
IMPLEMENTATION OF THE COUNCIL'S BUSINESS MODEL

Responsible Cabinet Member - Councillor Bill Dixon, Leader

Responsible Director – Chief Officers Executive

SUMMARY REPORT

Purpose of the Report

1. To update Members on the implementation of the Council's Business Model and to seek approval to move certain projects forward and to agree a timetable for further reviews of service provision.

Summary

2. Cabinet agreed a new Business Model at its meeting on 3 November 2009, against a backdrop of the international banking crisis and credit crunch. The purpose of the report was to ensure that Darlington was anticipating the impacts on the Council, planning mitigation, and giving assurance that it would have the capability to continue to serve the people of Darlington well. This report reaffirms the key functions of the Council to:
 - (a) Champion the best interests of its residents and businesses.
 - (b) Bring people and agencies together to maximise the resources available to deliver the community strategy, One Darlington Perfectly Placed.
 - (c) Promote the borough to secure economic growth and resources.
 - (d) Make sure that people receive good quality public services that meet their needs.
3. With significant learning and better understanding about Government finance, there is now greater clarity on the options available to the Council to ensure that it meets its strategic goals. The report, therefore, aims to provide a context for the forthcoming decisions within the MTFP with respect to the three strands of the Business Model:
 - (a) **What** does the Council want to see delivered to meet its ambitions within One Darlington Perfectly Placed?

- (b) **How** should the Council operate to ensure that it is efficient and is working with communities to reduce the need for public services?
 - (c) **Who** is best placed to deliver the level and standard of services the Council wants?
4. The first part of this report provides an update on the many changes since that time, including increased certainty around income from Government, service pressures, as well as progress made in delivering against the model. The report notes the good progress made and the innovation evident in many of the Transformation Projects established to deliver the Council of the future. Against a backdrop of financial challenges for the users of Council services, as well as increased pressures for the workforce, it is important to also note the ideas and the energy being brought to finding new ways to meet people's needs that will reduce reliance on Council-funded services.
5. The second part of the report deals in greater depth with work on the '**Who** should deliver' strand of the Business Model approach and proposes a number of projects to be undertaken to further refine information on which Members can make decisions on **Who** provides services as part of the MTFP revision. The immediate work being proposed is the preparation of a detailed business case for the merger of People based services with Hartlepool Council (and potentially other Tees Valley Councils) and the continuation of an options appraisal exercise in relation to Place based services.

Recommendation

6. It is recommended that:
- (a) Cabinet note the contents of the report with regard to the Proof of Concept work undertaken and the implementation of the Business Model.
 - (b) Approve the preparation of a detailed business case for the strategic collaboration of the People based services.
 - (c) Approve £100,000 from reserves to provide funds to produce the detailed business case.
 - (d) Approve continued work in respect of Place based services.

Reasons

7. The recommendations are supported by the following reasons:
- (a) To maximise the opportunities to meet the Council's financial challenges through arrangements that may protect services.
 - (b) To update Cabinet on the extensive change since the Business Model was initially agreed.

Ada Burns
Chief Executive

Background Papers

All working papers used to prepare this report are included in the appendices

Ada Burns : Extension 2011

S17 Crime and Disorder	Business Model aims to create conditions for stronger partnership work to deliver outcomes on community safety
Health and Well Being	Business Model aims to create conditions for stronger partnership work to deliver outcomes on health
Carbon Impact	The existing Transformation Programme includes schemes to reduce the carbon footprint (and associated costs)
Diversity	Business Model aims to create conditions for stronger partnership work to deliver outcomes for disadvantaged communities
Wards Affected	All wards are affected
Groups Affected	All groups are affected
Budget and Policy Framework	The report concerns the budget and policy framework
Key Decision	No
Urgent Decision	No
One Darlington: Perfectly Placed	There are significant implications for the standards and quality of services
Efficiency	Significant implications

MAIN REPORT

Part One: Implementing the Business Model

Background

8. Darlington became a Unitary Council in 1997, following Local Government Reorganisation that saw it sever its structural relationship with Durham County Council. For a number of reasons the resource base available to the new Council was low, whilst historic underinvestment in services and infrastructure placed significant demands on the new organisation.
9. The Council's strategy, that has underpinned service and financial planning since, was to raise sufficient income from taxes and charges to meet the aspirations of the public, whilst seeking to improve services in terms of outcomes and efficiency. It is of course important to note that Council Tax only funds 48% of the Council's net budget the remainder coming from Government funding.
10. In 2005 Darlington was awarded the maximum rating of "Four Stars" under the Local Government Improvement Regime, the Comprehensive Performance Assessment (CPA),

and retained this until the system was dismantled in 2010. This rating covered all aspects of Council performance, including its strategic leadership, service outcomes and use of resources. It is also worthy of note that consistently the Council's external audit reports have given a positive judgement of value for money and sound financial management.

11. In order to direct resources to areas of priority and to respond to service pressures the Council has operated wide ranging efficiency and transformation programmes for a number of years and it is estimated that around £20M has been saved from exercises that included redesigning back office functions, including Xentrall, integration and joint services with health, changing the way that environmental services are organised, restructuring and improving procurement in passenger transport services. There have been two Council reorganisations, in 2007 and in 2010, reducing tiers and increasing the span of management and bringing sharper focus to the key goals and priorities of One Darlington Perfectly Placed.
12. However, the report to Cabinet in late 2009, written at a point when little was known about the impact of the global financial crisis on Local Government, was clear in acknowledging that ongoing efficiency programmes would not be sufficient to enable the Council to deal with the anticipated reduction in its funding. Radical action would be required that would alter the way the Council functioned and organised itself.
13. It is worth reflecting that the financial analysis that underpinned that conclusion proved significantly wide of the mark when the Coalition Government announced its Emergency Budget and Comprehensive Spending Review in 2010. Whilst considered a median view of the range of potential grant cuts being projected by experts in Local Government finance, it proved to be very optimistic.

Updating the Context

Financial Environment

14. The scale of cuts in funding and the speed at which they have impacted is faster than anticipated in 2009. This has altered the balance away from transformation (the **How** of the Business Model) and towards service reductions/changes (the **What** of the Model). Looking forward it is imperative that we explore all options to minimise continuing service cuts.
15. A review of Local Government finance has proposed passing business rates back to Local Authorities with the intention of incentivising action to promote economic growth. Analysis suggests that the proposals represent a significant risk to public services in the north east where the economy is less strong and service demands are higher than elsewhere in the country. The loss of many of the funding streams that supported economic regeneration will place additional demands on Local Authorities to finance infrastructure and other work that can attract private sector investment in a weak market.
16. There is a proposal in the CSR from 2013/14 to pass responsibility for Council Tax rebates to Local Government, with a 10% cut in support within revenue grant for this activity. This means that either the Council will have to pass that reduction onto to recipients of benefit, or budget savings will need to be found elsewhere to offset the lost Government grant

which is estimated to be £1M per annum, effectively a further cut of £1M.

Government Policy

17. In a number of areas new Government policies are and will impact on the Council, these include:
- (a) The corporate inspection and performance regime has been removed, however, service specific regimes such as adult social care remain (although it is worth noting that there remain significant expectations upon the Council in terms of inspections, reporting etc).
 - (b) The expansion of Academies and changes to school governance is prompting many schools to procure support services from other providers.
 - (c) The reorganisation within the NHS potentially will enable closer alignment of the commissioning of health and social care, and of public health to other Council functions. This has the potential to spread commissioning support costs and improve user experience.
 - (d) The changes to the welfare system and proposals to significantly reduce the cost of the national welfare benefit bill. Elements of these are already impacting upon demand, for example in the area of homelessness.

The Transformation Programme

18. Much of the money planned within the 2011/12 MTFP has originated from the ongoing Transformation Programme. These include projects looking at what the Council delivers, how it operates and who delivers. It is worth noting, particularly against the backdrop of service reductions, that in a number of cases the transformation projects are enhancing the quality of service to the people of Darlington. For example the Dementia Collaborative has substantially reduced the number of hospital admissions and hospital length of stay whilst the re-enablement service is giving practical support to help people remain independent after a period of ill-health or a change in circumstances.
19. A range of methods and techniques are being deployed, but with particular focus on LEAN. This approach to improvement, putting the customer at the heart of activity and identifying and eliminating any process or activity around them that does not demonstrably add value to their need, is being rolled out in a number of areas. The techniques, which often culminate in Rapid Process Improvement Workshops (RPIWs), also engage staff from all levels in making improvements and reducing waste. RPIWs have been held in areas as diverse as housing repairs and procurement.
20. However, there are two key lessons that have informed work on strategic options for the forthcoming MTFP review. Whilst collaboration with other Local Authorities offers obvious advantages in terms of ethos, flexibility and scale, it requires willing partners and leadership from the top to drive action, and needs to be on sufficient scale to enable overheads to be dealt with.

Moving Forward

21. Following the reorganisation of the Council to align better with the business model, a review of resources, transformation projects and lessons learnt has shaped the approach to the forthcoming MTFP. This year's review will, it is intended, both deliver a balanced budget and set the direction of travel for the shape and structure of Darlington Borough Council in the medium term.
22. The review will set out proposals as follows.

What Services Should the Council Fund/Deliver

23. The Business Model reaffirmed the Council's commitment to the Community Strategy priorities of One Darlington Perfectly Placed, and as summarised in paragraph 2b above, set out the role Darlington Borough Council would play in contributing to this. Against this backdrop work is underway on a project called "Zero-based Council" which will assess against each of the 8 outcomes that underpin One Darlington Perfectly Placed:
 - (a) What activities the Council must fund/deliver to comply with legal duties and to have an impact.
 - (b) What further activities the Council could fund/deliver that would deliver measurable value to the outcome.
 - (c) What further activities the Council could fund/deliver that would deliver further measurable value to the outcome.
24. Officers are working to assemble evidence to support their professional assessment of the activities that can be demonstrated to add value. This approach will enable the Council to determine across the range of outcomes where it wishes to invest its money and as a consequence, where it will disinvest. The process will support decisions on where cuts should be made, but also corporate and service planning into the following year(s). For public consultation and the consideration of impacts on vulnerable sections of the community, the approach enables greater transparency over investment/disinvestment decisions than is possible by taking the traditional approach of presenting a series of possible cuts for consultation.

How Does the Council Deliver?

25. Programmes that can identify and eliminate waste from Council business processes will continue, alongside further opportunities for efficiencies, for increasing income and aligning resources with other public services. The review of the Darlington Partnership and work to consider how best the Health and Well-Being Board should be set up, aimed at providing a stronger basis to align diminishing public sector resources to the achievement of One Darlington Perfectly Placed.
26. Chief Officers from a wide range of key public sector partners have agreed to align planning processes, collaborate on creating a Single Needs Assessment to support prioritisation and potentially create some form of Public Service Board to co-ordinate

commissioning across the outcomes and priorities agreed by Darlington Partnership (and by the Council within its zero-based work). This option is being considered alongside guidance for the establishment and membership of Health and Well-being Boards.

27. The other strand of work within the “**How**” question is Darlington Together, programmes to support communities and Members to find and develop solutions to needs and problems at locality level. There are two dimensions to the approach, one focussing on interventions that help to reduce demand for public service and one focussing on scope for communities to assume responsibility for delivering directly, with no, or minimal subsidy. It is likely that this work as it evolves will focus on some big projects linked to the MTFP and on support for Members to lead locally important priorities.
28. It is not expected that this approach will deliver significant savings in 2012/13, but should make a contribution in later years.

Who Delivers Services the Council Wishes to Fund?

29. Following from decisions on **What** the Council funds/delivers, decisions can be made on who should deliver. As noted above the lessons from collaborative work and studies to date demonstrates that large packages of services need to be assembled to enable overheads and support services to be sensibly managed.
30. The second part of this report deals specifically with work undertaken on **Who** delivers and the decisions that will be presented to Members in coming months

Impacts on the Workforce

31. The events of the last eighteen months or so have had significant impacts on the workforce, including changes to terms and conditions and job losses. The reorganisation, which removed at least a third of management capacity and also further distributed functions right across the new groups, requires new styles of leadership and team working. There is greater expectation of delegation, of matrix management and an overall “Team Darlington” approach.
32. To ensure that the workforce going forward have the skills, competencies and support to deliver in a different environment, work is underway to develop a new workforce strategy that will guide Human Resources and Organisational Development activity over the coming few years.

Scrutiny and Member Engagement

33. There have, since the Council’s Business Model was agreed, been regular briefings for Members and strands of work have been included within Scrutiny Committee work programmes, for example on the Arts. These will continue alongside the new pre-Council briefing sessions and the agreement from Scrutiny Committee Chairs to support the Business Model with targeted pieces of review and development.

Part Two: Who Should Provide Services

34. The Council operates a “mixed economy” with over 30% of its spend being for the provision of services by others, a major area being the purchase of Care for Vulnerable Children and Adults. In this area the learning has been that the private and voluntary sectors can provide places at a better price and as demand fluctuates the Council does not have to carry the cost of vacant capacity. However, in certain areas when demand is high and supply low, prices can often increase quickly if sufficiently tight contracts are not in place.
35. Private sector partners have been used in many areas of the Council to supplement in-house staff to deal with peaks in demand and to provide specialist support. Examples would be the framework partnership for professional services and the contracting with the private sector to supplement our in-house team in Building Services. In the majority of cases these arrangements work well but, as in all relationships, there have inevitably been some problems.
36. The examples above within the Council tend to be for “spot purchases” or “call off” purchases and not for the provision of whole services; for example, other authorities have chosen to outsource whole services such as Refuse and Waste Collection, ICT and Revenue and Benefits.
37. The examples above relate to services being provided by the private and voluntary sectors. In addition to this, the Council has services provided in partnership with other Councils and public sector organisations, the largest of this being the provision of ICT, Transactional Finance and HR and Print and Design services via a public/public partnership with Stockton Council known as Xentrall. Other examples are joint appointments with Hartlepool Council for School Improvement and HR and various joint provision of services with the health sector.
38. It is accurate to say that until the approval of the Business Model the Council did not have a strategic and systematic approach to challenging who delivers services; the focus over the past decade has been on transforming in-house services and service led changes in providers along the lines outlined in the previous paragraphs. It is now acknowledged that there is potential to reduce costs by reviewing **Who** provides services therefore reducing the need to cut services. The remainder of this report updates Cabinet on progress in reviewing the **Who** strand of the business model.

Learning to Date

39. The Council has undertaken a number of reviews of services to see **Who** is best placed to provide the services, as part of the MTFP agreed in March 2010. The following services were tested to see if collaboration with Stockton would be beneficial and in the case of Building Control the testing was at Tees Valley level; in all cases a Proof of Concept has not been proven:
 - (a) Revenues and Benefits
 - (b) Building Services
 - (c) Environmental Health

- (d) Building Control
- (e) Trading Standards
- (f) Licensing
- (g) School Meals

40. The key learning was:

- (a) Collaboration/Shared Services for small services is problematic as the ability to reduce retained overheads is exceptionally difficult since the reduction in support needed eg in Finance and HR, is insufficient to reduce staffing numbers in the support area to equal the lost “income” from the front line service. Likewise costs such as ICT and Accommodation do not reduce pro-rata to the “loss” of income to support services. The result is that collaborations fail as savings from collaboration are offset by the additional cost of support services. In the case of the Tees Valley Building Control service this was the sole reason for three of the five Councils’ withdrawing. This suggests that effective collaborations need to be at least at divisional level.
- (b) To achieve significant savings to make the investment in collaboration worthwhile standardisation of approaches and service levels are key. In many of the services reviewed the levels of service provided by Darlington were significantly lower than Stockton and this, therefore, removed much of the ability to deliver benefits via collaboration. Exploration of Darlington simply buying services from Stockton rather than collaborating was also reviewed but the savings deliverable were less than were delivered by in-house restructuring.
- (c) To establish a successful collaboration, willing partners are required who are committed to partnerships and are willing to operate in an open and transparent way allowing each partner to trust the other. Commitment to making the partnership work is also required, by being prepared to make changes in order to overcome barriers that will inevitably arise. If this is not the case, it will be a significant barrier.

Building on Initial Learning

- 41. The learning led officers to consider a larger scale strategic approach to the **Who** strand of the business model. The starting point was to test out the potential opportunities from large scale collaboration with one or more Local Authorities. The starting point for this project was to seek a willing partner to undertake such a review. Within the sub region, Hartlepool were the only willing partners although the remaining Tees Valley Councils undertook a watching brief of our work with Hartlepool and they would then consider whether they wished to be involved in implementing any or all of the collaboration that may stem from the project.
- 42. The scope of the project was extensive covering all aspects of the Council and considered whether there was a Proof of Concept for collaboration between the two Councils. The project identified that a full scale merger of the two Councils was feasible and that significant financial savings could be made, however, although the concept is proven, there

are many challenges and barriers to successful implementation that would need to be overcome if a successful collaboration was to be delivered. In terms of timescale, full implementation would take 2/3 years and would involve significant upfront investment to deliver the collaboration. The next phase of a collaboration project would be to build on the proof of concept by working up a detailed Business Case for consideration by Council in such detail to allow implementation should approval be given by Council. The preparation of such a Business Case would take up to a year to produce. Attached at **Appendix A** is the Executive Summary Report together with working papers for the project.

43. Set out below are the summarised potential financial benefits of collaboration split between specific service groupings within the Councils.

Scale of Opportunity

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

44. It is important to note the following when considering the above figures:

- (a) The savings are very rough estimates with a potential range expressed.
- (b) The savings represent a total for both Councils; the split between the two Councils would need to be determined.
- (c) The savings assume 100% integration of services, lesser integration will reduce savings and the reduction in integration is unlikely to have a pro-rata reduction in savings.
- (d) The savings represent the amount achievable when fully implemented and do not include any costs for implementation and decommissioning costs.
- (e) Corporate Services savings at the level above are dependent on front line service collaboration if this is not the case, savings will reduce.

(f) To deliver the level of savings, services will have to be standardised for example savings in refuse collection would not be achieved if the two Councils continue to run different collection methods.

45. Alongside the financial impacts there are a range of issues to be considered around collaboration. These can be summarised as follows:

Collaboration with Other Council(s)	
Advantages	Disadvantages/Risk
<ul style="list-style-type: none"> • Builds resilience in expertise and numbers • Retains strong public service ethos • Enables more flexibility in responding to change • May help to protect terms and conditions 	<ul style="list-style-type: none"> • May dilute local Member discretion • In context of electoral cycle difficult to guarantee medium/long term strategy to underpin approach • May generate difficulty in competitive scenarios (eg jobs or investment) • Requires new relationships between Members and Officers • Loss of local knowledge to facilitate partnerships • Limited successful experience of similar models elsewhere • Loss of local knowledge as individuals operate across a bigger geography • Limited successful experience of similar models elsewhere

46. Despite the caveats set out above the Proof of Concept suggest that there may well be a significant financial saving from large scale collaborations. At this stage it is appropriate to reflect on alternatives to strategic collaboration. Set out below for Darlington’s service groups is a reflection on such alternatives to collaboration with other councils or continued in-house provision.

47. People Services

- (a) In respect of Adult and Children Social Care and Educational Services there is no real alternative to collaboration. While most provision is commissioned externally there is not a mature alternative market available in either the private or voluntary sectors for assessment, commissioning, safeguarding and strategy.
- (b) In respect of Benefits and Local Taxation within the People group, there is a mature private sector market and Hartlepool Council are currently testing the market to see what financial savings can be achieved and to consider whether an outsourcing deal would cap their financial risks re staffing costs when Housing Benefits transfers to the DWP in 2015.
- (c) In terms of the Housing stock and its management, Hartlepool Council like all Tees Valley Authorities have not retained their stock it has been transferred to a Registered

Social Landlord. Therefore, there is no scope to collaborate with the Council. However, there are significant changes emerging to housing policy that may impact on these options and which require some consideration.

48. Place Based Services

- (a) In respect of the Community Services, Building Services and Highways and Project Divisions there are mature private sector markets for most services and for some services there is a further alternative involving trust status for services such as Leisure and Culture.
- (b) In terms of services such as public protection, planning and regeneration there are no real alternatives to collaboration or in-house provision.

49. Resources Group

- (a) There is a mature private sector market for the majority of services provided within the group.
- (b) Collaboration already exists with Stockton Borough Council for services provided by Xentrall of ICT, Transactional HR and Finance as well as Print and Design services.

Proposed Next Phase of Developing the WHO Strand of the Business Model

50. The study with Hartlepool demonstrated significant opportunity to make savings and build resilience. Clearly the amount of money that can potentially be saved is increased by the scale of collaboration across two Councils or with three or more. It is nevertheless proposed that a phased approach is taken to the development of a detailed business case for strategic collaboration for the following reasons:

- (a) There are alternative provider options for particular elements of Council services that are being tested currently, for example in the Place group. This work needs to be concluded to determine the impact on the collaboration option.
- (b) Given the risks and disadvantages of collaboration the ability of each Council to retain its own strategic leadership and advice while all options are being considered is important. This is also necessary whilst discussions with other Tees Valley Councils around potential involvement take place.
- (c) Hartlepool Borough Council is due to have local elections in May 2012 with a significant change to the number of Members on the Council. Given the required investment in detailed business case work it would not be advisable to progress the whole scale strategic collaboration prior to the election of a new administration.

51. Given the information provided on alternatives above the following is proposed.

People Services

52. Adults, Children and Education Services, commence work immediately on producing a detailed business case for collaboration with Hartlepool and other Tees Valley Councils should other Councils wish to join the collaboration proposals.
53. Benefits and Local Taxation – the opportunity offered by outsourcing be reviewed in conjunction with Hartlepool following their tendering exercise. A decision on whether to progress with such an outsourcing deal be considered following the results of the tendering exercise undertaken by Hartlepool are analysed.

Place Services

54. A project is being undertaken to explore the relative benefits, potential disadvantages and implications of options ranging from in-house provision, to alternative providers including trust status, large scale outsourcing, or collaboration. The project to report early in 2012.
55. That on completion of the project set out in (a) analysis is undertaken to evaluate the output alongside the proof of concept study on strategic collaboration to decide the most appropriate next steps.

Resources Group

56. No further work be undertaken on the strategic collaboration at this stage.
57. That decisions on strategic collaboration or sourcing services from the private sector are dependent on the outcome of the work on options for Place and People services.
58. Work be undertaken to understand the implications of the strategic options in People and Place on services and costs of the Resources group, in particular the impact on the shared services with Stockton, Xentrall.

Resourcing the Development of a Detailed Business Case for a Strategic Collaboration for People Services

59. Based on previous experience, the preparation of a detailed business case is likely to take 12 months and will involve the secondment of key staff to work on the project, the purchase of external support and advice to develop appropriate governance models and ways of working. There will be significant involvement of HR, finance and legal teams as well as employees in People services. A detailed resource and project plan will be developed and refined during the MTFP process, however at this stage it is recommended that a budget of £100,000 is established for reserves to cover potential costs associated with the purchase of advice and support and to cover temporary staffing costs for those employees seconded to the project.

Outcome of Consultation

60. There has been no specific consultation on the contents of this report although the context and principles of reviewing who provides services has been shared with Trades Unions and the workforce via employee roadshows and staff briefings.