

Darlington Borough Council

Strategic Options for Place

Review of Options for Delivery of Place Services

March 2012

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INTRODUCTION

1. The aim of this report is not to determine the detail about who will deliver which group of Place Services, rather it is to recommend the direction of travel and identify a preferred option – possibly a ‘mixed economy’ of different solutions for different services.
2. The report documents the findings from work on determining WHO could potentially deliver the Place group of services in the future, and looks at:
 - (a) how services are currently delivered,
 - (b) existing Services - and where robust data is available benchmarks the performance of Place services against other local authorities,
 - (c) findings from a market testing exercise and from research into how other local authorities and public service organisations have commissioned services,
 - (d) who might provide services and how services could realistically be packaged together,
 - (e) the pros, cons and issues involved in all realistic options – improved in-house, collaboration with other councils, delegation of services to another council, outsourcing to the private sector, and delivering services through a trust,
 - (f) Evaluating each option against a common set of criteria – value for money, risk, flexibility, sovereignty, impact on other areas of the Council and how they fit with the design principles in the Councils business model; and
 - (g) Based on the above recommends a course of action, to implement the preferred option or options. In some cases further work will be required on a detailed business case(s), examining the specific costs, risks and issues, prior to implementation.
3. Section 12 outlines the proposed implementation plan.

STRATEGIC CONTEXT PURPOSE & SCOPE

Context

4. The Council is operating in a period of unprecedented budget pressure resulting from the 2010 Government Spending Review, with an expectation that central Government funding will be further reduced in subsequent spending rounds.
5. Recognising the need to plan for a financially sustainable future whilst aiming to maintain the levels of service delivered to the public, in 2011 in partnership with Hartlepool, the Council commissioned Deloitte consultants to explore options for collaboration between the two authorities. This work suggested that there is a strong business case for collaboration with neighbouring authorities on delivery of People Services, (work is now progressing on this approach), but less opportunity for savings through large scale collaboration across Place Services. Consequently work started in the early autumn 2011, looking at other options for the delivery of Place Services, though still considering collaboration as an option to be evaluated.
6. The Council's Business Model is the main guiding context for this work, which describes the future Council as:-
 - (a) Championing the interests of citizens and business
 - (b) Supporting strong partnership to set a vision and direction for the Borough and its services
 - (c) Promote the Borough to secure investment and support
 - (d) Ensure the provision of good quality services

Strategic drivers

7. The strategic drivers, used to set the framework for work on testing options for delivery of Place Services are that they would support the Council in:
 - (a) Having a sustainable financial future;
 - (b) Maintaining democratic accountability and choice;
 - (c) Shaping its own destiny;

- (d) Providing leadership, stimulating and informing partnerships;
 - (e) Optimising outcomes for Darlington, retaining a focus on the needs of local communities;
 - (f) Supporting sustainable and resilient communities;
8. In accordance with the Council's Business Model, the project is addressing WHO delivers services, on the understanding that WHAT services are needed is addressed elsewhere, but ensuring that opportunities for improving HOW services are improved is facilitated by the 'WHO' choices.
9. The Project needs to ensure that Place services can fulfil the four functions of the Business Model, described in paragraph 7, and also accord with the Design Principles in the Business Model:
- (a) Service provision is designed and prioritised based on the evidence of need and what works;
 - (b) The Council is a strategic commissioner of services to meet outcomes;
 - (c) The Council's services and Members promote and foster self-reliant and resilient communities;
 - (d) The Council provides consistent, high quality customer service;
 - (e) The Council has the capacity and discretionary leadership to enable transformation;
 - (f) The Council's organisational form, competencies and values enable the efficient delivery of outcomes;

Scope of report

10. All Services for Place are within scope. However there are limited options for Regulatory Services (because statutory decision making has to remain with the Council even if the function is outsourced and there are few private sector options), Highway Authority functions (for the same reasons around statutory decision making), Capital Project Management because the Council wishes to retain direct client oversight of capital project management to ensure good control), Regeneration Policy and Commissioning (because these are core policy and commissioning functions under the Business Model) and Economic

Development (because there is competition with other authorities) and less work has been done on these other than considering the consequences for these services of the options for other related services.

11. The report also looks at whether any services in other Groups (People and Resources) might be brought into consideration at the full business case stage, (for example Corporate Landlord functions) and on the impact of the various options on business support functions such as HR, Legal, Procurement and the Customer Contact Centre.
12. The project has focused on larger blocks of services, rather than looking at a myriad of smaller-scale options. This is because past experience has shown that smaller scale collaboration and outsourcing leaves overheads with the organisation which cannot be dealt with. Also a series of different contracts adds complexity and cost to the client function.

METHODOLOGY & EVALUATION CRITERIA

13. The approach to this project on options for WHO should deliver Place Services follows that in the Council's Commissioning Framework. This is an evidence based approach, based on robust data on how services are currently delivered (value for money and other key performance measures). On an analysis of the market place (who could provide services, how contracts could be structured and evidence on how they have performed), supported by examples of good practice and experience of what 'has not worked well' gathered through a literature review and contact with other local authorities.
14. The main areas of work involved in the project are summarised in figure 1, below.

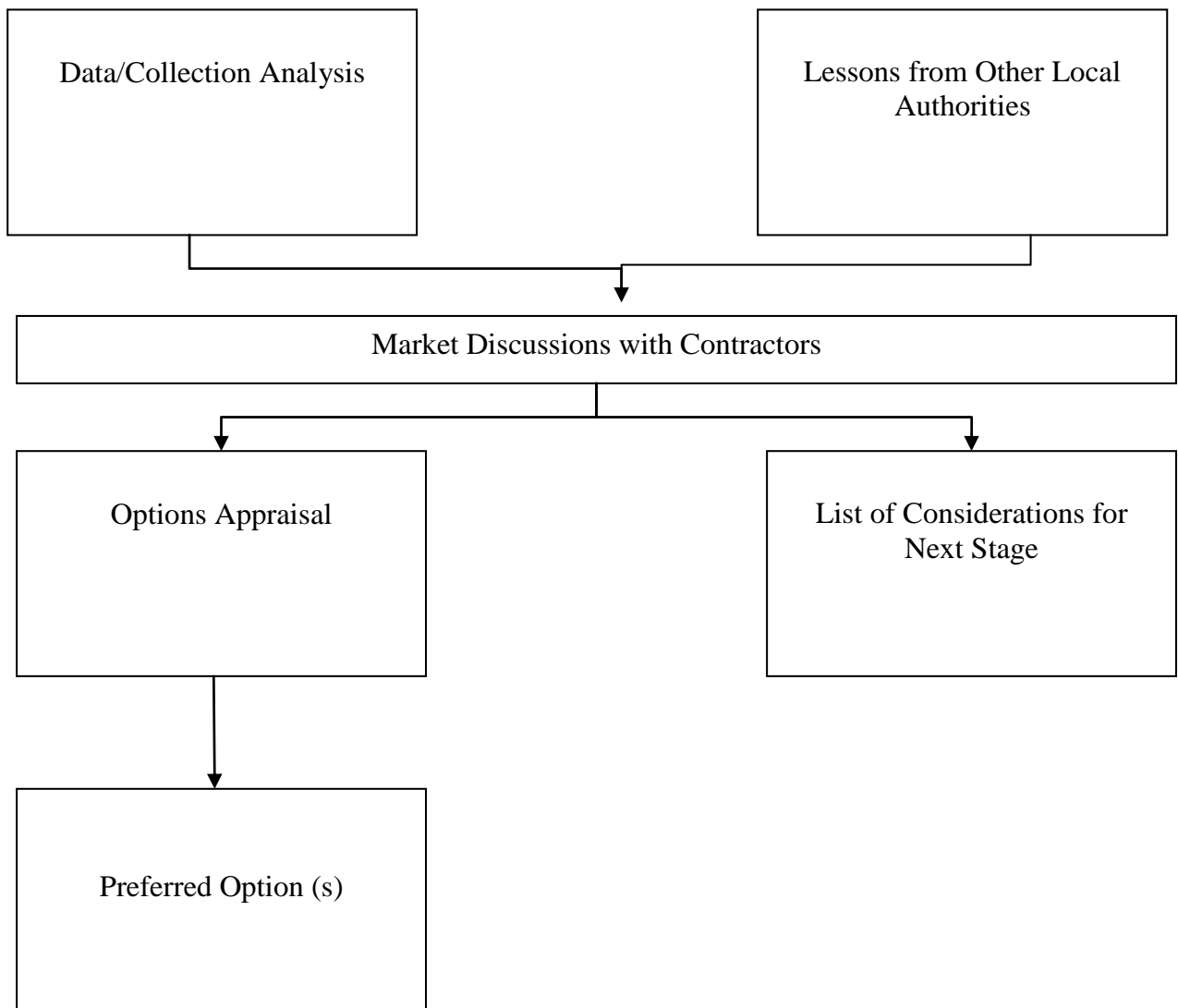


Figure 1

15. As described in the Introduction, the purpose of this report is to make a recommendation or recommendations on the way forward for further detailed work on shaping the delivery of Place Services. In doing so a range of factors are considered, from risk and value for money to analysis around the impact on the sovereignty and flexibility of the Council.

Table 1 shows the Evaluation Criteria used for appraising the options.

Table 1

Criterion	Considerations (examples)
Value for Money / Savings	As well as any savings obtained through transferring delivery to another organisation, other factors to be taken into account include: <ul style="list-style-type: none"> • How quickly savings can be achieved • How savings could profile over time • Creation of contract management staff for any contracted out service • Other financial implications (like the effect on DSO 'profit' to the General Fund, pensions implications, effects on other planned savings such as procurement, etc.) • Costs involved in making the changes (project management, external advice, legal work on contracts)
Flexibility	Degree of flexibility retained by the Council to react to an uncertain future. For example, ability to vary contracts, stop commissioning some services, deal with future changes to funding / policy from Central Government.
Risk	Level of risk in the option – for example based on nature of contract (tried and tested or new form of arrangement), risks to business continuity, inherent risks to that area of business, and being clear about where liability would lie (e.g. for statutory duties).
Sovereignty / Control / Darlington-focus	Impact on Council's freedom to make decisions / avoid penalty costs should Members wish to change policies / priorities. Ability to create collaborations and joint-working with non-Council organisations which are focussed on Darlington needs.
Impact on other DBC Services	Impact on central support services, for example by what proportion of central costs can be reduced? If outsourcing, is the reduction in central costs in line with the amount of business outsourced? Affect on ability to gain Insight data for Needs Assessment, operation of core services like Contact Centre and website, etc.

EXISTING DELIVERY ARRANGEMENTS AND PERFORMANCE OF PLACE SERVICES

16. Although the Council has a long track record of working with the private sector, with the exception of capital projects in Highways and Building Services, Place Services are predominantly delivered 'in house'. Since the 2011 Senior Management re-structure Place Services have been managed through four Service Groupings, see Figure 2.

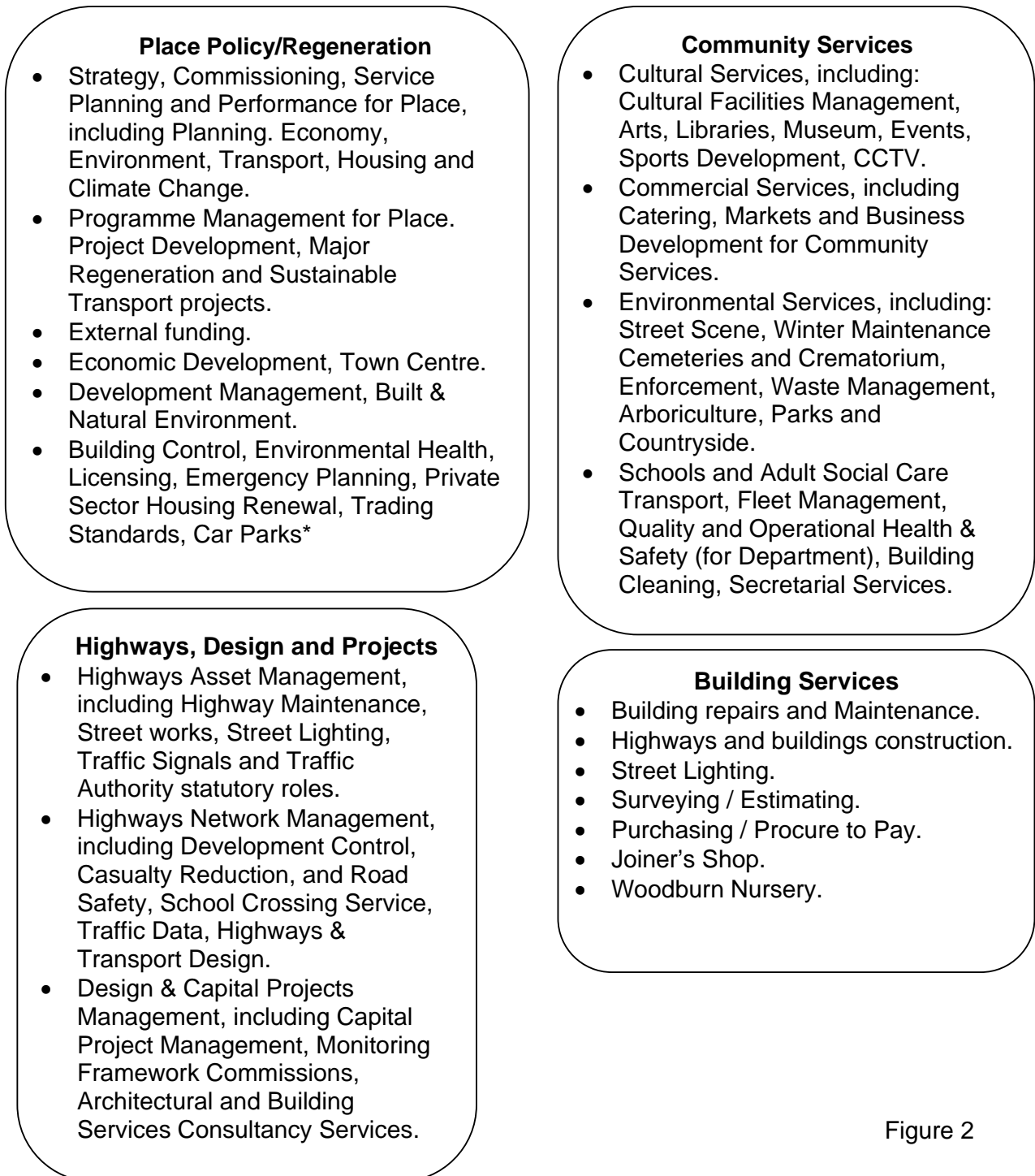


Figure 2

Service mapping

17. Based around the 4 stages of the Commissioning Cycle (Understand Need, Plan , Do and Review) a service mapping exercise has identified the core components and processes involved in the existing delivery of Place Services, and identified the key elements making up each component area e.g. Number of staff, specialist skills, equipment, fixed costs, etc.

Annex 1 shows the service map for the existing structure and delivery of Place Services.

18. The service map provides a useful tool against which to assess the logic of in house processes and structures, the logic of outsourcing different packages of services and the impact of doing so, including the potential impact on other service areas and /or central business support functions such as HR, Legal, Xentrall and Customer Contact Centre.
19. The service map has been used to understand the financial implications of each option considered later in this report.

Benchmarking Services

20. Benchmarking does not provide an answer to whether outsourcing options would be cheaper, because there are no clear and comparable data for private sector options. Only going out to tender would finally determine whether outsourcing would save money. However, benchmarking does provide useful background information in gauging broadly whether Darlington Council's services are good value for money or not.
21. A range of sources of data for benchmarking has been analysed, principally from CIPFA (Chartered Institute of Public Finance and Accountancy), APSE (Association for Public Service Excellence) and HQN (Housing Quality Network). Useful benchmarking data on Arts, Culture, Leisure, Cemeteries, Crematoria, Regulatory and Planning Services is very limited so benchmarking information for these services is not presented in this report.
22. Emerging points from the benchmarking are:
 - (a) Housing Repairs – the cost-efficiency of the responsive repairs service is fair but not top quartile. Speed of response is in the top quartile¹.

¹ Source Housing Quality Network report October 2011

- (b) Building Maintenance – for DBC average value of work per operational employee is £53,719, 25% lower than the average value for comparable local authorities.² Performance against other key measures is mixed. Based on employee costs only (excluding transport), and assuming annual expenditure remains fairly constant, a 25% increase in productivity would save around £340,000 per annum.
- (c) Parks, Open Spaces and Horticulture – Within the ‘family group’ of local authorities Darlington has the highest amount of maintained land per head of population. 6.6ha per 1000 population. The cost of the service, £4,458 per hectare is close to the middle of the range for the ‘family group’ (£2,479 - £7,271)³. Performance against other key measures is mixed.
- (d) Refuse and Recycling Collection – At £40.83 per household Darlington is in quartile 1 for cost of collection per household, and is a high performer against other measures³.
- (e) Street Cleansing – At £34.18 per household the cost of street cleaning is below an average of £39.26 for the ‘family group’. Within a range of £18.96 - £59.07³. Performance against other key measures is mixed, though generally in the top 2 quartiles.
- (f) Street lighting – Annual electricity consumption and cost is high, at 489.9KWh and £44 per streetlight. The average being £33 within a range of £22 - £47³. This is thought to be due to the age and efficiency of Darlington’s street lighting stock in comparison with other areas. Reducing costs to the average would yield savings of around £140K per annum, though this would require increased investment in modernising lighting stock.
- (g) Highway Maintenance – total maintenance expenditure per kilometre of road is £6,924, lower than the median for unitary authorities, but higher than the top quartile performers (top quartile £5,413 or less).⁴ This includes maintenance of lighting and winter gritting costs, also the cost of repaying prudential borrowing for example for the ‘Let’s Get Cracking Programme’ – a cost of around £300K per annum.⁵

² Source Association for Public Service Excellence (APSE) report 2010/11

³ Source Association for Public Service Excellence (APSE) report 2010/11

⁴ Source Chartered Institute of Public Finance and Accountancy report 2010/11

⁵ Prudential borrowing repayments are scheduled to continue until 2020/21, with the amount per year reducing from 2015/15 onwards.

- (h) Winter maintenance - costs in 2010/11 were £708 per Km⁴, one of the highest costs of all unitary authorities. The median cost was £479 per Km. Reducing costs to the average would potentially yield savings of around £125K p.a., though this would be very dependent upon weather and winter gritting policies.

- (i) Customer satisfaction with Highways⁶ is better than average (just outside the top quartile for the overall rating based on 26 indicators). Comparing cost and satisfaction only two authorities out of the 31 for which both cost and satisfaction data is available perform better on overall satisfaction and have a lower cost per Km than Darlington.

- (j) Further information from the benchmarking is attached as Annex 2

⁶ Source National Highways and Transport Customer survey 2009 - Thirty five local authorities participated in this independent customer satisfaction Survey, with a total sample size of 163,000 and net return of 29,000 (17%). The two authorities with lower cost per Km and higher overall satisfaction in 2009 were Durham CC and Bournemouth Council.

MARKET ANALYSIS

23. Before considering going to the market place it is essential to know whether there are potential providers, whether they are likely to be able to deliver the range of service outcomes that you want and how you might package services together to achieve the best value for money. To test the market for Place Services, an Open Day was held on Wednesday November 2nd 2011. Ninety two companies attended (many sending several representatives).
- (a) Sixteen companies focused solely on Highways and Transport.
 - (b) Nineteen on Community Services
 - (c) Twenty nine on Construction and Housing Maintenance
 - (d) Twenty one companies could deliver all or most of Place Services
 - (e) Also in attendance were three companies that offer supporting functions (Project Management, Procurement advice etc.) and an employment agency.
 - (f) Three other Local Authorities attended (Stockton, Durham and Hartlepool).
24. Each organisation registering an interest in the open day was issued with a market testing questionnaire prior to the event with a return date of November 9th 2011. In total thirty one questionnaires were returned, of these: two were from other local authorities, eight from companies offering the full range of services, four from the environmental service market (including waste). Nine were returned from the Highways and Design respondents and eight from building and construction companies. From the analysis of the responses several case study sites were selected to allow reference calls to take place with the Local authority or other client organisation.
25. From the questionnaire responses (and reference site calls) it has been clear that there are several different contract types used in these arrangements, (see Paragraph 78). There are also a number of providers in the marketplace who feel that they can deliver all services in Place and more besides (a number of questions were raised about the inclusion of both hard and soft Facilities Management for all council properties and also Planning and Regeneration functions). The most proactive responses and communication have been from companies that can either deliver services as a single provider or would chose to act as the lead provider either in a consortium or by contracting work out in specialist areas.

26. Findings from the questionnaires, reference calls and review of case studies have been used to inform the assessment of options for testing. Annex 3 lists all authorities that were used as case study sites as well as all the companies that attended the market testing day and those companies who responded to the questionnaire.

WORKSHOPS WITH STAFF AND UNIONS

27. Staff are and will continue to be the most important resource in delivering outcomes for Place, and as the 'expert service providers' can contribute an invaluable insight into how services currently operate, how they could improve and the potential risks of the various options being considered for the future.
28. Engagement has included:
 - (a) Road shows for all employees with an invitation to put forward ideas;
 - (b) Regular update meetings and an 'issues and risks' workshop with Heads of Service;
 - (c) Regular update meetings and an 'issues and risks' workshop with Union representatives;
 - (d) Communication with staff through the All Staff Briefing;
 - (e) Union representatives invited to attend the market testing open day;
 - (f) Union representatives and staff invited to contribute case studies or examples of their experience of different delivery models (e.g. Outsourcing to the private sector);
 - (g) Learning from various Service Improvement Groups, Rapid Improvement Exercises and other engagement with groups of employees during the time the project was being conducted;

OPTIONS FOR CONSIDERATION

29. In order to introduce external challenge to the conclusions officers made from the open day, a workshop was held in January 2012 with advisors from V4 and Deloitte, and separately with APSE, the aim being to review the potential outsourcing options, asking are they the best fit for the current market conditions?
30. The workshops also focused upon risks /issues, particularly around flexibility to deal with future change, the potential for savings for each option and what each option would mean in terms of a focus on achieving outcomes for Darlington.
31. Based on findings from the open day, questionnaires and the challenge session described above, the following list of options (detailed in Paragraphs 32 to 43) are considered within this report. Note that options are not all mutually exclusive, and some options overlap with others. Further detail on each of the options can be found in the table attached (Annex 4).

In-House (option 1)

32. This would involve the re-organisation of in-house services to remove unnecessary steps from processes and to remove any overlap or duplication. The reorganisation of processes and structures would be applied using LEAN principles, and would reflect the principles of the Council's Business Model.
33. This option is based on the premise that: if a decision had been taken to commission services in-house then they could be made more efficient by taking out as many splits as possible in the delivery chain. For example, under the current system many highways schemes are designed and constructed by two separate in-house teams, measuring costs, supervising work and operating separate accounting systems for the same scheme. Similar process inefficiencies occur between housing and corporate facilities management and building services.
34. The delivery of in house efficiencies can be achieved relatively quickly and does not exclude the possibility of further work to re-shape service design through outsourcing or collaboration.

35. For each option, a table⁷ is given which shows the current spending on services which would fall within the scope of this option, and a breakdown of those costs:

Net Budget 2011-12	£26,297,780
Variable costs	£10,078,645
Fixed costs	£12,973,879
Hundens Depot (Premises)	£339,058
Support Services	£1,915,467
Xentrall Services	£990,731
Income (included in variable costs)	(£41,094,426)
Contract Value⁸ (ex. Xentrall)	£34,901,447

Collaboration (option 2)

36. Collaboration between two or more local authorities to deliver a range of services jointly. Collaborative working can release efficiencies through combining processes, reducing management posts, sharing systems and equipment as well as jointly procuring services.
37. In 2011 Darlington and Hartlepool Councils jointly commissioned a study by Deloitte consultants, exploring opportunities for collaboration to realise efficiencies across all service areas. Initial findings were that to achieve net savings, accounting for impact on support services and infrastructure costs, collaboration would at a minimum need to be at divisional level. And that potential combined savings from a DBC / HBC partnership including all Place Services might range from £1M - £2M, though with the important caveat that savings would be lower where policies and procedures are not standardised across the partnership, and that these levels of savings would be achieved through a complete merger of management structures between the two councils.
38. Lessons from other collaboration projects suggest that collaboration is more straightforward where services are similar in nature, level and policy. For example, People services which are provided to national guidance, and are therefore similar across authorities, may be easier to collaborate on than discretionary services where different councils may take a different view over

⁷ Definition of budget lines:

Variable cost is defined as any cost that would be incurred by an external organisation if the service was outsourced. The variable cost allows us to build a baseline expenditure figure which potential savings could be measured against. It should be noted that not all costs classed as variable would allow savings to be extracted, detailed business case(s) will need to look in detail at this issue

Fixed costs include capital repayments, leasing and premises costs, residual employee related costs

⁸ Contract cost is the total variable expenditure less any income that is not the responsibility of DBC to charge or retain

time on the level of service required.

39. Current spending on services which would fall within the scope of this option:

Net Budget 2011-12	£18,501,432
Variable (contract value)	£11,042,082
Fixed	£4,553,076
Hundens Depot (Premises)	£142,045
Support Services - Variable	£973,624
Support Services - Fixed	£971,445
Xentrall Services	£779,759
Income (included in variable costs)	(£24,457,634)
Contract Value (ex. Xentrall)	£20,578,655

Delegate to another local authority (option3)

40. Larger neighbouring Councils have expressed an interest in delivering services for Darlington Borough Council, notably Durham County Council and Stockton.

41. In many respects this option is no different from outsourcing to the private sector and would require a similar contractual arrangement. There is however an argument that in contrast to outsourcing to the private sector transferring delivery to a neighbouring Council would retain a public sector ethos to service delivery in Darlington. At the moment there is no clear indication to suggest that delegation of services to a neighbouring council would achieve savings for Darlington (nor financial benefits for neighbouring councils). One option could be to encourage local authorities to bid as part of any outsourcing.

(a) Current spending on services which would fall within the scope of this option:

Net Budget 2011-12	£15,568,853
Variable (contract value)	£10,016,521
Fixed	£3,725,370
Hundens Depot (Premises)	£134,545
Support Services - Variable	£464,321
Support Services - Fixed	£614,284
Xentrall Services	£613,812
Income (included in variable costs)	(£20,035,366)
Contract Value (ex. Xentrall)	£18,749,409

Culture & Leisure or Community Trust (option 4)

42. The Trust option for delivery of Leisure Services (and in many cases a wider group of services) has been adopted by over 100 local authorities. In most cases this involves setting up a new company limited by guarantee as a charitable body, typically with a Board of 11 trustees (2 of whom are Council Members). The local authority then leases its leisure / cultural services buildings to the Trust on a peppercorn rent, retaining responsibility for major maintenance and lifecycle replacement costs, buildings insurance and in some instances utility costs.
43. Within a few local authorities (notably Wigan) the role of the Trust has been widened to include a range of other community facing services, such as grounds maintenance, parks, countryside, cemeteries, crematoria etc.
44. As well as considering the breadth of Services within a Trust, options include a:
 - (a) A Darlington Trust;
 - (b) A shared Trust, Darlington plus one or more local Council;
 - (c) Darlington Services procured from another existing Trust.
45. Key benefits of this approach are, greater freedom to pursue the charitable objectives of a trust, the opportunity to make savings in VAT and NNDR and potentially freedom to take a more innovative approach to management of services. However recent policy announcements from central government indicate that any reductions in NNDR due to rate relief would be not be taken into consideration when determining the Council's funding grant, so that money saved by the Trust by not paying NNDR would be lost in the Council's funding allocation from government.
46. Key factors include
 - (a) Trusts save 85% of NNDR and have lower net VAT costs (in most cases). Though note key issue on NNDR for Council in paragraph 45.
 - (b) Recently established trusts have a lease on premises, but a rolling contract aligned with the parent council's MTFP timetable, with a clear focus on the parent council's (or Community Strategy's) outcome objectives.
 - (c) Deloitte have financially modelled the three Trust options concluding that:

- (i) Collaborative working has limited scope for savings due to the site specific nature of many services.
 - (ii) Savings at a management level (sharing with another council) may be less significant for Darlington due to the lean management structure already in place.
 - (iii) Putting aside the potential impact of changes in NNDR, adopting a trust structure for cultural services could have saved around £244k to £284k p.a. for DBC. Without the NNDR benefit, the savings to the Council could be under about £50k and rely on savings from VAT which are less predictable (being dependent on both income and spending).
 - (iv) Cultural Services Exemption (on VAT) makes a Trust option for the Civic Theatre more expensive than in-house management. (The Exemption is already implemented.) It may, though, be possible to implement a hybrid management structure between the Council and a Trust.
 - (v) Broadening a Trust to wider Place services is unlikely to provide significant (if any) savings, above those realised for Culture and Leisure alone.
- (d) From the above the optimal financial solution (before the issue with NNDR) would have been to establish a Cultural Services Trust as a charitable company limited by guarantee: lease sports facilities, libraries and Head of Steam and transfer related services; and to contract with the Trust to manage the Civic Theatre as Council's agent. (Further work would be required on optimum for any new arts centre).
- (e) Approximate savings potential (in addition to Civic Theatre VAT Exemption) would have been: sports, leisure, libraries and Head of Steam: c. £270k p.a. (N.B. if Stressholme Golf Course was removed from the contract, savings would be around £68k p.a. lower.)
47. Financial information, based on Culture and Leisure Trust (Current spending on services which would fall within the scope of this option):

Net Budget 2011-12	£5,996,251
Variable (contract value)	£3,477,650
Fixed	£1,784,796
Hundreds Depot (Premises)	£9,233
Support Services - Variable	£192,742
Support Services - Fixed	£260,540
Xentrall Services	£271,290
Income (included in variable costs)	(£6,745,477)

Contract Value (ex. Xentrall)	£3,871,015
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Outsource Environmental Services (option 5)

48. There is a mature private sector market for delivery of environmental services, with examples of single contracts for all environmental services activities (typically 10 -15yrs in length), also separate contracts for waste collection / disposal and grounds maintenance/street cleansing operations (typically 7-10 yrs in length).
49. Options considered here for Darlington are:
- (a) Outsourcing of refuse and recycling to March 2020 (to align with the Council's existing waste disposal contract, and allow for potential collaboration with other Tees Valley Councils'); or
 - (b) Refuse and recycling (as above) plus the rest of Street Scene, grounds maintenance, parks and countryside, and potentially some 'on the ground' highways maintenance.
50. Key factors arising from the research are:
- (a) There is significant private sector interest in this. It is 'tried and tested' and many councils have outsourced these services;
 - (b) There would be time to implement wheeled bin collections in 2012/13 and fit in a 7 year waste contract before 2020;
 - (c) If Tees Valley LAs could agree to set up a single waste management contract (collection and disposal) from 2020 then there may be a significant savings prize;
 - (d) DBC waste collection is low cost; street cleansing and grounds maintenance is middling; though a comprehensive review of Street Scene may save

costs;

- (e) As with other outsourcing options, it is not possible to know from benchmarking alone whether the private sector would be cheaper;
- (f) Companies may be interested in achieving a 'reference site' in the North East for these services, or may need to get more turnover on their books for wider company purposes, so may be prepared to bid at below cost. (Though it is debatable about whether DBC Environmental Services alone is large enough to attract such bids);

51. Financial information, based on outsourcing all of environmental services (Current spending on services which would fall within the scope of this option):

Net Budget 2011-12	£8,936,852
Variable (contract value)	£4,665,894
Fixed	£3,818,917
Hundens Depot (Premises)	£57,673
Support Services – Variable	£137,239
Support Services – Fixed	£147,578
Xentrall Services	£109,471
Income (included in variable costs)	(£2,000,535)
Contract Value (ex. Xentrall)	£5,725,791

Outsource Street Lighting (option 6)

- 52. Street lighting (street lamps, illuminated signs and other highway lighting) can be looked at as a stand alone option for potential outsourcing either as an integrated function, including energy supply, maintenance and replacement of existing lighting stock, typical contracts runs for 20-25yrs; or outsourcing of repairs, maintenance and capital replacement, typically a 7 -10 yr contract. There is a strong case for greater collaboration between local authorities on street lighting, and officers are exploring options for collaborative working, achieving savings through shared procurement.
- 53. Annual value of an integrated contract would be approximately £1.15M; whereas annual value of a repairs and maintenance contract would be around £550K.
- 54. Key factors arising from the research are:
 - (a) There are potential links to the 2020 milestone where energy from waste could provide an energy supply.

- (b) The aim would be to stabilise energy costs, and to encourage early investment in lamps and columns to reduce costs later. The DBC offer may not be big enough on its own, but may be of interest to companies already established in the area (or jointly with other councils).
 - (c) There is a need to weigh the advantages of outsourcing energy usage for street lighting electricity against impact on the Council's wider energy procurement costs.
 - (d) Street lighting can be looked at as a stand alone option in more detail outside this project.
 - (e) Stockton is considering re-tendering their delivery street lighting contract and Middlesbrough has only 1 year remaining on their contract. Hartlepool has an in-house arrangement and has expressed an interest in being part of a review of street lighting. A joint service could be provided collaboratively in-house or outsourced.
55. Financial information, based on outsourcing all of Street lighting (Current spending on services which would fall within the scope of this option):

Net Budget 2011-12	£1,186,418
Variable (contract value)	£1,144,644
Fixed	£11,666
Hundreds Depot (Premises)	£10,166
Support Services - Variable	£289
Support Services - Fixed	£11,802
Xentrall Services	£7,851
Income (included in variable costs)	(£520,000)
Contract Value (ex. Xentrall)	£1,155,099

Highways Frameworks (option 7)

56. This option is an extension of a delivery model the Council has used for a number of years, and would retain programme management, major project management, management of statutory highways functions, and highway inspections in-house, but secure the design of most capital schemes and most construction/ maintenance work from private sector frameworks partners. By using frameworks the Council can regularly test the market, without the need to procure each individual contract. In this option there is no 'guaranteed' contract value for framework providers.
57. Financial information (Current spending on services which would fall within the scope of this option):

Net Budget 2011-12	£2,295,613
Variable (contract value)	£633,962
Fixed	£1,586,117
Hundens Depot (Premises)	£25,505
Support Services - Variable	£725
Support Services - Fixed	£29,608
Xentrall Services	£19,695
Income (included in variable costs)	(3,220,000)
Contract Value (ex. Xentrall)	£3,245,191

Outsource Transport and Highways (option 8)

58. At the market testing event a number of providers expressed an interest in delivering all transport and highways functions. This is a relatively new approach, with evidence that only one authority (NE Lincs.) has implemented this approach, outsourcing to 'Balfour Beatty Living Places' on a 10yr contract with the option of extending to 15yrs and then 20yrs. Elsewhere a number of authorities have outsourced highways functions, but retained transport policy and oversight of programme management in house.
59. Financial information (Current spending on services which would fall within the scope of this option):

Net Budget 2011-12	£4,789,273
Variable (contract value)	£2,736,853
Fixed	£1,686,356
Hundens Depot (Premises)	£39,638
Support Services - Variable	£106,716
Support Services - Fixed	£104,173
Xentrall Services	£115,536
Income (included in variable costs)	(4,893,070)

Contract Value (ex. Xentrall)	£6,335,097
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Outsource Housing Repairs and Maintenance (option 9)

60. This is a 'tried and tested' approach, adopted by many Councils, Registered Social Landlords (RSL's) and Arms Length Management Organisation's (ALMO's). There are many examples of good practice amongst a range of providers, both in terms of quality of services and of addressing other objectives such as apprenticeships or providing opportunities for tenants. In this model, the client role managing an outsourced contract would rest directly with Council's Housing Management Team.
61. Key factors arising from the research include:
- (a) Contracts can be as short as 4 or 5 years.
 - (b) Work is in-hand through LEAN to improve our current service, and there are more improvements that can be made through closer integration of the various parts of housing maintenance across the Council.
 - (c) Outsourcing would not provide savings to the MTFP, and account would need to be taken of the 'profit' Building Services returns to the MTFP, but may be a good option for service improvement.
62. Financial information (Current spending on services which would fall within the scope of this option):

Net Budget	(£376,271)
Variable	-£787,666
Fixed	£8,470
Hundreds Depot (Premises)	£128,500
Support Services - Variable	£49,761
Support Services - Fixed	£91,550
Xentrall Services	£133,114
Income (included in variable costs)	(£9,441,329)
Contract Cost (excl. Xentrall)	£8,729,324

NB: This financial information relates to Services for Place only.

Outsource Corporate Landlord and Facilities Management (option 10)

63. There is a mature market and significant private sector interest in delivering both 'hard and soft' facilities management and corporate landlord services, covering building cleaning as well as repairs and maintenance. Options for outsourcing include all corporate landlord, repairs and maintenance, facilities management and cleaning for:

- (a) All housing and non-housing buildings owned/operated by the Council, or
- (b) All non-housing buildings owned/operated by the Council, or
- (c) As above plus community schools (if choose to opt in), or
- (d) As above but excluding buildings to go into a Cultural/Community Trust.

64. Key factors arising from the research include:

- (a) Work is in-hand through LEAN to improve the current service, and there are more improvements that can be made through closer integration of the various parts of corporate landlord, maintenance and facilities management across the Council.
- (b) Other factors are the same as for option 9.

65. Financial information (Current spending on services which would fall within the scope of this option):

Net Budget	(£204,452)
Variable	-£370,176
Fixed	£132,505
Hundreds Depot (Premises)	£18,962
Support Services - Variable	-£76,972
Support Services - Fixed	£26,595
Xentrall Services	£64,634
- Income (included in variable costs)	(£2,481,274)
Contract Cost (excl. Xentrall)	£1,250,126

NB: This financial information relates to Services for Place only

Building Services Council Controlled Company (option 11)

66. This is a relatively untried option to set up a new building services company, operated as a commercial company but controlled by the Council, in much the same way as if it were a department of the Council. Such a Company must also undertake the greater part of its activities for the parent organisation / organisations (can be more than one): otherwise it would not be able to take work from the council as of right (but would need to win it through tendering processes). A key part of the rationale for this approach is the ability to trade as a private company (since councils are not allowed to work for the private sector), whilst also providing the majority of services to the parent authority / authorities.
67. Key factors arising from the research include:
- (a) The only know UK example of this arrangement is in Hull, where Hull Kingston Works operate as such a Teckal⁹ compliant Company.
 - (b) Scope for income generation from non-council work is restricted to 10% of turnover. Given that Building Services already make close to this amount of income from such work (from other public sector bodies), and the likelihood that turnover will fall (due to reduced capital funding) there is likely to be limited value in pursuing this option.
68. Financial information (Current spending on services which would fall within the scope of this option)

Net Budget	-(£1,200,250)
Variable	(£1,748,414)
Fixed	£23,239
Hundreds Depot (Premises)	£211,300
Support Services – Variable	(£52,132)
Support Services – Fixed	£160,013
Xentrall Services	£205,744
Income (included in variable costs)	(£19,459,320)
Contract Cost (excl. Xentrall)	£17,224,829

⁹ Teckal is a reference to an EU Case brought by a company complaining about the award of work by EU public bodies to a publicly established consortium. The court held (ECJ judgement reference C-107/98) that EC procurement rules do not need to be complied with where the winning provider is: Controlled by the awarding authority/authorities in a manner “similar to that which it exercises over its own departments” – structural control. And at the same time it carries out the essential part of its activities “with the controlling authority or authorities – economic dependency

Outsource Building Services through Framework Contracts (option 12)

69. This option would involve a greater use of (3-5yr) framework contracts, to outsource building services work (repairs, maintenance and capital expenditure) to the private sector.
70. Around 75% of turnover in this area is capital expenditure; with no guarantee that this will continue in future, outsourcing through a framework or frameworks with transfer of existing staff through TUPE would be problematic.
71. Financial information (Current spending on services which would fall within the scope of this option):

Net Budget	-£1,200,250
Variable	(£1,748,414)
Fixed	£23,239
Hundreds Depot (Premises)	£211,300
Support Services – Variable	(£52,132)
Support Services – Fixed	£160,013
Xentrall Services	£205,744
Income (included in variable)	(£19,459,320)
Contract Cost (excl. Xentrall)	£17,224,829

Large Scale Outsource of Place Services (option 13)

72. There are several providers in the market place who suggest they could provide all Services for Place plus corporate landlord/FM, for a long period (15 to 25 years). This would be a substantial £150M+ contract, potentially attracting competitive bids from the larger market providers, eager to expand their share of the market. In practice there are two principal sub-options:
- (a) Almost all Place Services plus some others, like corporate landlord.
 - (b) A package of the more likely outsourcing options described above: e.g. Environmental Services, Street Lighting, some highways maintenance work (without a defined value), some design work (without a defined value), housing maintenance, corporate landlord and facilities management.
73. The annual contract value of the first of these options would be around £31.4M, for Place Services only.
74. Key factors arising from the research include:
- (a) The most proactive responses and communication have been from companies that can either deliver services as a single provider or would chose to act as the lead provider either in a consortium or contracting work out in specialist areas.
 - (b) There is a view from some of our external advisors that a contract of £10m to £20m p.a. over a sufficiently long period, would be required to generate significant market interest.
 - (c) As there is no such contract for these services in the North East, there is a view that companies would be interested in creating a 'reference site', which might have employment benefits if it became a base for other contracts in the area if other councils or organisations outsourced too.
 - (d) Acquiring a significant cumulative turnover would be of particular interest to companies who want/need to boost their market share for stock market purposes.
 - (e) There is a view amongst some advisors that companies may be prepared to bid below cost to win the contract, and expect to recoup losses later in the contract or elsewhere: Although note that this is a strategy that brings additional risks.

- (f) More work would be required on whether such a contract would need to include most Place Services, or whether a combination of ‘delivery’ services, like Environmental Services, Housing Maintenance, Corporate Landlord, Facilities Management and Catering, would be sufficient to generate significant market interest from the larger providers.
- (g) There are relatively few large-scale, long-term outsourcings of Place Services in existence and those that are have mainly been done in the last year or two.
- (h) The contracts tend to be some form of Joint Venture, with shared profits, or Limited Liability Partnership.
- (i) Some of the most recent are ‘progressive partnerships’ where the private sector partner gets more services over time provided it meets pre-determined trigger points in terms of service standards and efficiency.
- (j) The nature of client-side contract management of large-scale outsourcing varies, with some having introduced quite large client teams and others relying more on the contractors to supply monitoring data under the contract.

75. Financial information (Current spending on Place services which would fall within the scope of this option):

Net Budget	£21,789,925
Variable	£10,104,052
Fixed	£8,520,113
Hudens Depot (Premises)	£339,058
Support Services - Variable	£761,857
Support Services - Fixed	£1,091,113
Xentrall Services	£973,732
Income (included in variable costs)	(£38,676,383)
Contract Cost (excl. Xentrall)	£31,432,738

Services not considered in the Options above

76. Services not covered explicitly in any of the Trust or outsource options
- (a) Adults and Children's Transport Procurement – consider through People Collaboration with Hartlepool and Redcar & Cleveland;
 - (b) School Meals and Social Care Catering – look at later as separate exercise;
 - (c) Cemeteries and Crematorium – a national private sector provider of bereavement services has looked in detail at the Council's operations and costs, and concluded that it could not achieve the same level of income the Council currently achieves;
 - (d) Regeneration, Planning and Regulatory Services – could be part of a large-scale outsource (option 12); otherwise current options are in-house or collaboration;

OPTIONS APPRAISAL, BASED ON EVALUATION CRITERIA

77. Tables 2i -2v, appraise the options against the evaluation criteria described in the Methodology and Evaluation Criteria, Column 1 that is value for money, risk and impact on flexibility, on sovereignty and on other Council Services (e.g. Human Resources, Customer Contact etc.).
78. Detailed risk / benefits appraisal: Table 3 details the outcome of a risk workshop, identifying both the implementation risks associated with each package of options, and the longer term risks of adopting such a strategy for the delivery of Place Services. This is an initial 'high level' appraisal of risks with respect to each option; should the council decide to proceed with any of these options then further work will take place on assessing risk for that option.

Types of Contract

79. In order to facilitate any kind of either outsourcing or service provision from another party the Council would need to enter into a contractual agreement. These are wide ranging and often complex and can carry distinct benefits and risks of their own. Contracts vary in length, size and content.
80. **Service Contract** - If the Council were to enter into a Partnership or delegate services to another council it would need to consider having a Service Contract with that other Authority. Similarly a Service Contract with the private sector is an agreement between parties for the provision of services. This contract is more flexible in nature as the terms and conditions can be agreed and negotiated. Service contracts can be long term or short term in nature. This straight forward contract would give Darlington Borough Council more flexibility but with less risk to the Council would undoubtedly cost any bidders more to deliver and therefore the savings associated with a Service Contract may be reduced. A Service Contract with a lease may also be an option. A lease is a legal contract and as a result of the lease, the owner (lessor) grants the use of the stated property to the other party. This is a flexible option as leases can be made for differing lengths and may contain a variety of terms agreed by the parties. Low – medium level of formalities to set up (dependent on the venue). Recent EU guidance gives greater comfort on the lawfulness of these arrangements from a procurement perspective.
81. **Joint Venture Company** - Case study work has shown that major outsource agreements are often built on a contract that creates 'A Joint Venture Company'. This kind of contract can be entered into by two businesses where they agree to co-operate with each other in a limited and specific way. Services that a Council provides may be traded through the Joint Venture Company. Terms and conditions would be set out in the contract concerning how this would work. In much larger authorities with significant housing stock and/or a significant number of civic buildings and/or a planned programme of new building work (both design and construction) this type of contract can lead to additional revenue if profits are split. The joint venture is a type of partnership and specific arrangements can be made to enable the company governance to meet each parties requirements. Shares are usually divided into separate classes and can have

differing rights to voting/ dividends as meet the parties requirements. Alternatively, a separate joint venture company can be set up to handle a particular contract. The partners will each own shares and agree how the company should be managed – this can be a flexible option.

82. **Partnership Contract** - Were the Council to look at an outsource that had an objective to deliver on a specific set of outcomes it might look to set up an 'Ordinary partnership' contract. A partnership is a relatively simple and flexible way for two or more people to own and run a business together. An 'ordinary' partnership has no legal existence distinct from the partners themselves. If one of the partners resigns, dies, or goes bankrupt, the partnership must be dissolved - although the business can still continue. If the partnership has debts, the partners are jointly liable for any amounts owed and so are equally responsible for paying off the whole debt. Creditors can claim a partner's personal assets to pay off any debts - even those debts caused by other partners. If a partner leaves the partnership, the remaining partners may be liable for the entire debt of the partnership. Therefore, partners do not enjoy any protection if the business fails.
83. **Limited Liability Partnership (LLP)** - If the Council were to consider a large scale outsource with a major company that company might look to trade in other areas using a Limited Liability Partnership (LLP). A partner's liability is limited to the amount of money they have invested in the business and to any personal guarantees they have given to raise finance. This means that members have some protection if the business runs into trouble. LLPs must have at least two designated members - the law places extra responsibilities on them.

LLPs must:

- (a) register with Companies House;
- (b) send Companies House an annual return;
- (c) file accounts with Companies House;

84. **Teckal Compliant Company** - This would be a council owned company or can be company owned by a number of public sector bodies. No procurement is required but to avoid procurement requirements there must be no private sector ownership.
85. **Trusts** – A cultural trust is a social enterprise and surplus income generated must be invested in improving services. It is possible to have a separate trading arm exists for non-charitable services, e.g. comprising catering services, leisure venues and grounds maintenance. In Luton the establishment of a trust was designed to protect and enhance cultural services in the environment of local authority spending cuts. As cultural services are discretionary they are always under pressure from cuts. The trust serves as a form of protection and ensures

that thorough consultation between the council and the trust takes place prior to any major funding decisions. This can be contractually agreed. This contract type can drive possible alternative funding sources for certain services and can be used as a method of protection to cultural services.

TABLE 2 i Evaluation Criteria	1 In house	2 Collaboration with other Council(S)	3 Delegation of Services to another local authority
<p>EC: Value for Money. As well as any savings obtained through transferring delivery to another organisation, other factors to be taken into account include:</p> <ul style="list-style-type: none"> • How quickly savings can be achieved • How savings could profile over time • Creation of contract management staff for any contracted out service • Other financial implications (like the effect on DSO 'profit' to the General Fund, pensions implications, etc.) • Costs involved in making the changes (project management, external advice, legal works on contracts) 	<p>Redundancy costs. The in-house option could be implemented within 9-12 mths. Revenue saving £600-£750K . Achieved by Apr 2013. Redundancy £ £350-450K (exact figures to be confirmed).</p>	<p>Work by Deloitte on potential savings from DBC / HBC partnership indicates that <u>combined</u> savings might range from £1M - £2M inc. all Place Services. Full implementation would take 2-3 yrs. The Deloitte work indicated that potential savings (<u>combined</u>) for each service area would be within the range: Integrated Transport Unit(£140-210K); Fleet Management (£140-230K);Building works (£50-120K); Building Cleaning (£70 -280K);School Meals (£120-240K); Street lighting maintenance & procurement (£20-40K); Street Cleaning (£80-140K);Grounds maintenance (£70-£170K); Traffic management works (£60-£90K); Management saving (£30K); Highways Transport Management (£50 -130K); Econ Regeneration, Planning & Regulatory Services (-£20K - 50K). Transition costs in project management and redundancies</p>	<p>Potential savings unclear at this stage, as benchmarking does not show DBC services as generally significantly more expensive.</p>
<p>EC: Risk Level of risk in the option – for example based on nature of contract (tried and tested or new form of arrangement), risks to business continuity, inherent risks to that area of business, and being clear about where liability would lie (e.g. for statutory duties)</p>	<p>Overall risk low. Business continuity risks associated with small teams or individuals delivering standalone in house functions in specialist areas.</p>	<p>Fundamental risk that local authority partners do not wish to collaborate on delivery of these service areas and / or that policy differences have a substantial impact on potential savings. Risk that future strategies for collaborating partners do not align - particularly in context of electoral cycles. Significant risk that differences in pay scales and terms & conditions cause difficulties in sharing services between employees of each partner. Risk to Darlington that savings are predominantly to partner authority, further detailed work would need to investigate exact share of savings. Collaboration could increase resilience in specialist areas.</p>	<p>Risk associated with potential conflict over prioritisation of service delivery by provider authority. Though delegating specific specialist services could increase resilience, for example maintenance of structures / bridges.</p>
<p>EC: Flexibility Degree of flexibility retained by the Council to react to an uncertain future. For example, ability to vary contracts, stop commissioning some services, deal with future changes to funding / policy from Central Government.</p>	<p>Flexibility to respond quickly to WHAT the Council wants to commission is retained.</p>	<p>Reduced flexibility to change policies without agreement from partner(s) though may allow for greater flexibility (without cost penalty) than outsourcing to private sector. This is less of an issue where services are standard and of a similar level; it is more of an issue with discretionary services where partners could conceivably take different decisions about the level of service in future.</p>	<p>Reduced flexibility to change policies - would need to operate in a similar way to a contract with the private sector.</p>
<p>EC: Sovereignty / Control / Darlington-focus Impact on Council's freedom to make decisions / avoid penalty costs should Members wish to change policies / priorities. Ability to create collaborations and joint-working with non-Council organisations which are</p>	<p>Council fully retains ability to make policy decisions enter into new working arrangements / collaborations with partners focusing on outcomes for Darlington.</p>	<p>Dependent on terms of collaboration could impact on scope for local discretion and dilute focus on Darlington outcomes. There is also a strong likelihood that collaboration for some services would generate difficulties if competing for external resources (e.g. for example Economic</p>	<p>Would impact on ability to change policies without penalty costs and impact on relationship with residents (for example branding of services)</p>

focussed on Darlington needs.		Regeneration, where competing for jobs or investment).	
<p>EC Impact on other services. Impact on central support services, for example by what proportion of central costs can be reduced? If outsourcing, is the reduction in central costs in line with the amount of business outsourced?</p>	<p>No immediate impact on other DBC functions. Allows scope for work on efficiency improvements in end to end processes involving customer contact, back office and operational services etc.. Also for management restructure, particularly looking at streamlining management of building repairs, maintenance and construction, highway design, maintenance and construction.</p>	<p>Procurement – Depending on what level of collaboration we undertake will determine the level of procurement involvement. We already jointly procure a number of contracts within the Tees Valley; we would need to work towards co-terminus end dates for any re-procurement where the services were not to be delivered by in-house services. Would need to consider the use of regional (NEPO) and national (e.g. LHC) frameworks. In order to maximise savings through collaboration there will be a need to review the role of support services (e.g. HR, Finance, Xentrall) and collaborate where there is a strong business case. Allows scope for further work on end to end efficiency improvements</p>	<p>Potential for substantial impact on other DBC Services (dependent upon size and terms of contract).</p>

TABLE 2 ii	4	5	6
Evaluation Criteria	Culture or Community Trust	Environmental Services Outsourced to the Private Sector (refuse and recycling only or refuse and recycling plus rest of street scene, grounds maintenance, Parks & Countryside and potentially 'on the ground highway maintenance')	Street Lighting Outsourced to the Private Sector
<p>EC: Value for Money. As well as any savings obtained through transferring delivery to another organisation, other factors to be taken into account include:</p> <ul style="list-style-type: none"> • How quickly savings can be achieved • How savings could profile over time • Creation of contract management staff for any contracted out service • Other financial implications (like the effect on DSO 'profit' to the General Fund, pensions implications, etc.) • Costs involved in making the changes (project management, external advice, legal works on contracts) 	<p>Initial work on this option suggested that £200-£270K could be saved from NNDR. With some potential for some further reductions in management costs; and that savings could be achieved by April 2013. Recent changes to government policy on NNDR means that this saving may no longer be available, with a risk that moving to a Trust could have no significant net saving to the Council. Transition costs of up to £100k plus client function costs.</p>	<p>Benchmarking suggests scope for savings limited. Waste collection already one of 'best in class' for cost and performance. Other Env Service functions - below average cost. Transition costs of running a procurement process plus client functions costs.</p>	<p>Benchmarking suggests further scope for savings, as DBC cost 33% higher than median per KM of highway. Further detailed work on business case required to fully understand cost / benefit of capital investment versus reduced energy use and consequent savings / cost avoidance.</p>
<p>EC: Risk Level of risk in the option – for example based on nature of contract (tried and tested or new form of arrangement), risks to business continuity, inherent risks to that area of business, and being clear about where liability would lie (e.g. for statutory duties)</p>	<p>Overall risk low, as a tried and tested approach, though if not clear in the specification and contract there are risks associated with potential conflict between commercial drivers and health / cultural priorities for Darlington. It is acknowledged that in some Trusts the wider social policy objectives are not clear and are sometimes lost as Trusts develop; Strategy and outcomes need to be very clear from the outset. Stressholme options appraisal may impact on savings, (£68K of NNDR saving relates to Stressholme).</p> <p>Critical risk that changes in government policy removes NNDR benefit.</p>	<p>Outsourcing of waste collection / street scene / grounds maintenance tried and tested by other LA's. High profile, multifaceted area. Requires strong political engagement and relationship with planning and regulatory functions. Medium - high risk that procurement exercise fails to achieve substantial saving. Major procurement exercise required for either of these alternatives, possibly some form of Competitive Dialogue would be the most appropriate route to market, which would take a minimum of nine months and incur greater costs for the bidders, and the authority.</p>	<p>Outsourcing of street lighting tried and tested by other LA's. Low risk that policies will change significantly. Medium to high risk that energy market changes unexpectedly over contract period, and need to build flexibility over usage / purchase of power into contract.</p>
<p>EC: Flexibility Degree of flexibility retained by the Council to react to an uncertain future. For example, ability to vary contracts, stop commissioning some services, deal with future changes to funding / policy from Central Government.</p>	<p>Reduced flexibility to change policies without cost - would need to operate in a similar way to a contract with the private sector. A rolling contract, in line with the MTFP would retain more flexibility, however.</p>	<p>Limited flexibility to change Env. Service policies without penalty. Contract would need to allow for potential changes to waste policies / market conditions. e.g. wheelie bins. Need to factor in potential for Tees Valley wide waste contract in 2020 Would impact on ability to change policies without penalty costs.</p>	<p>Limited flexibility to change street lighting policies without penalty.</p>

<p>EC: Sovereignty / Control / Darlington-focus Impact on Council's freedom to make decisions / avoid penalty costs should Members wish to change policies / priorities. Ability to create collaborations and joint-working with non-Council organisations which are focussed on Darlington needs</p>	<p>Impact on relationship with residents (for example branding of services). Collaboration and partnership working an important element of culture and leisure services work, therefore it would be important to ensure that a Trust could as a minimum work as equally well with local partners as the Council. A Darlington-focused trust would be more likely to achieve this than a geographically broader trust.</p>	<p>Impact on relationship with residents (for example branding of services)</p>	<p>Would impact on ability to change policies without penalty costs. Impact on relationship with residents (for example branding of services). Relatively uncomplicated service area - lower risk of reducing scope for local policy making.</p>
<p>EC Impact on other services. Impact on central support services, for example by what proportion of central costs can be reduced? If outsourcing, is the reduction in central costs in line with the amount of business outsourced?</p>	<p>The Trust will need to make its own decision on support services. Potential impacts on business support functions for Leisure & Culture (Xentrall / HR / Customer contact - detailed work required for business case. Estimated maximum value of impact on central recharges - £ 465K (DBC & Xentrall), excludes 'fixed' costs relating to capital charges.</p>	<p>Impacts on business support functions for Env Services (Xentrall / HR / Customer contact - detailed work required for business case. Estimated maximum value of impact on central recharges - £246K K (DBC & Xentrall), excludes 'fixed' costs relating to capital charges.</p>	<p>Low level of impact in terms of numbers of staff affected. Purchase of electricity by a third party provider would potentially increase the unit cost of power to the Council. Business case would need to be examined in detail.</p>

TABLE 2 iii	7	8	9
Evaluation Criteria	Highways Frameworks	Transport/Highways Outsource to Private Sector	Housing Repairs and Maintenance
<p>EC: Value for Money. As well as any savings obtained through transferring delivery to another organisation, other factors to be taken into account include:</p> <ul style="list-style-type: none"> • How quickly savings can be achieved • How savings could profile over time • Creation of contract management staff for any contracted out service • Other financial implications (like the effect on DSO 'profit' to the General Fund, pensions implications, etc.) • Costs involved in making the changes (project management, external advice, legal works on contracts) 	<p>Frameworks are negotiated at a regional or national level and allow the Council to procure, based on value for money design and construction of capital schemes from the private sector. This option would be to maximise the use of frameworks continually checking value for money on all highway construction works. Can be implemented immediately.</p>	<p>Benchmarking indicates that costs of highway maintenance are below average (though not top quartile in terms of cost/KM) and performance against outcomes is above average, and when compared to cost DBC performance is very strong. Since 2004/5 a substantial element of Transport Policy costs have been funded through external 'ring- fenced' grants, won through competition with other Councils.</p> <p>Winter maintenance costs are high, policy and the operation of winter gritting should be reviewed. Outsourcing of Transport & Highways would take 12-18 mths, with savings unclear at this stage.</p>	<p>Work is in-hand through LEAN to improve our current service, and there are more improvements that can be made through closer integration of the various parts of housing maintenance across the Council. Outsourcing would not provide savings to the MTFP, and account would need to be taken of the 'profit' Building Services returns to the MTFP, but may be one option for service improvement. Benchmarking indicates that performance is fair with some scope for reducing costs. Transformation work is already taking place to introduce LEAN processes, with potential to make further efficiencies through closer integration of housing maintenance with housing management.</p>
<p>EC: Risk Level of risk in the option – for example based on nature of contract (tried and tested or new form of arrangement), risks to business continuity, inherent risks to that area of business, and being clear about where liability would lie (e.g. for statutory duties)</p>	<p>Low risk as this is a tried and tested approach, with framework contracts agreed on a scheme by scheme basis.</p>	<p>Very limited evidence that this solution has been successfully implemented elsewhere. This is a high profile, multifaceted area with substantial inherent risks. Requires strong political engagement and relationship with planning / regulatory functions, neighbouring highway authorities and statutory agencies (HA / Police etc.) Given that there is little evidence this option has been implemented elsewhere there is a medium - high risk that a procurement exercise fails to achieve substantial saving.</p>	<p>There is significant private sector interest in this work and outsourcing is a tried and tested approach in other LA's , in RSL's and ALMOs. Contracts can be relatively short 4-5 yrs. Risk that harm relationship with housing tenants / generate higher number of complaints and increase workload / costs - Though evidence from case studies shows that a new provider may also have positive a impact on levels of service / relationship with tenants.</p>
<p>EC: Flexibility Degree of flexibility retained by the Council to react to an uncertain future. For example, ability to vary contracts, stop commissioning some services, deal with future changes to funding / policy from Central Government.</p>	<p>Retains flexibility to change policies on service delivery, reduce budgeted expenditure without penalty.</p>	<p>Any contract would need to factor in ability to deal with changes in levels of funding / opportunities to seek grants / challenge funding etc., This could add cost.</p>	<p>Limited flexibility to change service levels / specification for housing repairs and maintenance without penalty, though successful contracts are shorter than in outsourcing of other services.</p>
<p>EC: Sovereignty / Control / Darlington-focus Impact on Council's freedom to make decisions / avoid penalty costs should Members wish to change policies / priorities. Ability to create collaborations and joint-working with non-Council organisations which are focussed on Darlington needs</p>	<p>Council fully retains ability to make policy decisions enter into new working arrangements / collaborations with partners focusing on outcomes for Darlington. Several providers on frameworks could mean several brands and badges associated with delivery of these services .</p>	<p>Limited scope to change Transport & Highways policies without penalty</p>	<p>Would impact on ability to change policies without penalty costs. Impact on relationship with residents (for example branding of services)</p>

<p>EC Impact on other services. Impact on central support services, for example by what proportion of central costs can be reduced? If outsourcing, is the reduction in central costs in line with the amount of business outsourced?</p>	<p>Some impact on Building Services as Highways move to even greater delivery through frameworks. Note that this option would be implemented in conjunction with in-house transformation including work on efficiency improvements in the workflow from design to delivery.</p>	<p>Impacts on business support functions for Env Services (Xentrall / HR / Customer contact - detailed work required for business case. Estimated maximum impact on central recharges - £220K (DBC & Xentrall).</p>	<p>Programme of change needed to modify the end to end process. (Xentrall / HR / Customer contact - detailed work required for business case. Estimated maximum impact on central recharges - £225K (DBC & Xentrall).</p>
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TABLE 2 iv	10	11	12
Evaluation Criteria	Corporate Landlord and facilities management outsourced to the Private Sector	Building Services Council Controlled Company	Outsource Building Services (through Frameworks)
<p>EC: Value for Money. As well as any savings obtained through transferring delivery to another organisation, other factors to be taken into account include:</p> <ul style="list-style-type: none"> • How quickly savings can be achieved • How savings could profile over time • Creation of contract management staff for any contracted out service • Other financial implications (like the effect on DSO 'profit' to the General Fund, pensions implications, etc.) • Costs involved in making the changes (project management, external advice, legal works on contracts) 	<p>Initial efficiencies to be made through centralisation of existing in house functions - work on the options for delivery taking place within Corporate Landlord Transformation Project with savings target of £400K by 204/15. (£95K already delivered). There is significant market interest in this area and savings to be made; at this stage it is unclear whether whole scale outsourcing would achieve higher savings than the in house efficiencies. However there would be value in completing further work in this area, to test the market, once work on the internal efficiency improvements is complete.</p>	<p>Company expected to provide vim and to return a profit, based on 10% of work undertaken for clients other than the Council. (Guidance indicates that 'external' work must not exceed 10% of turnover). Examination of current business turnover within building services shows that the Council's 'in-house' team are close to achieving 10% external work, therefore there would be little to be gained in terms of external work from this option. No advantages on terms and conditions over in-house, as there would be reference back to the council under equal pay.</p>	<p>Initial costs associated with all or most of the DLO being removed (heavy redundancy cost in the first instance as staff cannot be TUPEd into framework agreement). All Building services work then commissioned through frameworks that would produce a rebate (e.g. London Housing Co. at 2.5%). Further detailed work required with building services and housing to fully understand potential savings</p>
<p>EC: Risk Level of risk in the option – for example based on nature of contract (tried and tested or new form of arrangement), risks to business continuity, inherent risks to that area of business, and being clear about where liability would lie (e.g. for statutory duties)</p>	<p>Tried and tested approach - many Councils have outsourced these services. Contracts can be relatively short 4-5 years</p>	<p>Hull CC and NORSE are the only examples. Untested legally on the 90:10 split. Lack of clarity on how this can be effectively monitored evident in case study. Risk that staff not skilled up / culturally in the right place to meet needs of new business.</p>	<p>Pre -tendered frameworks may not have a suitable provider set up.</p>
<p>EC: Flexibility Degree of flexibility retained by the Council to react to an uncertain future. For example, ability to vary contracts, stop commissioning some services, deal with future changes to funding / policy from Central Government.</p>	<p>There would be limited flexibility to change following a full outsource of these services, though the given nature of this work and length of contract limited flexibility s unlikely to be a significant issue.</p>	<p>Can be flexible and responsive. Council is 100% shareholder in company and usually has officer and member representation on the board. Up to 10% of the company can trade openly and compete for work with the Private Sector.</p>	<p>Pre- tendered framework agreements with several providers provide flexibility.</p>
<p>EC: Sovereignty / Control / Darlington-focus Impact on Council's freedom to make decisions / avoid penalty costs should Members wish to change policies / priorities. Ability to create collaborations and joint-working with non-Council organisations which are focussed on Darlington needs</p>	<p>Outsourcing of these services would have minimal impact on sovereignty.</p>	<p>Impact on relationship with resident and tenants' board. New company would be formed, new branding etc.</p>	<p>Several providers on frameworks could mean several brands and badges associated with delivery of these services.</p>
<p>EC Impact on other services. Impact on central support services, for example by what proportion of central costs can be reduced? If outsourcing, is the reduction in central costs in line with the amount of business outsourced?</p>	<p>Direct impact on business support functions for Estates and FM. Estimated maximum impact on central recharges - £101K (DBC & Xentrall).</p>	<p>Existing building services would disband to TUPE staff into newly formed company. Estimated maximum impact on central recharges - £257K (DBC & Xentrall).</p>	<p>Impacts on business support functions for Place Services (Xentrall / HR / Customer contact - detailed work required for business case).</p>

TABLE 2 V	13
Evaluation Criteria	Large-Scale Long-Term Outsource to the Private Sector
<p>EC: Value for Money. As well as any savings obtained through transferring delivery to another organisation, other factors to be taken into account include:</p> <ul style="list-style-type: none"> • How quickly savings can be achieved • How savings could profile over time • Creation of contract management staff for any contracted out service • Other financial implications (like the effect on DSO 'profit' to the General Fund, pensions implications, etc.) • Costs involved in making the changes (project management, external advice, legal works on contracts) 	<p>There are benefits in packaging a large number of services together for outsourcing. Annual contract values exceeding £10M are likely to attract greater interest from the marketplace and therefore more competition. In pursuing this approach we would expect to generate savings of a minimum of £1M - £1.5M, though until a procurement exercise is undertaken 'actual' savings are unknown. This scale of outsourcing would take between 18-36 months to fully implement, with associated project management and legal costs in the procurement and contracting processes . A significant client function would need to be retained to manage a variety of services under a complex contract, and to take statutory decisions which the council could not outsource.</p>
<p>EC: Risk Level of risk in the option – for example based on nature of contract (tried and tested or new form of arrangement), risks to business continuity, inherent risks to that area of business, and being clear about where liability would lie (e.g. for statutory duties)</p>	<p>There are very few examples of large scale outsourcing of Place Services and these are all relatively new. Contracts tend to be some form of joint venture or LLP with profit sharing (though in the current financial climate it would be unwise to build a case on expected profits. This would be 15-25 year contract, probably with break clauses at 15 and 20 yrs. With near certainty that substantial policy changes will take place in one or more service areas over that time, any contract would need to try and account for future change.</p> <p>Risk of a lengthy and expensive procurement process with no firm guarantee that tenders will generate savings.</p> <p>Risk to business continuity during tender exercise, potential for key staff to leave.</p> <p>Risk of placing a large number of key services with a single provider over a long time period, where it would be very difficult to foresee and account for policy and management changes, both by the Council and potentially by the provider (for example Enterprise have recently been taken over by 3i).</p> <p>Costs of putting in place complex contracts would be higher and would need to reflect benefits.</p>
<p>EC: Flexibility Degree of flexibility retained by the Council to react to an uncertain future. For example, ability to vary contracts, stop commissioning some services, deal with future changes to funding / policy from Central Government.</p>	<p>Limited flexibility to change policies without penalty. Difficult to capture all possible eventualities in a contract, for example to allow for potential changes to legislation, customer priorities, funding levels etc.. Need to factor in potential for Tees Valley wide waste contract in 2020, other partnership or opportunities.</p>
<p>EC: Sovereignty / Control / Darlington-focus Impact on Council's freedom to make decisions / avoid penalty costs should Members wish to change policies / priorities. Ability to create collaborations and joint-working with non-Council organisations which are focussed on Darlington needs</p>	<p>Potential for a significant impact on sovereignty of the Council, where relationship with a large company providing the majority of Place Services will be very different to that between the Council and smaller service specific contractors. Ability to change policies and develop new types of working will be very dependent upon strength of contract and working relationship with contractor.</p>
<p>EC Impact on other services. Impact on central support services, for example by what proportion of central costs can be reduced? If outsourcing, is the reduction in central costs in line with the amount of business outsourced?</p>	<p>Substantial Impacts on business support functions for Place Services (Xentrall / HR / Customer contact - detailed work required for business case. Estimated maximum impact on central recharges - £2.068M (DBC & Xentrall).</p>

Table 3- Initial 'high level' appraisal of risks with respect to each option – should the council decide to proceed with any of these options then further work will take place on assessing risk for that option.

	Option1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9	Option 10	Option 11	Option 12	Option 13
Risks – in implementation¹⁰													
Asset base / current service levels ¹¹ not fully understood and captured in a specification (s) for outsourcing.	N/A	N/A	Low – High (depend on scope ¹²)	Low	Medium – High (depend on scope)	Low	Low	Medium	Medium –High	Low	Low	Low	High
Higher than expected cost to procurement / set up process	N/A	N/A	Low – High (depend on scope)	Low	Low	Low	Low	Medium	Low	Low	N/A	Low	Medium
Delays in procurement timescales	N/A	N/A	Low	Low	Low	Low	Low	Medium	Low	Low	N/A	Low	Medium
Challenge to procurement process from contractors / providers	N/A	N/A	Medium	Low	Medium	Low	Low	Medium	Low	Low	N/A	Low	Medium
Lack of strong market interest	N/A	N/A	N/A	Low	Low – medium	Low ¹³	Low	Low	Low	Low	N/A	Low	Low
Business continuity disrupted due to key staff leaving	Medium	Medium	Medium	Low	Medium	Low	Low	Medium	Medium	Medium	Low	Low	Medium
Business continuity disrupted due to low staff morale	Medium	Medium	Medium	Low	Medium	Low	Low	Medium	Medium	Medium	Low	Low	Medium
Higher than expected impacts of TUPE requirements	N/A	N/A	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Capacity to develop 'fit for purpose' / 'future –proof' specification(s)	N/A	N/A	Low	Medium	Low – Medium (depend on scope)	Low	Low	Medium	Low	Low	Low	Low	High
Shortage of knowledge / experience (In house & external) to develop 'fit for purpose' contract(s) both now and in future.	N/A	N/A	Low – medium (depend on scope)	Medium	Medium	Low	Low	Medium	Medium	Low	Low	Low	High
EIA / DEIA impacts not fully understood / documented and accounted for.	Low	Low	Low	Low	Low	Low	Low	Medium	Low	Low	Low	Low	Medium

¹⁰ Note this highlights the key risks and is not intended to be an exhaustive list, and should the Council decide to proceed with any of these options then further work will be required on developing a detailed risk log for that option.

¹¹ With sufficient time / resources this should not be an issue, however the larger / more complex the service area the greater the level of resource and time will be required to capture the baseline position.

¹² Dependent on scope of contract - small service area only e.g. street lighting or larger area e.g. Highways & Transport.

¹³ Market interest likely to be much stronger if a collaborative procurement approach is taken with other local authorities.

Risks – with this type of delivery model	Option1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9	Option 10	Option 11	Option 12	Option 13
Potential loss of information & Insight data	Low	Low	Low	Medium	Medium	Low	Low	Medium	Medium	Low	Low	Low	High
Negative impact on functioning of interface between customer contact and service provider.	Low	Low	Medium	Medium	Medium	Low	Low	Medium	Medium	Low	Low	Low	Medium
Unexpected increase in workload (+cost) of customer contact services / other services. e.g. complaint handling	Low	Low	Low	Low	Medium	Low	Low	Medium	Medium	Low	Low	Low	Medium
Failure to deliver on statutory requirements (risks that cannot be transferred from the Council)	Low	Low	Low – medium (depend on scope)	Low	Medium	Low	Low	High	Medium	Low	Low	Low	Medium
Loss of in house expertise impacting on management / oversight of specialist services or functions.	Medium	Low	Medium	Medium	Medium	Low	Low	High	Medium	Medium	Low	Low	High
Contract default by provider	N/A	N/A	Low	Low	Medium	Medium	Low	Medium	Medium	Low	Low	Low	High
Provider goes out of business	N/A	N/A	Low	Medium	Medium	Low	Low	Medium	Medium	Low	Low	Low	High
Unable to deal with Government policy changes affecting delivery requirements (Without significant cost penalty)	Low	Low	Medium	Low	Medium	Low	Low	Medium	Medium	Low	Low	Low	High
Government policy changes affecting business case e.g. NNDR / VAT issues	Low	Low	Low	High	Low	Low	Low	Low	Low	Low	Low	Low	Medium
Unable to deal with reductions in funding levels to Council (Without significant cost penalty)	Low	Low	Low	Medium	Medium	Low	Low	Medium	Medium	Low	Low	Low	High
Unable to deal with changing priorities in terms of delivering outcomes for Darlington, (Without significant cost penalty)	Low	Low	Low	Medium	Medium	Low	Low	Medium	Medium	Low	Low	Low	High
Conflict of interest between provision of service for Darlington and for another client / area.	N/a	Medium	Medium	Low	Medium	Low	Low	Medium	Low	Low	Low	Low	High

Risk levels

High – where even with mitigating measures it is judged that there is potential for a relatively high impact (catastrophic or critical) and a medium to high degree of uncertainty / likelihood

Medium – where with mitigating measures it is judged that the potential for impact is reduced though might still be considerable and there is a significant degree of uncertainty / likelihood

Low – where with mitigating measures it is judged that the potential for impact is marginal or negligible and /or there is very little likelihood of an occurrence.

CONCLUSIONS AND RECOMMENDED OPTIONS

86. The future for local government over the next 5 to 10 years feels more uncertain than it has been at many times in the past. A declining financial base seems very likely for the foreseeable future, but the extent of that decline is very uncertain. Equally the role, responsibilities and opportunities for local government after the next general election are difficult to predict. Whilst all five of the Evaluation Criteria are important, and it would not be appropriate to do any formal weighting of the Criteria, the following observations arise from the extent of uncertainty we face within a sharply declining financial base:

- (a) **Value for Money/Savings:** There is a need to save money quickly to meet the current MTFP savings targets and more beyond. Once the Council has determined the outcomes (WHAT) it aims to achieve, there is a need to save as much money, as quickly as possible, by HOW it delivers and by WHO delivers the desired outcomes. The Council also needs to be working on ways that save more money in future from 'HOW' and 'WHO'.

- (b) **Flexibility:** There is a clear need to leave open opportunities for the Council significantly to change in future WHAT it plans to achieve (as well as leaving open opportunities to change HOW outcomes are delivered). With the current degree of uncertainty in the future context for the Council, flexibility to change and react becomes a very important goal – the 'flexibility' criterion has moved up the rankings over the last year. Flexibility is particularly important for services that are not standard and not statutory: for example, flexibility to change leisure provision in future is probably more important than flexibility to change refuse collection; and one council is more likely to take a different view in future on leisure than on whether to collect refuse.

- (c) **Sovereignty/Darlington-focus:**
 - (i) Retaining the Council's sovereignty to decide WHAT outcomes to aim for, and to what standard, is particularly important to Place Services, for which there are fewer national standards than for People Services.

 - (ii) Creating patterns of WHO delivers Place Services which encourage a Darlington focus or 'total place' approach is also likely to be important. Darlington's strengths of partnership working across sectors, in a way that is focused on Darlington's particular needs, remains an important ambition. Darlington Together approaches reinforce the value Darlington-focused solutions. Given the increasing demands for other services, some Place services may need to continue to take disproportionately more of the cuts, and so radical re-thinking in a Darlington context of HOW to achieve Place outcomes is likely to be important (e.g. project on the future of Arts provision). It may therefore be important to ensure that choices about WHO delivers services leave open or actively encourage cross-sector/Darlington-focussed ways of doing things. Organisations which are able to focus particularly on

Darlington may be more advantageous.

- (d) **Risk:** In an uncertain future there may be a desire to minimise risk. On the other hand, as the financial situation becomes more difficult the Council may have a greater appetite for risk. Provided that the risk of any option is within acceptable levels, then risk may not be as important as the above factors in determining, today, WHO delivers place services.
- (e) **Impact on Other Council Services:** Similarly, provided the impact on other services is thought through, can be managed and is well-managed in the implementation of any options, then this might not be as important a criterion in deciding between the options.

87. Emerging from the above and from the appraisal of the options, (see Table 2) there are:

- (a) Options which can be discounted;
- (b) Options which it is suggested are pursued immediately; and
- (c) Options which might still be appropriate at a future date and could be re-considered in about 2 years time.

Options Discounted

88. The following options do meet one or more of the Evaluation Criteria or are impractical for Darlington.

Option 8. Transport/Highways Outsourced to the Private Sector

89. In practice, statutory duties and liabilities will always remain with the Council even if the whole function is outsourced. Thus raises issues of risk and control which, whilst not insurmountable, are complex. There would be a need to retain in-house with this option sufficient expertise to manage and oversee these duties and liabilities. For an authority of Darlington's size, this would be more costly than option 7, Highways Frameworks, and have higher levels of risks, less flexibility and less sovereignty/Darlington-focus.

Option 11. Building Services Council-Controlled Company

90. The only advantage over an in-house operation is the ability to work for private sector organisations which the local authority is not allowed to work for, but this is limited 'by law' to about 10% of turnover, with 90% coming from the parent Council. As the Council's capital programme declines, this 10% will decline, and much of that figure is likely to be achievable by working for other public sector organisations

which an in house team can also do. The expense of setting up and running a Council-controlled company cannot therefore be justified.

Option 12. Outsource Building Service

91. Outsourcing Building Services, in a form that staff would transfer by TUPE, is problematic as there is not a level of work that can be guaranteed to a company. The only strands that could be definitely tendered would be housing maintenance and corporate landlord maintenance, but these together form less than £5m of Building Services' £21m turnover (and the level of corporate landlord work is uncertain as the council's buildings portfolio reduces), plus some housing planned maintenance. The rest of the turnover depends largely on capital programmes and external funding, the level of which could not be guaranteed over a significant period.

Option 13. Large-Scale, Long-Term Outsourcing to the Private Sector

92. This could be either:
- (a) Almost all Place Services plus some others, like corporate landlord;
 - (b) A package of the more likely outsourcing options from the mixed economy model: e.g. Environmental Services, Street Lighting, some highways maintenance work (without a defined value), some design work (without a defined value), housing maintenance, corporate landlord and facilities management.
93. The first of these would be amongst the most radical seen in the country: an approach which only a handful of authorities have taken. It would take a significant time period to fully define the outcome specifications for such a range of services, and to devise and put in place the appropriate contractual arrangements for dealing with statutory responsibilities where the staff carrying them out are to be outsourced. The risks arising from the contractual complexities for such an outsourcing would be higher than other approaches. Flexibility would inevitably be less, no matter how well the contract was framed, with continuing dangers that unforeseen changes in the next 15 years could create cost. Given the degree of uncertainty the Council is facing, it seems very likely that our successors within the next 15 years could come to regret commitment to a single partner of such a large range of services which we know will need to change.
94. The key issue with packaging together a 'mixed economy model', (paragraph 92b) is whether the size of the contract would be large enough to attract a low bid from a strategic partner: potentially a contractor bidding at below cost to achieve a foot in the north east market or to add market share to their company. The combined services would have a value of about £31M million. Many of the flexibility issues with the larger option would remain even for this basket of services. The transition cost, of legal, contractual and procurement advice and processes would also be significant for such a model.

95. The assessment against the Evaluation Criteria therefore suggests that this long-term, large-scale outsourcing is not the best option at the current time for these services where flexibility to change what we do and how we do it is likely to be critical in the next 10 years.

Options to be pursued immediately

Option 1: In House

96. The in-house option is both worthwhile in itself and keeps open other potential future options. The in-house option both makes the current services more efficient, by allowing unnecessary loops in processes to be cut out, and also creates business units reflecting findings from the market testing and case studies about the way private sector companies would best organise these services. This therefore keeps open a future choice of whether or not to outsource or share service collaboratively. It almost always makes sense to take any savings in-house before any outsourcing, otherwise the efficiency benefits will just be taken by the private sector provider.
97. The in-house option involves a significant restructure and improvement of processes, but it would be possible to implement these within the next financial year, realising full-year savings from 2013/14. Current estimates suggest this (together with some related savings such as a review of streetscene and reduced depot costs) may have the potential to save around £600k to £750k p.a. from 2013. This depends on the extent to which savings are given to other funding sources as opposed to the General Fund, with transition costs being the associated redundancy costs in the region of £350k to £400k. Significant process redesign or 'LEAN' work will be required to achieve savings through process improvements.
98. Construction work (largely related to housing) for external bodies is generating over £100k profits into the MTFP in 2011/12 (in addition to contributing to overheads), and the in-house model proposed would allow this income-generating work to continue. In developing the proposed in-house units which involve construction and maintenance work, attention will need to be given to the income currently generated for the General Fund from external capital and other non-general fund work. There are processes and charging arrangements that can be put in place to ensure the General Fund is not unduly disadvantaged by these in-house reforms.

Option 2: Culture Trust

99. The key issues for Cultural Services over the next few years are:
- (a) Flexibility to respond to future financial constraints for the Council;
 - (b) Ability to focus on cost minimisation and on using reducing Council funding to achieve One Darlington: Perfectly Placed outcomes

- (c) Ability to work collaboratively with other Darlington-focused partners, such as the Clinical Commissioning Group, Academies, 'schools@onedarlington', Colleges, and employers, around health and other outcomes.

100. A trust achieved these objectives well and scored well on the Evaluation Criteria, sitting well with the Council's Business Model. It also would have achieved significant savings, until the Government's response to consultation on the Resource Review changed the Business Rate advantages to the Council of a Trust. The consequence that this change will deter services being transferred to trusts has been raised with the Government, but it remains to be seen whether the Government will alter their position.

101. A Darlington-only culture trust has substantial benefits in term of Flexibility and Sovereignty/Darlington-focus compared with creating a joint trust with another local authority. It would be much easier to align the outcomes required, funding contract timescales, ethos, Board membership, and partnership working with health and education to Darlington requirements than if another local authority were involved. Management savings would be not as great as a joint trust with another council, but these savings may not fall equally and the trust would need to address its management capacity to the greater number of facilities across two areas. Joining an existing trust would take some time to set up as, if it were to be genuinely joint, it would involve the parent council coming out of the contract with their existing trust and re-procuring a new trust. Procuring another trust to run DBC services would be unlikely to have the Flexibility and Darlington-focus advantages of a Darlington trust, and the advice from Deloitte is that our service is currently run efficiently and effectively.

102. The process of setting up a Darlington-only culture trust is one that many authorities have done and should be possible to complete within a year. Whole year savings of c. £270k p.a. would have been achievable from 2013/14 onwards with transition costs of <£100k to fund advice and work on contracts. However, this depended on the funding of the NNDR reduction continuing to rest with the Government following the localisation of Business Rates: the savings without the Business Rate benefit will be significantly less.

103. The benefits of a trust without the Business Rate savings may not be great enough, in an uncertain world, to justify the costs of setting up and maintaining a separate organisation.

104. Cultural Services in Darlington are well-managed with a customer focused attitude to service delivery, and the financial benefits of moving to a trust are uncertain. In those circumstances, it is better, to maximise flexibility, to retain Cultural Services in-house. However, should the NNDR benefits come back into play then the balance of advantages would switch back to creating a Darlington-focused trust.

105. In either scenario, there is a need to prepare a clear outcome-based commissioning specification for Cultural Services to provide clarity on what is

required and therefore what the Council is getting for its money. This piece of work is needed regardless of whether the services are transferred to a Trust or retained in-house.

Option 2: Collaboration with Other Council(s)

106. The proposed in-house process improvements and restructure will also allow options for collaboration with other councils to be pursued. For example, for Corporate Landlord and Facilities Management, the approach set out in the in-house option would be more similar to others and therefore might open up some opportunities for reducing costs through collaboration at a future date. Work is continuing with Tees Valley councils on possibilities for collaboration, particularly on opportunities that may arise for specific sharing arrangements which could be easily implemented.

107. This project has identified that collaboration is more likely when service levels/approaches are similar and when the partner councils are not likely to take different decisions about future service levels (as they might for more discretionary services). Collaboration also requires willing partners to drive it through and overcome obstacles. It also requires sufficient scale to be able to deal with overheads which may remain – or to be small scale and opportunistic (such as sharing a specialist).

108. Reviewing the work done by Hartlepool and Darlington with Deloitte, the main collaboration opportunities in Place services appear to be:
 - (a) Waste (disposal, collection and recycling) from 2020;

 - (b) Power purchase or the opportunity to set up an Electricity Supply Company;

 - (c) Vehicles: purchase and maintenance, and also sharing specialist equipment;

 - (d) Specific opportunities that may arise to share management or specialist staff or equipment;

 - (e) Technical and professional specialisms: where a ‘portfolio’ approach to mutual aid between Tees Valley council could improve resilience and may reduce costs (through reducing in-house staffing needs or reducing use of consultants);

 - (f) Services where there are common approaches and service standards, such as some Regulatory Services, might have potential (though there are some problems of different service standards and the service blocks would need to be large enough to deal with overhead issue which have prevented collaboration in this area previously).

109. The next stages in pursuing collaboration are:

- (a) To get agreement between Tees Valley councils about any areas where broad collaboration could be advantageous, then define and resource those projects with clear project management and governance through proof of concept to business case;
- (b) Continuing joint work with Hartlepool to examine specific opportunities for smaller scale sharing, for resilience or cost benefits;
- (c) Put in place ready-made mechanisms which allow the 'mutual aid' approach to technical and professional specialisms to be activated quickly when needed.

Option 6: Street Lighting

110. A collaborative approach to outsourcing or a shared service across 4 Tees Valley councils is worth pursuing swiftly to proof of concept and business case (as Middlesbrough and Stockton need to put in place new contracts), so decisions can be taken about the benefits. (Redcar & Cleveland already have a contract in place.) A collaborative approach is more likely to be of interest to the market, and generate greater savings, than a Darlington-only approach.

111. This should look at options involving both a maintenance and replacement contract, and a contract that includes energy supply too. It should look at both a shared in-house service and outsourcing alternatives.

Option 7: Highways Frameworks

112. Looking at what is happening in the market, and considering the statutory responsibilities that remain for the Council to execute in any outsourcing, the current approach appears to create a good combination of achieving value for money, whilst retaining flexibility, and retaining control of capital project management and of statutory decisions.

113. This recommendation is essentially to pursue option 7, the Highways Frameworks approach.

114. There is a significant collaboration aspect of this. Work across Tees Valley to create a portfolio of specialist skills, with the necessary procedures in place that allow councils to use each others specialisms, will create resilience for relatively small authorities in a world of reducing budgets. (This approach could helpfully be applied in other Place services too.)

Options which could be re-considered at a future date

115. It is proposed that the following options are not pursued within the next two years, but could be re-considered at that stage depending on the circumstances and benchmarking data at the time. This will provide a sufficient and clear timescale for the immediate options above to be pursued vigorously. It will also give time to ascertain the implications of the Local Government Resource Review and the next Comprehensive Spending Review for WHAT the Council can afford to fund in future. Another factor is the management capacity to pursue options: given the size of the organisation; there is a limit to the number of major outsourcing or radical change projects we can do at the same time, and a need to give priority to those which will have most impact.

Option 5. Environmental Services Outsourced to the Private Sector

116. Putting in wheeled bins before any outsourcing should be the most cost effective approach due to local authority costs of borrowing being lower than the private sector, and will also give the opportunity to review the Street Scene service and understand any associated cost savings. It should be possible to complete this by early 2013.

117. Alongside this, further dialogue is continuing with Hartlepool on opportunities to share management costs and share equipment, and this should be factored into the business case assessment for any outsourcing.

118. It is also important to be clear about the extent of commitment of other Tees Valley authorities to joint approaches to waste management from 2020, and work is in hand to clarify that. This is potentially a big savings prize and would therefore be first preference for the future. This will be a long-term process, and work on this will need to be progressing by 2014 if it is to be achieved. It is therefore proposed that the options for Environmental Services would be reviewed in 2014 if progress was not in prospect on a joint Tees Valley approach.

119. It would still be possible for and outsourcing of Environmental Services to be considered from 2014 to 2020 or beyond. Given that our refuse collection costs are currently low (but will change with wheeled bins), and grounds maintenance costs appear to reflect the extent of land being maintained, it is suggested that more detailed work would need to be done on what the potential cost-savings from outsourcing might be, in comparison with the transitional costs of the outsourcing process. It is suggested that this further work on costing and testing whether there is a business case is done only after the service is restructured for wheeled bin implementation, and only if it appears that joint Tees Valley approaches from 2020 are not possible.

Option 9: Housing Maintenance and 10: Corporate Landlord/Facilities Management Outsourced to the Private Sector.

120. For both of these there are private sector contractors who deliver better services, with better secondary benefits (like tenant engagement and training) than our current maintenance services. However, there are transformation projects in hand to apply LEAN principles to make improvements. Also, the in-house option set out

in this project – re-organising to remove unnecessary steps from processes and removing duplication – would provide opportunities for significant further improvements and efficiencies.

121. It is suggested that further work is done to examine the business case for outsourcing in these two areas after the internal transformation, dependant on the extent of service improvement that has taken place by then. Outsourcing of these services could be done on relatively short contracts of, say, 4 or 5 years.

Option 3: Delegation of Services to another Local Authority

122. In many ways, delegation of services to another council is similar to outsourcing, and some similar issues to those set out on outsourcing to the private sector apply. At the moment value for money indicators do not suggest that delegation of services to a neighbouring council would achieve savings for Darlington (nor financial benefits for neighbouring councils).
123. In these circumstances, collaboration with other council(s) would be more likely to meet the Evaluation Criteria of Value for Money/Savings and Sovereignty/Darlington-focus.
124. The next Comprehensive Spending Review will no doubt provide substantial challenges for all councils in the region. The period following the implementation of the in-house improvements, together with any collaboration possible, would be an appropriate time to review the delegation option against further collaboration and outsourcing.

APPRAISAL AGAINST DESIGN PRINCIPLES

125. In 2009 the Council agreed a set of six design principles:

- (a) Service provision is designed and prioritised based on the evidence of need and what works;
- (b) The Council is a strategic commissioner of services to meet outcomes;
- (c) The Council's services and Members promote and foster self-reliant and resilient communities;
- (d) The Council provides consistent, high quality customer service;
- (e) The Council has the capacity and discretionary leadership to enable transformation;
- (f) The Council's organisational form, competencies and values enable the efficient delivery of outcomes.

126. As detailed in this report the recommendations described in; Conclusions and Recommended Options, arise from an evidence-based assessment of how services currently perform, of the options for other types of delivery model and evaluation against the potential benefits / dis-benefits of each option. The recommendations are very much aligned to the design principles in that they:

- (a) Support the application of commissioning principles to all services; those that continue to be delivered 'in-house' and services that are shared or outsourced.
- (b) Enable further work with the community, with Members and with service providers to promote and foster self-reliant and resilient communities, and allow for flexibility in the way outcomes are achieved through a mixture of service delivery and community input.
- (c) Support streamlining of processes, bringing together areas of common expertise (within in-house teams and where beneficial through collaboration with local authority partners) thereby enabling a more efficient delivery of outcomes.
- (d) Allow the Council to retain sufficient in-house capacity to deliver transformation and shape the Council's future whilst also achieving efficiencies through collaboration and use of the private sector where it makes sense to do so.

- (e) Support improvements to customer service through improved 'end to end' (customer contact – service delivery) processes in the in-house model, and as detailed plans for collaboration and outsourcing are developed allow for the adoption of customer focused performance measures in service specifications and contracts.

EQUALITIES IMPACT

127. Recommendations in this report are on how the Council could transform the way services are delivered in the future, not on what services should be delivered. However, if approved, in moving forward with plans to deliver the proposed options, equality impacts will be considered at the planning, approval, pre implementation and post implementation stages.
128. Until further detailed work takes place on each of the recommended options, for example defining any changes to processes, staffing structures, and potentially to operational policies, it would not be prudent to even start to list the potential impacts.

IMPLEMENTATION PLAN (WITH BROAD TIMESCALES)

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	PROJECT	Timescale
1	Proposed in-house model announced to staff - Staff Communications begin	27/03/12
2	Cabinet Approval on Direction of Travel	02/04/12
3	Consultation on in-house model	Q2 of 2012
4	Implementation of in house model	Q3/Q4 of 2012
5	Street Lighting Review (T&F) Phase One	Q2/Q3 of 2012
6	Street Lighting Implementation	2012/13
7	Leisure and Culture Strategy and Commissioning Intentions ('WHAT')	Q2/Q3 of 2012
8	In-House Option Process Improvements	2012/13
9	Tees Valley joint Waste Management – Review of, and recommendation on, options for collaboration	Q2-Q4 of 2012
10	Other collaborative options across some or all Tees Valley councils – business cases	2012-2014