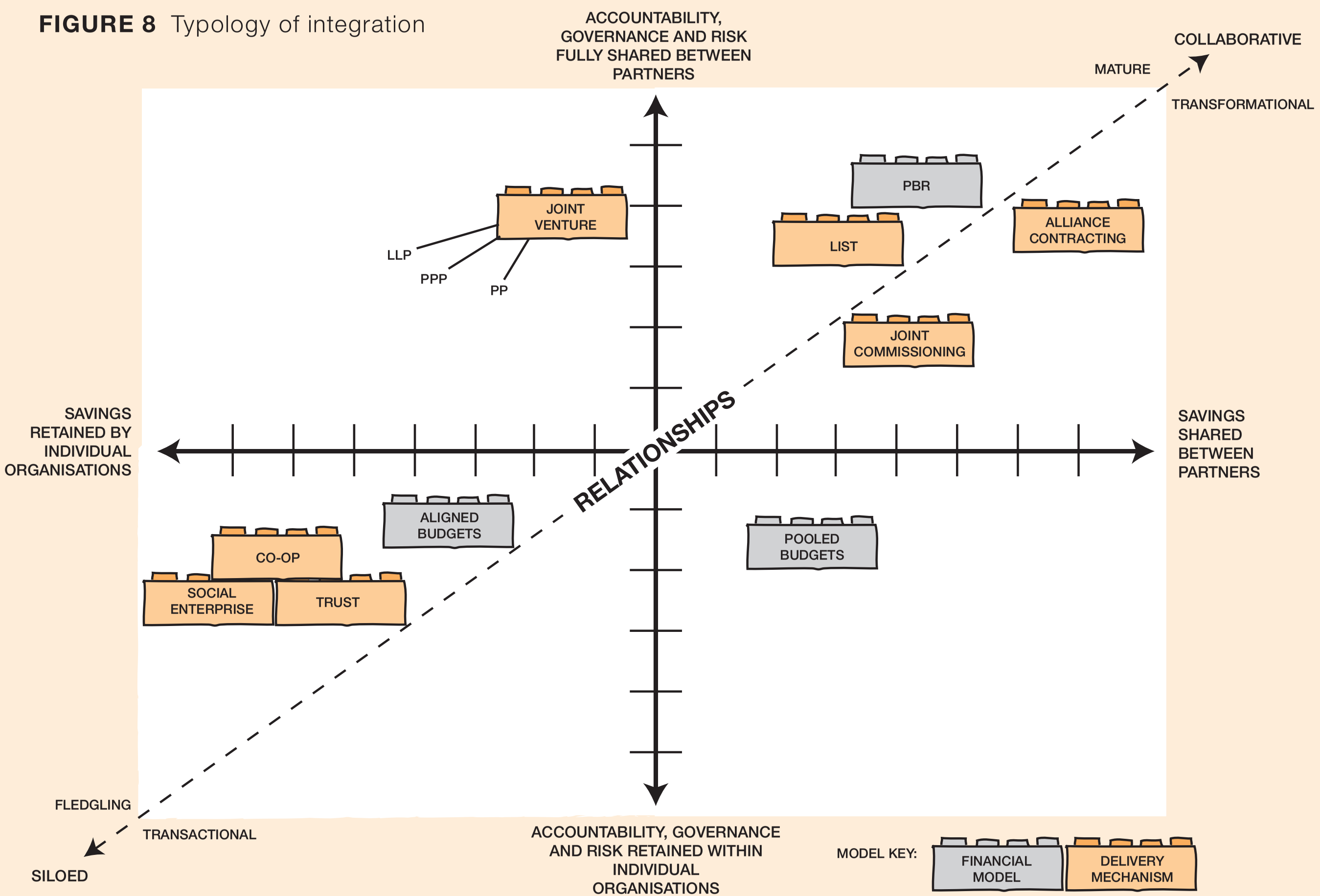
The two elements of the business model that need to be brought together to operationalise integration are the financial models that define how money will be shifted and shared around the system; and the delivery mechanisms that define the structure and process of integration between partners, including elements such as IT and co-location of partners. Both of these elements involve choices around the approach to sharing risk, savings, governance and accountability – it is in making these choices and understanding which models are applicable to local circumstances that areas are grappling with.

This model is a useful starting point for local areas in understanding the different elements that need to come together to operationalise integration. But the real difficulty for local areas appears to be in making choices on which financial models and delivery mechanisms to use, given the different approaches to risk, accountability and sharing of savings that come alongside each of them. In order to make this process of decision making easier, areas need to understand the different approaches that each of the financial models and delivery mechanisms take to organising risk and accountability and the extent to which they share savings and shift money around the system. Understanding this is crucial as it is these choices that must be made with reference to particular local circumstances and depending on the outcomes that areas want to achieve.

In order to explore and outline the different choices around risk, savings, governance and accountability and to understand what this means for the financial models and delivery mechanisms, we have developed the following typology of integration (see Figure 8).

The purpose of this typology is to outline the characteristics of the different delivery mechanisms and financial models, which should assist areas in making practical choices about which models best suit local circumstances.

FIGURE 8 Typology of integration



FINANCIAL MODELS

HOW TO MOVE MONEY AROUND THE LOCAL SYSTEM

Aligned Budgets: aligned budgets involve two or more partners working together to jointly consider their budgets and align their activities to deliver agreed aims and outcomes, while retaining complete accountability and responsibility for their own resources.

Pooled budgets: a pooled budget (or fund) is an arrangement where two or more partners make financial contributions to a single fund to achieve specified and mutually agreed outcomes. It is a single budget, managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities.

Payment by results (PBR): is a form of financing that makes payments contingent on the delivery and verification of specific results or outcomes. In the context of integration PBR is a means to address the inequity of who invests finance in delivering outcomes and who financially benefits from the delivery of those outcomes.

DELIVERY MECHANISMS

DEFINING THE PROCESS AND STRUCTURES OF INTEGRATION

Alliance contracting: an alliance contract is one contract between the owner/financier/commissioner and an alliance of parties who deliver the project or service. There is a risk share across all parties and a collective ownership of opportunities and responsibilities associated with delivery of the project or service. Any gain or loss is linked with good or poor performance overall and not to the performance of individual parties. By having one alliance contract, all parties are working to the same outcomes and are signed up to the same success measures.

Cooperative: an autonomous group working together to meet the common needs and aspirations of its members. Ownership is shared and decisions are made democratically.

Joint commissioning: when two or more organisations buy or commission services together to deliver defined outcomes.

Joint venture: a commercial arrangement between two or more separate entities. Each party contributes resources to the venture in order to create a new business where the parties collaborate together and share the risks and benefits associated with the venture. Joint venture models involve sharing of risk between the different parties involved. There are a series of joint venture models, including public-public partnerships, public-private-partnerships and mutual joint ventures. Joint ventures are a good example of where councils can think commercially about their partnership with a provider, and councils will have to develop their capabilities and commercial skills to make the most of these type of models.

Local Integrated Services Trust (LIST): a LIST is a local social enterprise, owned by the local public sector (as many as possible) and backed by social investment funds, such as bonds. Once the trust is established it can create a series of binding contracts in order to achieve outcomes. Profits are reinvested back into projects that deliver local priorities. The LIST potentially provides a role for the private sector in performance management of contracts in order to drive out benefits.[14]

Social Enterprise: a business that trades for a social purpose, with all profits being reinvested further into the social purpose of the business.

Trust: a trust is a legal arrangement where one or more trustees are made legally responsible for holding assets or running a service.

14 Bevan Brittan, *Local Integrated Service Trust: A model to deliver service transformation and CSR savings.*

This typology identifies the financial models and delivery mechanisms along an axis charting the approach of the model to risk, governance and accountability and the extent to which savings are shared or retained between partners. The typology identifies the characteristics of relationships and culture required locally across a spectrum; moving from fledgling and transactional relationships based around silos at one end, to mature and collaborative, transformational relationships at the other. The purpose of outlining the characteristics of relationships required for each model and mechanism is to assist areas in understanding which model types are most suitable for their own local circumstances.

This typology is not designed to outline a right or wrong business model for integration; instead it is an attempt to explain and identify the conditions under which each of the different financial models and delivery mechanisms might be most appropriate for the individual circumstances of the local area and should support choices around approaches to risk, accountability and savings. The key point is that models need to be developed over time and become more transformational as the partnership develops. For instance, if partners want to retain rather than share savings generated from integration, this typology helps to support choices around selecting aligned budgets as a financial model. Over time and as integration develops across local areas, a move towards collaborative and transformational financial models is desirable - this is likely to unlock the biggest rewards.

The next section of this report explores how these delivery mechanisms and financial models can be developed and applied in practice by working through three examples. It draws on the discussion and outcomes of two dialogue sessions held in London and Manchester jointly with the CBI and Pinnacle PSG. It explores the areas outlined through the survey as the biggest opportunities for future practice: the interface between neighbourhoods and health and social care and key partners including business, social and private housing providers, NHS and health and the voluntary and community sector.

DEVELOPING BUSINESS MODELS

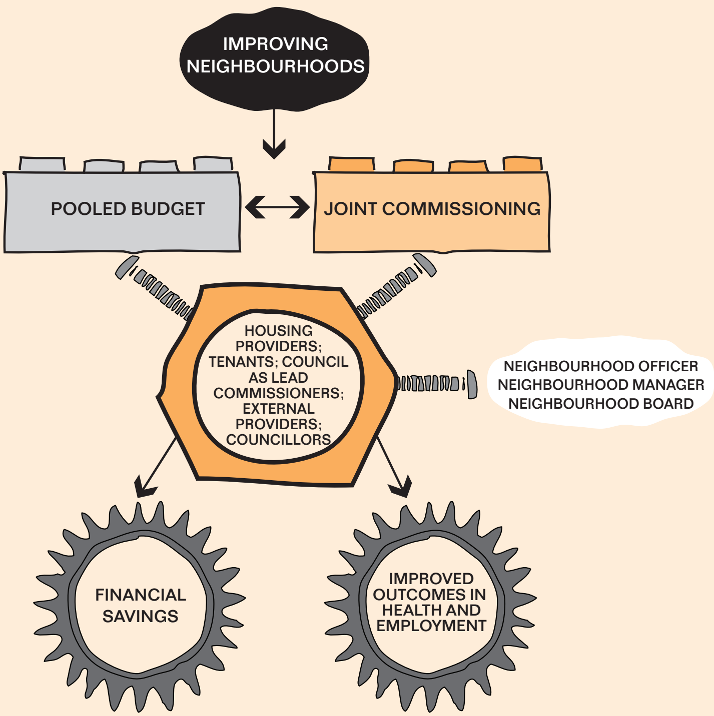
During the dialogue sessions and in subsequent development, we explored the various choices that had to be made in selecting business models, such as which partners should be involved, the delivery mechanisms that would support integration, any shared IT and assets and the most appropriate financial model for the chosen outcome area. We explored the opportunities and challenges that each of the business models presented and the possibilities that they brought for private sector involvement. In line with the key opportunity areas outlined in the survey, we developed business models around three outcome areas:

- Improving outcomes in neighbourhoods
- Keeping older people independent for longer
- People with low incomes

The following three topline business models are the examples that have been developed for these outcome areas.

MODEL ONE: IMPROVING OUTCOMES IN NEIGHBOURHOODS

FIGURE 9 Improving outcomes in neighbourhoods



There are many and varied outcome areas that integration could address in neighbourhoods, for instance, skills, education and health – all of which are connected. The challenge is to move away from a silo based approach to tackling each of these outcomes and towards a delivery mechanism that wraps around the individual, with the community, councillors and neighbourhood at the centre.

The key to breaking down the silos in delivery is to understand the connections between each of the key outcome areas and identify the partners who are responsible for them. Understanding the connections between each of the outcome areas could enable the integration project to break the cycle of negative outcomes through early intervention.

The Our Place[15] programme has already started to explore the path towards greater integration with communities at neighbourhood level, by giving people more power over local services and budgets and harnessing community capacity. Using this approach, communities have been able to influence how local services are designed, planned and delivered to address particular local priorities and services. Emerging case studies suggest that Our Place has been successful in levering community capacity and improving local services, particularly in relation to priorities around community cohesion and adult social care. However it is not clear at this stage whether the Our Place approach has led to greater integration between partners at neighbourhood level, and whether this has then been scaled up and out. This certainly suggests that there are opportunities at neighbourhood level to scale this approach and extend to integration between public, private and third sector partners.

Essential partners to improving outcomes in neighbourhoods could be potentially vast, including health, community safety and local schools, but crucial partners to this business model would be social and private housing providers, including social housing landlords (housing associations, local authorities), private rented sector landlords and owner occupiers, residents themselves and councillors. Local people – self-selecting individuals based around existing relationships and groups – could act alongside councillors as community connectors and would be critical in engaging people in the neighbourhood. These community connectors

15 See: www.mycommunityrights.org.uk/our-place

and councillors would be vital in providing insight into the issues in the area and how to resolve them.

Given that this outcome area involves integration of services around a neighbourhood area, co-location of frontline services in the given geographical area would be a vital component of integration, with a visible neighbourhood office where individuals could go as single point of entry into the system. Not only would this enable different parties to come together to cooperate, but it would also act as a symbolic shared asset – a place that all partners to integration share. A key worker or neighbourhood manager could operate out of this frontline office and act as a single point of contact and pathway for individuals and the community into a referral process. The role of an outsourced private or third sector organisation could be an important consideration for this model, as a service provider, in contractual co-design by bringing their experience of financial and delivery models, and also to facilitate access to capital and infrastructure to facilitate community representation.

Alongside this shared front-office, shared back office facilities such as IT services and data sharing, in addition to a joint procurement framework would be important in supporting integration. Ensuring that the transactional and technical roles in organisations are shared as much as possible would be important.

In this outcome area the key consideration would be that the business model is flexible and pragmatic to allow for bespoke interventions, depending on the individuals and need within the neighbourhood. Given that neighbourhood integration across a series of outcomes will be relatively new practice across many areas, starting with something small, demonstrating the value of the approach and then scaling this up would be the most favourable initial approach. A joint commissioning approach to delivery, whereby organisations commit to small local pooled budgets would reduce risk whilst testing the process.

Ideally, the pooled budget would be managed by a panel of individuals – a neighbourhood board appointed or elected by the neighbourhood and derived from members of the neighbourhood itself, supplied by lay members made up from partner organisations and chaired by a councillor. Initially though the local authority would act as the accountable body and pooled budget holder until the approach is tested and proven. Any savings generated by this model would be retained by the individual organisations rather than pooled between the partners, unless pre-agreed proportions are to be fed back into the pooled budget to commission further preventative work.

CASE STUDY: KINGSTANDING – OUR PLACE

Kingstanding Regeneration Trust (KRT)[16] *is run by a group of volunteers from the Kingstanding area of Birmingham. They are currently supporting the Erdington District Team with work based in the Kingstanding Leisure Centre, which has been identified as a future Health and Wellbeing Centre by the Councils Strategic Sports Team. KRT are working to develop a Central Neighbourhood Plan based around the leisure centre which integrates a variety of health, welfare and leisure services into a community friendly centre which is welcoming and inviting to residents. They are operating this project with a pooled budget, comprised of funding and in kind contributions from the Our Place programme, Birmingham City Council and public health.*

KRT are building a partnership with a variety of stakeholders locally, including Public Health Birmingham, Birmingham City Council, Warren Farm Health Centre, College Road Surgery, Aquarius Action Projects, Forest Schools Birmingham, Dove Medical Centre and New Heights Community Project. They are integrating services in the leisure centre to jointly commission a holistic gold standard comprehensive health and wellbeing check to reduce inequalities and tackle the social causes of mental and physical health problems of people in Kingstanding.

This health and wellbeing check will be paired with a range of health, welfare and leisure services to address needs in the area which contribute to broader health and wellbeing. This includes debt services, substance misuse services and relationship services – all of which underpin physical and mental health needs of residents. To ensure that this project meets the needs of residents in the neighbourhood, the community has been heavily involved in the

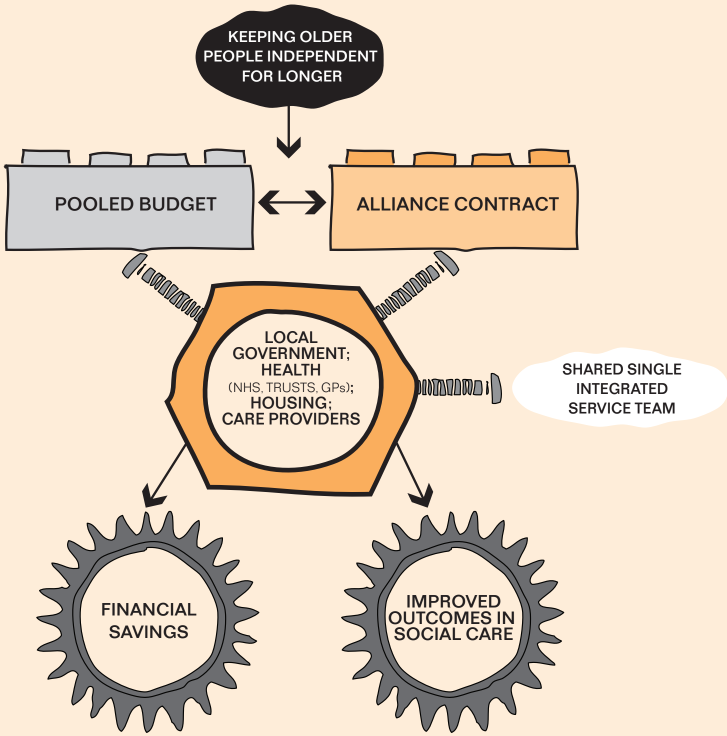
16 See: www.kingstandingregentrust.org.uk

project through consultation and via the project steering group. As the project develops KRT intends to lever capacity from members of the community by involving them as volunteer mentors to the programme.

Although the project is in the early stages, KRT has already brought together a range of partners to identify the key issues around health and social need in the area. They have also established and deliver a range of intervention projects, including a nutritional project, substance misuse services and advice services for the local community.

MODEL TWO: KEEPING OLDER PEOPLE INDEPENDENT FOR LONGER

FIGURE 10 Keeping older people independent for longer



Given the level of spending in this outcome area now and the anticipated future rise in the cost of delivering this outcome, it is essential to consider developing a business model to enable savings to be shared between partners, both for savings now and in the future. As such, a pooled budget governed by an alliance contract between local government, health (NHS, GPs), housing and care providers (private and third sector) could share risk and accountability in addition to the savings generated from the integration project. This business model would enable the integration of health and social care between the alliance of partners and work towards a single pooled budget and staff team for the purpose of the alliance.

Although the preferred model, developing an alliance contract requires a deep level of trust between partners and highly mature relationships; many areas have not yet developed the sort of collaborative relationships that are needed to develop an alliance contract. For areas with more fledgling relationships, starting with a joint commissioning delivery approach and then over time, moving towards an alliance contract model might be the best way to proceed.

For this outcome area, prevention takes a key role by stopping people from entering the care system wherever possible. Older people themselves would have to play a key role in the process of commissioning for services, whether through personal budgets or by having a formal role in the commissioning process. When commissioning, pre-market engagement would be absolutely vital to the successful development of a new business model. Providers would need time and sufficient understanding of the desired service to be able to build the capabilities required to drive innovation through the service. This process requires local authority commissioners to build on their commissioning skillset, so they are well equipped to engage with markets effectively, early and widely enough to achieve the best possible outcomes.

CASE STUDY: SALFORD INTEGRATED CARE PROGRAMME

The Salford Integrated Care Programme[17] is underpinned by an Alliance Agreement between NHS Salford CCG, Salford City Council, Salford Royal NHS Foundation Trust, Greater Manchester West Mental Health NHS Foundation Trust and GP providers. The agreement between the partners is for the delivery of the integrated health and social care services for older people in Salford and to support the reconfiguration of care over a four year period. The aim of the programme is to deliver a triple of aim of improved outcomes, better experience and reduced cost, through greater collaboration between primary, community, acute and social care for older people. The short term goal of the programme is to reduce service duplication and waste, with the longer term aim being to secure greater population health and reduce future service demand. The Alliance partners have agreed to a series of key principles which form the basis of the Alliance, including operating as a single, integrated team, to share the risks and rewards associated with good or poor overall performance.

The Alliance is governed through an Alliance Board for Integrated Care, which has delegated responsibilities from each of the partners. The Alliance Board is supported by a Steering and Finance Group and an Operational Board. The Alliance has also established a £98m pooled budget for the purpose of commissioning integrated care services for older people – responsibility for which is delegated to the Alliance Board. Governance arrangements very clearly set out which decisions cannot or will not be delegated from statutory organisations. The host commissioner for the pooled budget is the Clinical Commissioning Group, who manage and account for the pooled budget.

17 www.salford.gov.uk/integrated-care.htm

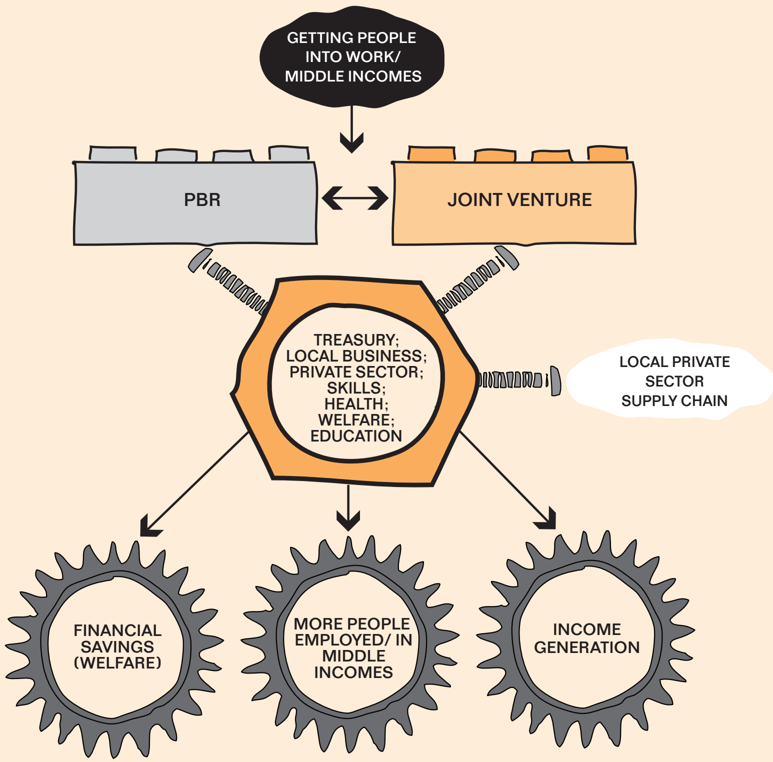
MODEL THREE: HELPING PEOPLE WITH LOW INCOMES

The first consideration with this outcome area is to understand what the real issues are for people who are on low incomes, as these could be many and varied and might not be as simple an issue as low paid employment. Mapping the life cycle of an individual and the interventions that they receive through the local public sector once out of work could be an essential step in understanding the issues from the user's point of view. Finding the key points in the cycle and identifying how to break norms and behaviours would be crucial. Low incomes could be an issue regarding individual skills, educational attainment, local employment opportunities and relating to this, local economic and infrastructure development. As such, the integration project would need to deliver a series of immediate, medium and long term interventions. The complex nature of individuals out of work or with low skills would require a wide range of local partners, such as health, welfare, education, children's services, police, local business and advice services.

When selecting a business model, the most important choice for this outcome area is the financial model and how to redistribute the benefits of moving individuals towards middle incomes. At present, the majority of these benefits do not accrue to local government, where a lot of the preventative work is done, as the ultimate financial beneficiary of people being in work and receiving higher incomes is the Treasury. Therefore the model has to take account of short and long term payback from the Treasury to partners as a result of the interventions made over time. As such, a long term payment by results system might be the most appropriate financial model for this outcome area, which tracks income tax and benefit receipts over time.

In terms of delivery, a 50/50 joint venture between the council and private sector partners with the council as principle commissioners, with a supply chain of SMEs, the third and private sectors locally would ensure a vehicle for integration and suitable sharing of risk and governance between local government and a private sector provider. The private sector is crucial for delivering better outcomes in this area, given that funding will be required for long term investment – the private sector would have the ability to provide upfront capital for interventions now. Informing local skills provision with the local labour market could unlock more employment opportunities, but this can only be done as a partnership with local private sector business.

FIGURE 11 Helping people with low incomes



CASE STUDY: GREATER MANCHESTER - WORKING WELL

Significant levels of worklessness have been a feature of the Greater Manchester labour market for the past three decades, through periods of recession and growth. There are around 247,000 individuals on out of work benefits in Greater Manchester, more than half of whom (140,000) receive Employment and Support Allowance or Incapacity Benefit (IB). The direct costs to the taxpayer alone are £1.4 billion per year. This is before the indirect costs of targeted and specialist public services are factored in.

As part of the Greater Manchester Public Service Reform agenda, local services are working together to improve employment opportunities for some of those furthest from the labour market. Working Well, announced by the Chancellor on 1st October, sits within this, supporting 5,000 ESA claimants tackle their barriers to work. This group, who have all left the Work Programme without finding employment, will receive more integrated and intensive support. A bespoke package of wraparound support is developed for each participant on the programme – focused on tackling their specific barriers to employment.

Local services are working together along with commissioned keyworkers; ensuring participants are able to access the right services at the right time, in the right sequence to help them move towards employment.

Greater Manchester have set challenging targets. They aim to support 20% of clients (1000 people) into work and 15% (750) into sustained employment (over 12 months in work) - work outcomes higher than those being achieved for this claimant group through the Work Programme. While supporting people into work is the primary outcome for the programme, Greater Manchester also want to see wider improvements for those on the programme, such as improved management of health conditions. Referrals to the programme started in March 2014 and will continue for two years.

All participants have been out of work for at least two years, and in many cases significantly longer. Despite this, they already seeing positive outcomes and ahead of the six month target for the first job starts, have already seen a small number of participants begin work. Helping them sustain this work is a vital element of the programme and keyworkers will continue to support each person in work for up to a year.

As a joint venture, the programme is jointly funded by the Department of Work and Pensions (80%) and the 10 Greater Manchester Local Authorities (20%). Using a key worker model, the programme integrates health (including physical and mental health, drug and *alcohol services), skills, education and housing services, with two commissioned keyworker providers -The Big Life Group and Ingeus. The keyworkers support each client to navigate the journey back to work, supporting and motivating them to tackle their barriers to work. Using a Payment by Results model, the providers will only receive the full payment available for supporting each client once someone has been in work for at least a year, helping to ensure clients are supported to find the right sort of work for them.*

Using a key worker model, participants in the programme receive bespoke packages of support. Working alongside local service integration teams, participants are able to access a wide range of interventions including mental and physical health services, drug and alcohol services, skills, colleges, and housing. Each provider also delivers a wide range of support in-house, focusing on developing the confidence and self-efficacy of clients. By working together, using their local knowledge and providing access to the right services at the right time, Greater Manchester expect to see improved outcomes for the Working Well participants.

Section three will consider the key findings and themes emerging from the development and analysis of these example business models.

3 THE DIY ETHIC: KEY FINDINGS AND THEMES

It is clear that there is significant interest in making integration work effectively and develop at speed. Many local areas see opportunities for integration across neighbourhoods, work and skills and social care, but the challenge in most areas is around developing business models to operationalise integration, including making choices around how to deal with sharing revenues, savings and governance arrangements.

The process of developing these three example business models has highlighted a number of key findings and themes which areas should consider when they are designing their own models for integration.

They suggest that for some outcome areas there are business models that might be better suited than others. In particular:

- Where the financial benefits of integration are ultimately delivered to one organisation, payment by results appears to be the most effective financial system for delivering payback to other partners to the integration partnership. For instance, when delivering outcomes in work and skills, the ultimate financial beneficiary of getting people into work, or higher paid work is the Treasury. As such, a payment by results system would enable the Treasury to pay back funds to partners for delivering services that enable people to get back into work.
- At a neighbourhood level, and if the intention is to involve the community in commissioning, the level of trust required in community decision making is significant. Using a small pooled budget for local commissioning is the most effective way of building trust in the short term, leading to a longer term commitment to scaling budgets after the concept is proven.
- Alliance contracting combines high levels of trust and partnership maturity with a commitment to a collaborative and transformational way of working and is therefore considered the most transformational delivery model.

Alliance contracting can be particularly appropriate in a health and social care context where this gives the ability to procure an integrated service which fully shares risk, savings and governance arrangements. However, alliance contracting can only be built on a solid tradition of partnership working where relationships are mature and partners are willing to fully share the risks associated with this shared mechanism. Even though it might be considered the most optimum delivery model it is certainly not appropriate for all contexts and depending on the integration project, may not be the best way of managing risk.

- Joint ventures could be an effective way of managing an arrangement between public, private and third sector partners – particularly where private sector partners are contributing significant financial resources to the venture. This would enable partners to define how benefits and risk would be shared as part of the joint venture.

KEY THEMES

Developing business models is the final piece of the jigsaw puzzle in operationalising integration – areas have been grappling with the choices that need to be made in order to take this agenda forward. In part, this is due to a lack of understanding about the business models themselves, but also around how they can be applied to local circumstances.

The typology (see Figure 8, p29) starts to explore the key elements of business models for integration; different financial models and delivery mechanisms and their approach to managing risk, governance and financial savings. It also points to how the models might apply locally in terms of the characteristics of relationships. Learning from this, a series of six broader themes also emerge from this work and should form a key part of decision making around business models:

- Understand your own area's characteristics and develop business models that reflects this. This is particularly important in relation to local relationships and the approach that is needed to manage risk, governance and financial savings.
- Start with small projects and grow these over time and through rapid

testing of the business model and the approach. Demonstrate tangible results before scaling up and involving a broader range of partners.

- Maximise the value of the third and private sectors to have a clear role as deliverers of services, in providing resources and infrastructure, particularly ICT solutions, to operationalise integration and also in contractual co-design.
- Involve your local communities and consider starting at neighbourhood level to do this. A community hub – a co-located, symbolic place - can act as a catalyst for community involvement and visible benefits of integration will lever great community engagement.
- Ensure that there is alignment between outcomes, partners, financial savings and risk and the business model that your area uses and crucially, track the benefits generated from integration and understand upfront who benefits financially.
- There are a number of considerations that need to be worked through when managing risk in these new business models; namely, understand legal issues around sharing risk, particularly in relation to statutory duties; and develop systems for managing contracts over a long period of time.

UNDERSTAND LOCAL CHARACTERISTICS

The typology is an incredibly useful starting point to understanding which financial models and delivery mechanisms can be used to develop business models, depending on local characteristics, including relationships and how partners currently work together. For instance, while an alliance contract might in principle appear to offer the right delivery solution; if relationships are in their very early stages and local partners currently tend to work in a more siloed way, it is unlikely that an alliance contract will be most appropriate for these local circumstances. Similarly, if it is incredibly important locally to retain organisational autonomy, then selecting a delivery model where risk is retained, rather than shared will be more beneficial. The principle here is that the development of the business model to operationalise integration must suit local circumstances and reflect relationships locally.

START SMALL AND GROW OVER TIME

Many areas want to create a big solution to outcomes, involving a huge range of partners, however starting with smaller steps and growing this over time is more likely to deliver achievements and secure political buy-in. As relationships develop, it will be possible to grow business models or incorporate elements that enable partners to share more risks and benefits from integration. It is important to start small and grow an approach over time; rapidly testing an outline business approach and delivering small but tangible results to both prove the concept and encourage buy-in from a wide range of partners, including securing political-buy in. In practical terms, this means starting with a small pooled or aligned budget and rapidly testing the approach. While there may be a desire for areas to move towards payment by results and alliance contracting models for integration, there are a series of local milestones that must be reached before this can be possible – for instance, strong relationships, willingness to share risk and financial benefits from integration. There are also a series of legal barriers that might need to be worked through, which take time and trust between partners.

As part of starting small and growing over time, it is important that frontline services are brought in as part of the next stage process of integration. In part, this is largely because in many areas back-office integration has been completed and this will not unlock the sort of savings that are required. But it is also important that benefits of integration are tangible and observed by the community and users, in addition to wider stakeholders. Delivering visible benefits is a significant step towards involving communities and a wider pool of partners in integration.

MAXIMISE THE VALUE OF THE THIRD AND PRIVATE SECTORS

The private and third sectors could have a clear role in moving integration forward – not only as deliverers of services but also in facilitating integration by providing the investment and infrastructure that will assist partners to bring services together. Where the private sector are willing participants in the integration of services, commissioners must ensure that the market and the contract accurately reflects their strategic priorities and that providers are equipped with the appropriate incentives and drivers to deliver service transformation. In some cases this will mean moving to longer-term but increasingly flexible relationships with providers, where providers can invest in change and they can feel confident that their investment will lead to appropriate levels of returns over the life of the contract. Longer contracts, with appropriate break clauses, may be the route to addressing this need. A contract is only successful if it offers something to both parties and creates a relationship which encourages both to look beyond the contract stipulations towards developing a broader, partnership relationship. A joint venture, or mutual joint venture are good examples of where a model can build up a partnership between both partiers through mutual benefit.

Pre-market engagement is vital to the successful involvement of markets in service integration. Business can provide the infrastructure, capability, scale and innovation that might enable integration to be catalysed, but the market needs to know early on exactly what partners want to achieve. Early engagement with potential suppliers whilst scoping out desired outcomes in service transformation can help councils create a strategy that is both transformational and commercially attractive to potential bidders. Early conversations will assist councils by providing them with a clear indication of what innovations the market can bring. Market and supplier forums and Market Position Statements can be an effective method of engaging with potential suppliers. They help to ascertain a picture of current and future demand for the particular service, the current provision from public, private and third sector providers, future levels of funding, and often the ideal models that they will support and encourage.

In order to engage markets in this way, commissioners must possess the right creative commerciality skills[18] in order to manage markets and position them to assist in the integration of local services. This involves the ability to manage contracts over a long period of time and evaluate successes and outcomes of integration. Commissioners will need to be aware of how to effectively drive innovation across the market, manage and share risk, ensure they are getting value for money, promote market diversity, and deliver on wider social value goals.

18 See *Commissioning Dialogues*, NLGN, 2012.

INVOLVE COMMUNITIES AND START WITH NEIGHBOURHOODS

The issue of community involvement came across very strongly in both the survey and the dialogue sessions. As integration moves into the next phase and increasingly towards frontline services rather than back-office integration, the involvement of communities and councillors in operationalising integration becomes even more vital. This is the only way to ensure that local need is assessed adequately in order to deliver the right services, and also to maximise the capacity of communities in doing so. A particular finding from the dialogue sessions was the importance of finding a catalyst for community involvement, which in many cases is the neighbourhood in which individuals live. Using a neighbourhood approach or community hub to act as a catalyst for integration might be a means to more easily involve individuals and use the knowledge of councillors, in addition to involving a broad range of areas such as worklessness, skills, families and mental health. Starting with geography and engaging people at neighbourhood level, then working outwards to interact with this broad range of issues could deliver the biggest benefits. In terms of how this relates to business models, moving towards a joint commissioning delivery model would enable meaningful involvement of communities around the choices that have to be made regarding frontline services.

TRACK THE BENEFITS

In developing a business model, applicability to local characteristics and relationships is crucial. Equally important is consideration of how the business model enables the partnership to arrange risk, governance and financial savings and who the benefits are delivered to. Tracking the benefits of integration and ensuring that risk is weighted towards those who yield financial benefits; or paying-back financial benefits where other partners take risk of delivery but yield no direct financial reward is important. This means understanding the alignment between outcomes, financial savings, risk and the business model itself.

MANAGE RISK

Managing risk and working through the barriers associated with this is crucial. Namely, areas have many unanswered questions around how risk can be shared and integrated with regards to statutory duties. For many areas, legal clarification is required and this can take time to resolve. Examples given involved whether risk can be shared around statutory children's and adults services and safeguarding, and what risk can be transferred to councils, for instance from the police.

In shifting towards prevention and early intervention, as anticipated through health and social care integration, it is likely that partnerships will commission services to deliver outcomes for both the short, medium and longer terms. For longer term outcomes, there is understandable anxiety regarding the ability of councils and partnerships to manage contracts over the much longer term. Developing the skills and continuity planning to manage contract delivery over a long period of time is for many areas, still to be realised.

In the short term, areas need to find a means to commission services more easily that enables solutions to develop and low-level outcomes to be realised at pace. This is important in making upfront savings, engaging the private sector and also gaining wider buy-in for integration. The challenge here is balancing the need to commission quickly, whilst integrating outcomes for the long term and ensuring longer term transformation. There will always be challenges to integration, but all partners will need to find solutions to work around them and solve problems as projects progress.

CONCLUSIONS AND RECOMMENDATIONS FOR OPERATIONALISING INTEGRATION

Choosing the right business model is crucial to the success of integration; in order to develop and operationalise sector-led integration at pace, we need a better understanding of these models and their practical applications locally. Understanding and operationalising business models is the final piece of the sector-led integration puzzle.

This report has started to explore how business models for integration can be developed. The typology of integration sets out the approaches that each of the financial models and delivery mechanisms take to managing and sharing risk, accountability, governance and financial savings. Areas need to make choices around these key areas, with the involvement of a range of partners, if they are to develop business models and take forward integration.

The typology also demonstrates the conditions in which financial models and delivery mechanisms can be applied locally. Characteristics of place such as the strength of relationships, approach to partnership working and pace of transformation are key determinants of whether models are applicable to local circumstances. We hope that the typology will be a useful starting point for areas that are making decisions about how to develop business models in their own areas.

We point to six key themes emerging from development of the example business models, which areas should consider when they are making their own choices about how to operationalise integration.

- Understand your own area's characteristics and develop a business model that reflects this. This is particularly important in relation to local relationships and the approach that is needed to manage risk, governance and financial savings.
- Start with small projects and grow these over time and through rapid testing of the business model and the approach. Demonstrate tangible results before scaling up and involving a broader range of partners.
- Maximise the value of the third and private sectors to have a clear role as deliverers of services, in providing resources and infrastructure to operationalise integration and also in contractual co-design.
- Involve your local communities and consider starting at neighbourhood level to do this. A community hub – a co-located, symbolic place - can act as a catalyst for community involvement and tangible benefits of integration will lever great community engagement.
- Ensure that there is alignment between outcomes, partners, financial savings and risk and the business model that your area uses and

crucially, track the benefits generated from integration and understand upfront who benefits financially.

- There are a number of considerations that need to be worked through when managing risk in these new business models; namely, understand legal issues around sharing risk, particularly in relation to statutory duties; and develop systems for managing contracts over a long period of time.

The next stage of integration will be about moving into the big areas of spend locally, such as those in health and social care, troubled families and work and skills. Integration and transformation will have to break into frontline, acute services and shift towards a much more preventative model of public service. This is the only way to make significant savings in the future, whilst delivering better outcomes for communities. This means developing business models locally that enable risks and benefits to be shared between partners, and to ensure that all partners financially benefit from greater integrated working.

There seems to be great appetite to operationalise transformational and collaborative business models, with shared risks and savings across partnerships, such as alliance contracting. However, models that share in this way, can only be developed in local areas with a history of partnership working and a willingness to forego organisational autonomy; few areas are there yet.

In moving integration towards big areas of spend and frontline services, this report demonstrates that there is opportunity and the appetite to start this journey in neighbourhoods and widen the potential pool of partners to housing providers and the voluntary, community and private sectors. Starting with a neighbourhood approach could be a means to engage communities in design and delivery, but also a way to deliver more visible benefits on the frontline. In order to further accelerate integration, local areas need to move towards transforming neighbourhoods – starting small and scaling activities up once they are proven. The most appropriate outline financial model to enable greater integration with a neighbourhood focus is small pooled budgets, which could grow over time. Co-locating staff in a shared asset could give a place for partners to come together to cooperate, and provide a symbolic shared asset for enabling integration on the ground.

This report also outlines opportunities in the future for greater involvement of a wider pool of partners in integration, including the private sector. Large areas of spend require stronger relationships with providers and better commercial skills within the public sector to manage markets. Through pre-market engagement, areas will be able to understand the delivery role that the private sector could take and the extent to which they would be able to deliver outcomes. Involvement of the private sector could also be a way to unlock additional infrastructure, capacity and finance in order to operationalise integration. Joint ventures, between public and private sector partners could ensure a delivery vehicle for integration and suitable sharing of risk and governance between public and private sector providers.

The challenge therefore, is to start testing and growing business models. In order to do this, we make three recommendations:

RECOMMENDATION ONE: RAPID TESTING

To make these business models real, local areas need to develop their own process to rapidly test models and grow them locally. This is likely to mean starting with something small where risks can be taken and political buy-in can be sought quickly, proving the concept and then growing the approach over time. Getting agreement locally to a small pooled budget for example, and working through delivery models and the risk, accountability, governance and financial choices that go alongside this, will enable areas to develop models with low-risk, at speed.

Practice needs to be shared across the sector and an iterative process for rapidly testing integration needs to be developed in order to share the sort of learning that is required to deliver at pace. The Public Service Transformation Network and What Works Network can play a crucial role in supporting areas to develop expertise and share this across the sector. We recommend that government establishes a What Works Centre for service integration by 2015 in order to support local areas in developing and sharing this knowledge.

RECOMMENDATION TWO: GROW THE NEIGHBOURHOOD APPROACH

Growing the neighbourhood approach to integration could accelerate the process of shifting integration towards frontline services whilst demonstrating how integration can deliver visible benefits in communities. The next stage of integration must be about frontline services – but in order to integrate effectively, the community and users themselves need to be involved in this process and it must involve a wider pool of partners, including those in the third and private sectors and housing providers. It is also important that benefits of integration are tangible and observed by the community and users; delivering visible benefits is a significant step towards involving communities. Building on and further developing the Our Place approach to transformation at neighbourhood level could accelerate the pace of change, whilst allowing partners to take risks with small, localised services; scaling practice up as the concept is proven.

RECOMMENDATION THREE: DEVELOP SYSTEMS FOR MANAGING RISK

In order to remove anxiety around sharing and transferring risk and delivering contracts in the long term, areas need to develop systems and approaches for managing short and long term risk of integration. In developing business models and working through the various choices that need to be made to operationalise integration, areas have to make choices around risk and around governance. But in order to do this, they need to understand where risk can be transferred and the legal issues that surround this. Particularly in relation to statutory duties, such as those in social care, councils need to understand the extent to which risk and responsibility can be shared with partners and the consequences of doing so. In order to resolve this, councils need to work through the associated legal issues, and where answers cannot be sourced locally, consult with the Public Service Transformation Network. Business models themselves will help to provide a resilient structure for managing delivery over time; structures will persist regardless of whether key personalities move on.

APPENDIX 1: METHODOLOGY

The methodology for this research had two main components:

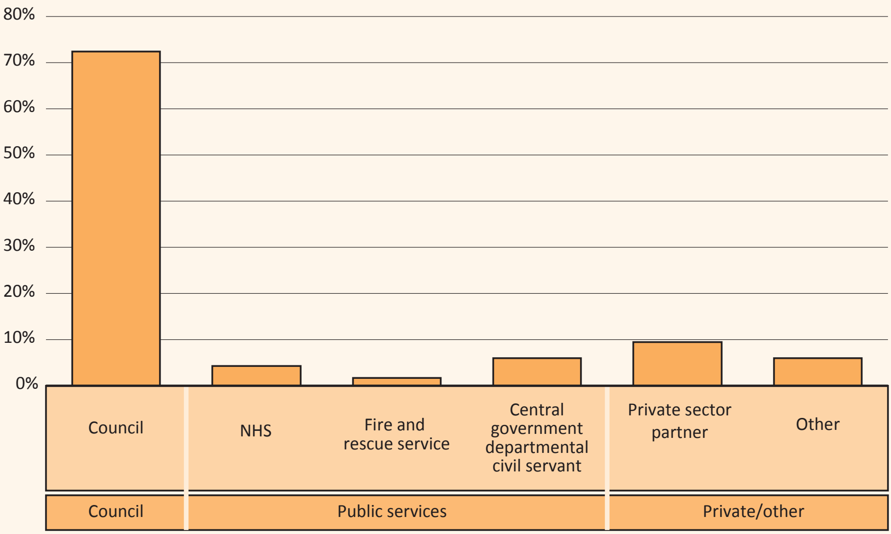
1. A survey was sent to 1,000 senior officers, head of services, cabinet members and frontline staff in local authorities, and staff in NHS, Fire and Rescue services, central government, VCS and the private sector across England. We received a total of 116 responses, although responses varied depending on the individual question.

2. Two facilitated dialogue sessions were held in London and Manchester with a total of 40 senior officers from local government and representatives from the private sector in order to discuss and develop new business models. The groups were split into three outcome areas identified through the survey (Improving outcomes in neighbourhoods; Keeping older people independent for longer; People with low incomes) and asked to work through a series of questions in order to develop example business models. Each group presented back their findings and received comments in order to challenge the thinking in the models.

APPENDIX 2: ABOUT THE SURVEY

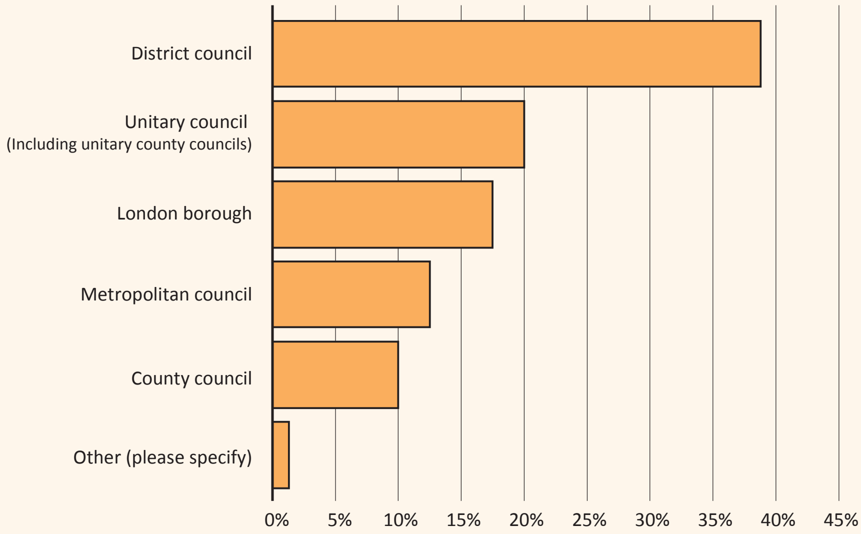
The survey was sent out to senior officers, head of services, cabinet members and frontline staff in local authorities, and the NHS, Fire and Rescue services, Central Government, VCS and the private sector across England in mid-January 2014 and was open for 6 weeks. In total there were 116 responses. The following chart demonstrates the spread of responses from across different organisation types.

Figure 12 What type of organisation do you work for? (n=116)



72 per cent of survey respondents were from local authorities. This can be broken down as follows:

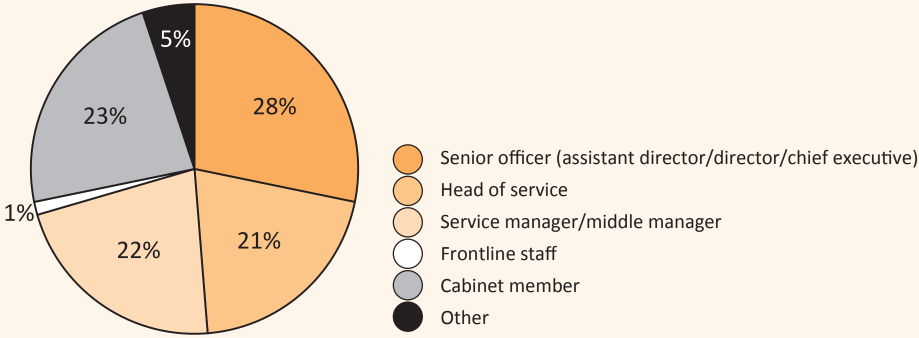
Figure 13 What best describes your authority? (n=80)



As can be seen from this chart, the highest percentage of respondents work for district councils (30 per cent). This is to be expected as there are a greater number of district authorities than any other authority type, and responses are broadly in line with the percentage of different authority types across the country.

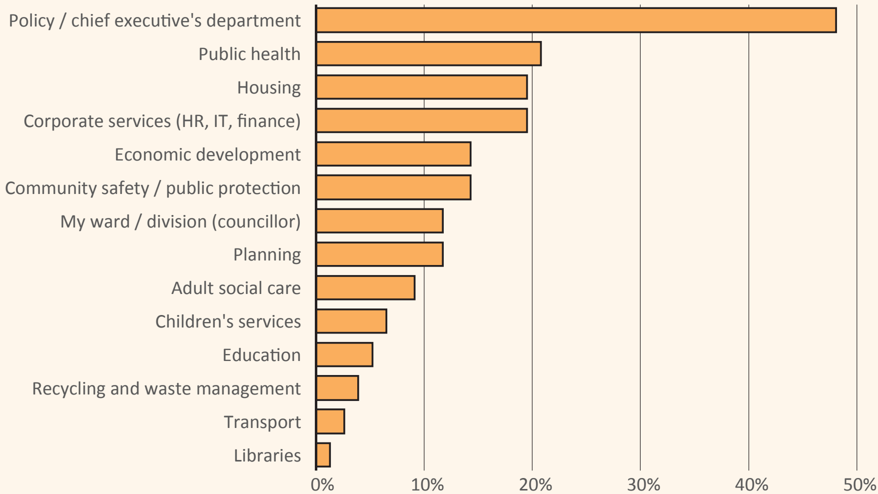
As can be seen in figure 14 there is a relatively even spread in those responding to the survey between senior officers, middle managers, heads of service and cabinet members. However, only 1 per cent of survey respondents were frontline members of staff. This is to be expected as frontline staff may have limited access to IT facilities to complete the survey.

Figure 14 What is your role within the council? (n=78)



Of those respondents from councils, 48 per cent noted that their main areas of responsibility were policy or chief executive's department and a fifth of respondents said that they have main areas of responsibility in each of public health, housing and/or corporate services. The fact that there was a higher representation of individuals from housing and health that took the survey could demonstrate that officers in these areas, more than other departments, are actively considering the opportunities for integration in their areas of work.

Figure 15 What are your main areas of responsibility? (Please tick all that apply)(n=77)



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The benefits of integrated, whole-place working are now well rehearsed. But with the need for councils to make significant savings looking forward, the challenge for the sector is to rapidly scale this way of working. Government is backing a do-it-yourself model of change, which encourages local areas themselves to take forward their own plans for integration. Many areas have started to make significant progress towards this, but there are barriers holding them back from this locally-led approach.

The final piece of the jigsaw means developing a new generation of business models, which gives partners answers on the practicalities of how to operationalise integration. This report focuses on these business models; it sets out why business models matter and identifies models that could help councils and their partners implement integration.

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