

# Taunton Deane Borough Council

## Executive – 9 February 2010

### Independent Review of Deane DLO

#### Report of the Strategic Director – Brendan Cleere

(This matter is the responsibility of Executive Councillors Richard Lees, Hazel Prior-Sankey and Tim Slattery)

### Independent Review of Deane DLO

#### 1. Purpose of Report

- 1.1 To seek an Executive recommendation to Full Council, following the independent review of options for the future of services provided by Deane DLO.

#### **Executive Summary**

The Council commissioned consultants, Turner and Townsend, to carry out an independent review of options for the future of services currently provided by Deane DLO. The review started in August 2009 and the brief included the requirement that consultants make a recommendation on a preferred delivery model for DLO services in future.

Turner and Townsend have recommended outsourcing of DLO services as the preferred way forward, subject to the confirmation of the business case by way of a full procurement process. The approach proposed by Turner and Townsend would provide scope to implement other options, if the business case for the recommended option did not meet the Council's requirements.

One-off costs of adopting the outsource option would be up to £200k. Annual Revenue savings would be approximately £278k, achieved within 24-36 months of decision by members to pursue the outsource option.

Corporate Scrutiny Committee considered this matter at a special meeting on 28 January 2010 and recommended that the Executive supports the outsourcing approach recommended by Turner and Townsend. Formal consultation with UNISON, staff and members ends on 5 February 2010.

The Executive is now asked to consider the review findings, the views and recommendations of the Corporate Scrutiny Committee and views that have emerged from the consultation process, and recommend a preferred way forward for DLO services to Full Council.

## 2. Background

- 2.1 Full Council approved an alternative approach to completing the Core Council Review in April 2009. The alternative approach included the commissioning of independent external expertise to advise the Council on Theme 3 of the Core Council Review – to develop options for the future of services provided by Deane DLO.
- 2.3 Turner and Townsend PLC were appointed to carry out the review after a rigorous procurement and selection process, culminating in an interview and presentation to a cross-party panel of elected members, officers and a UNISON representative.
- 2.4 Turner and Townsend worked to a brief considered by the Corporate Scrutiny Committee and approved by the Executive on 15 July 2009.
- 2.5 Turner and Townsend have now completed the review and their report is attached as Appendix 1. The report sets out the work that has been undertaken to establish the feasibility of six main options:
  1. **Outsourcing** – where the Council contracts with a private sector company to provide services on our behalf. Under this option, staff would transfer to the private sector provider under their current terms and conditions.
  2. **Joint Venture** – where the Council forms a new organisation with a private sector partner to deliver services. Under this option, staff would also transfer to the private sector provider under their current terms and conditions.
  3. **Shared Service** – where the Council joins with other local authorities or public sector partners to deliver services.
  4. **Lead Authority** – where the council transfers activities to another local authority who delivers services on our behalf. Alternatively, other local authorities may transfer services to Taunton Deane BC to provide services on their behalf.
  5. **Internal Transformation** – where the Council invests in services to achieve large scale improvement and efficiency.
  6. **As Is** – where services continue as now, and are subject to continuing financial pressure requiring annual incremental change.

## 3. Review Recommendations

- 3.1 Turner and Townsend are recommending that the Council follows a

detailed procurement process with full outsourcing to a private sector supplier as the preferred way forward.

3.2 The full rationale for the above recommendation is contained in Turner and Townsend's report (Appendix 1).

3.3 In recommending outsourcing as the preferred option, Turner and Townsend are proposing an implementation process (Appendix 1, p.65) which provides scope to implement potential alternatives of joint venture or internal transformation, if the business case for outsourcing does not meet the Council's requirements. This is possible because much of the project work required to implement outsourcing could be re-used if necessary to support these potential alternatives.

3.4 Turner and Townsend have also made two further service specific recommendations which apply to *all options*, as follows:

- A clearer separation should be created between Housing client and contractor functions. Both of these functions are currently based at Priory Depot, overseen by the Housing Property Services Manager. The Community Services Manager (James Barra) will look into this recommendation further, exploring all options and bringing forward proposals to separate Housing Client functions from their current location.
- The stores function as currently configured should cease operating from the DLO site and a 'just in time' approach should be adopted for buying and supplying in the future. This issue will be looked into further during the DLO transformation process, with a solution ready to begin operating at the inception of whichever model is selected by members.

#### **4. Consultation**

4.1 In arriving at their recommendations, Turner and Townsend have carried out extensive consultation with a variety of different groups, including (but not limited to):

- DLO Managers and Staff
- UNISON
- Corporate Management Team
- Taunton Deane Tenants' Forum
- Elected Members (via the Change Programme Steering Group, Scrutiny Committee and confidential members' briefings on 13/14 January 2010.
- Other local authorities (neighbouring and beyond)
- Potential private sector partners.

- 4.2 Formal consultation on Turner and Townsend's report started on 13 January 2010 and will end on 5 February 2010. The formal consultation process includes discussions with staff, UNISON, Corporate Scrutiny Committee and tenants. Partner agencies and community groups have also been given an opportunity to comment.
- 4.3 Questions and answers arising from staff meetings during the formal consultation process are attached as Appendix 2. A summary of further comments received by the consultation deadline of 5 February 2010 will be reported verbally to the Executive.

## **5. Financial Implications**

- 5.1 All options (except "As-Is") have one-off cost implications for implementation, with details provided in the consultants' report.
- 5.2 In the case of the recommended outsourcing option, the consultants report advises that the one-off cost would be up to £200k, with an implementation timescale of 12 months from a decision by members (potentially in February 2010) to pursue the outsource option. These one-off costs can be found from reserves as follows: General Fund Reserve (£75k), Housing Revenue Account Reserve (£100k) and DLO Reserve (£25k).
- 5.3 The consultants' report advises that one-off costs for implementing alternative options of joint venture and internal transformation would be up to £300k and £600k respectively. Currently, the reserves position for both the General Fund and DLO are such that the funding required to implement these options would put the reserves below their minimum level. Therefore, implementation of either a joint venture or an internal transformation option could not be funded from reserves at current levels.
- 5.4 The potential annual savings arising from the recommended outsource option are indicated at £278k, achieved within 24-36 months of decision by members to pursue the outsource option.
- 5.5 It is important to stress that the above figures and timescales are indicative, and subject to change through a full procurement process and business case. Members would be kept informed and involved as appropriate in any procurement process to select a private sector supplier.
- 5.6 During the transition to any alternative option selected by Full Council, any savings required of DLO services would need to be made using the savings plan mechanism that members will be familiar with.

- 5.7 The Section 151 officer has verified that the financial information and assumptions used up to this stage by Turner and Townsend are sound and that any formal sign up to an outsource arrangement in future would need to be subject to member approval of the business case emerging from a full procurement process.

## **6. Equality Implications**

- 6.1 At this stage, none of the alternative options explored by Turner and Townsend have an adverse impact on any particular individual or community group.
- 6.2 The option selected by members will be subject to a full equality impact assessment prior to implementation. In the case of the recommended outsourcing option, any potential private sector providers would also be required to demonstrate, as part of the bidder selection process, how they will meet or exceed the Council's own equality commitments and all relevant legislation.

## **7. Views of the Corporate Scrutiny Committee.**

- 7.1 The consultants' report was discussed in detail by the Corporate Scrutiny Committee at a special meeting on 28 January 2010.
- 7.2 It was made clear to the Committee that any decision by Full Council in February 2010 to pursue the recommended outsourcing option would be subject to a due diligence process, including detailed financial analysis of all DLO functions, as well as member approval of a full business case. The whole process leading up to a final decision by members would take approximately twelve months.
- 7.3 The draft minutes of the Corporate Scrutiny meeting are attached as Appendix 3.

## **8. Conclusion**

- 8.1 Members requested an independent review, with recommendations for a future operating model for DLO services.
- 8.2 In completing the review, Turner and Townsend have addressed all areas of the brief and made recommendations based on members' identified priorities and the increasingly tough financial climate facing all local authorities.
- 8.3 Members are asked to review the consultants' report, together with feedback from the consultation process and views of the Corporate

Scrutiny Committee, and make a recommendation to Full Council on a preferred way forward for DLO services.

- 8.4 A detailed project plan to implement whichever option is selected by Full Council will be drawn up, with work to begin from March 2010. This work would be overseen by the Change Programme Members Steering Group but would also include key stages where members will be required to make decisions before proceeding. This would include a review into whether the business case for the preferred option satisfies the Council's requirements.
- 8.5 The approach proposed by Turner and Townsend gives scope for members to select an alternative option if the business case for the recommended outsource option does not meet the Council's requirements.

## **9. Recommendation**

9.1 The Executive is recommended:

- (i) to note the outcomes of the consultation process and the views and recommendations of the Corporate Scrutiny Committee (detailed in Appendix 3);
- (ii) to decide upon a preferred option for the future of DLO services and seek the approval of Full Council for this option to be fully worked up;
- (iii) to seek Full Council approval for an appropriate sum (as set out in section 5) to be earmarked from reserves to fund one-off implementation costs of the preferred option;
- (iv) to note that implementation of the preferred option will be overseen by the Change Programme Members Steering Group, with key decisions to be taken at key stages of the project by the Executive and Full Council as appropriate;
- (v) to approve that further work be carried out to implement the consultants' recommendations in respect of DLO stores and housing client functions (as outlined in section 3.4).

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**Background Papers:**

*Options for the Future of DLO Services – Brief for Consultants (July 2009)*

The above document was approved by members and is summarised in the consultants' report. Copies available from Brendan Cleere.

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### Theme 3 – Options for the Future of Services Provided by Deane DLO



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Rev	Originator	Approved	Date
FinalFinal	Christopher Vaughan	Jim White	January 2010

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## 1 Glossary of Terms

ABS	Admitted Body Status
DCLG	Department of Communities and Local Government
DLO	Direct Labour Organisation
GPRS	General Packet Radio Service
GPS	Global Positioning System
JV	Joint Venture
LGPS	Local Government Pension Scheme
OGC	Office of Government Commerce
OJEU	Official Journal of the European Union
PDA	Personal Digital Assistant
Southwest One	Southwest One
SWOT	Strengths: Weaknesses: Opportunities: Threats
TDBC	Taunton Deane Borough Council
TUPE	Transfer of Undertakings: Protection of Employment
VFM	Value for Money



## 2 Executive Summary

### 2.1 Purpose of Document

This report has been produced in response to Taunton Deane Borough Council's ("the Council", "TDBC", "Taunton Deane") brief for Consultants dated July 2009. Turner & Townsend were commissioned by Taunton Deane Borough Council to undertake a review of options for the future of services provided by Deane Direct Labour Organisation (DLO) services.

This report contains the outcomes of the DLO review and makes recommendations that will inform the Council of the preferred option(s) to transform DLO services to deliver the challenging efficiency savings required over the coming years. TDBC requested that the consultants include the following within their independent review of the DLO services:

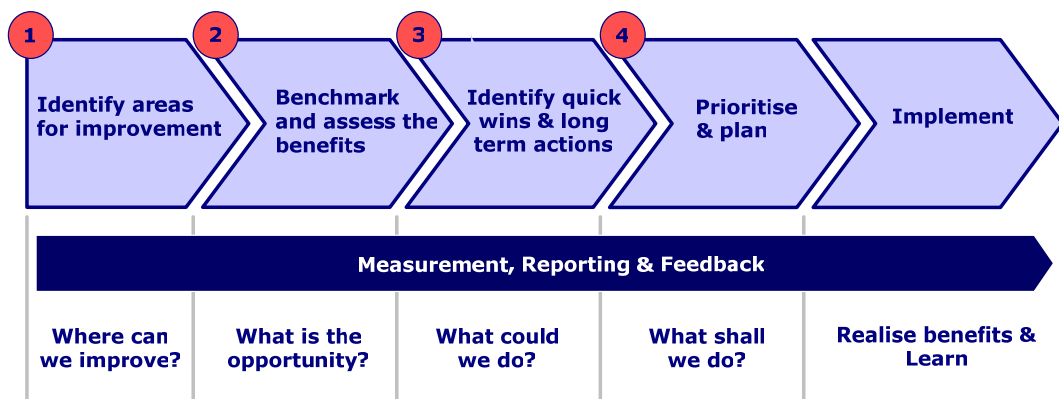
- The range and type of options available for future service delivery including stores function, to generate substantial efficiency saving (minimum revenue savings target of £112k)
- Benchmark current performance of the DLO
- Advise on implementation details for the options developed including implementation, procurement approaches, timescales and costs and employment options
- Advise on business risk, opportunities, advantages & disadvantages
- Explore potential for closer connection with other Core Council themes
- Explore potential for increased income generation & commercial activity
- Seek the views of neighbouring local authorities on sharing services with recommendation on the potential to share services with Sedgemoor DLO
- Consult Stakeholders on possible options
- Evaluate options against member's priorities
- To recommend a preferred option(s) for the future.

The outcome of this exercise will ultimately be the provision of recommended option(s) which will conclude with the selection by Members of the preferred delivery solution.



## 2.2 Methodology

Turner & Townsend undertook a review of the DLO over an 8-week period, through August and December 2009, in order to assess the opportunities for improvement and identify a preferred model for the future. An overview of the approach methodology is shown below: -



The recommendation within this report will bring Taunton Deane Borough Council to stage 4, as shown in the diagram, and will assist the Council to answer the stage 4 question: **“What shall we do?”**

Tasks completed to reach this stage include:

- Desktop analysis of service-level performance data on; staffing, organisation structures, staff age profiles, budgets & customer satisfaction information provided by the DLO including benchmarking these against norms
- Interviews, workshops and discussions with key stakeholder groups including Members, Senior Officers, current DLO managers and staff, other service directors, and several external partners and customers
- An Option Appraisal considering a long list of all viable options that will deliver the authority's objectives and value for money and which structures might apply to which services and some of the implications and risk considerations.
- Considered the achievability of options and completed indicative exploration of other neighbouring local authority activities, including soft market testing with the private sector (as agreed with the Council) and their views on collaborative working



- Reviewed, analysed and reported indicative savings, Resourcing, timelines and costs associated with options.

There are further details included about the review methodology in [Appendix A](#).

### 2.3 Summary of Recommendations

Our review indicates the need for a private sector partner or public sector partner who can provide evidence of a high level of commerciality in their approach. That partner must be capable of introducing efficiency enabling technology, effective work management and planning processes, sales skills, sufficient critical mass in terms of existing workforce such that the current DLO skill set will be significantly enhanced in both volume and depth, and proven business development success within both private and public sector service.

This review provides a good indication of the potential way forward. If the partnership routes below are accepted as possibilities, further due diligence specifically around the identified constraints will be required to assure the council that the opportunity can be delivered in a manner acceptable to the Authority and the Authority workforce.

We are confident at this time that the following options are viable and will bring about the financial rewards required. Equally, we understand that further detailed analysis including modelling the effect upon and desires of, the workforce will offer clearer separation of the options outlined below.

- Establish a Joint Venture company with a credible mature market supplier 80% owned by the commercial supplier.
- Outsource all DLO services to a credible mature market supplier

It should be noted here that both options traditionally refer to commercial partner arrangements however, our research has identified the potential opportunity to include a 'pseudo commercial partner' in the form of the public sector owned organisation NPS property consultants. This is likely to conform to the broad arrangements of JV and is included within this report.

### 2.4 Additional advice

The options supported by research are as stated above however, in order to aid the selection of a single option we have considered the wider Taunton Deane Borough Council agenda and the increased pressures placed upon the Council by way of future central government funding constraints.



It is our professional view that a full Outsource route will provide the most assured outcome. However we also suggest that Taunton Deane Borough Council adopt a process which allows for good quality due diligence and does not commit the Authority to any specific course of action until the very last contract signature. We believe that Taunton Deane Borough Council should focus on achieving a single option and that if the hard market test of that option proves not to deliver the required outcome then Taunton Deane Borough Council must quickly move to the next 'best fit' option reusing all of the work completed within the first test.

It is our considered opinion that the process identified above minimises the risk of agreeing poor quality partnerships. We recommend that the Authority approve this approach with the caveat that any final contract must be scrutinised prior to final sign off.



## 3 Business Need

### Reasons for the DLO Review

Taunton Deane Borough Council (TDBC) recognises the need to change as an organisation and to meet the different needs of their communities and the increasing challenges facing all public sector bodies.

In February 2009, the Council approved the 'Core Council Review'. This review, which is currently being implemented in phases, aims to introduce a new structure and ways of working that will enable the Core Council to:

- Be fit for purpose, delivering their vision, widening roles and ways of working
- Deliver substantial efficiency savings for 2009/10 and beyond.

"The Government believes that the status quo is not an option in two-tier areas if councils are to achieve the outcomes for service delivery that communities expect, and deliver substantial efficiency improvements." [Ref: Department for Communities and Local Government (DCLG) October 2006]

The DCLG's overarching ambition is to drive the public sector to become more cost-effective by transforming their traditional approach to service provision. It expects each organisation to:

- Challenge traditional methods of delivery
- Root out waste
- Work with other public bodies to share assets, systems, data, skills and knowledge more effectively
- Create sustainable communities
- Keep all activity under review.

In order to achieve this, the DCLG are expecting ambitious efficiency gains in the order of 25-30% over 10 years (Ref: CSR07) on current levels of expenditure. This is a significant step up from the 3-5% targets set by the Gershon Review.

The biggest challenge facing Taunton Deane Borough Council is the significant pressure on its medium term financial plan. The following table summarises the gap that needs to be redressed over the next 5 year across the authority as a whole.



	10/11	11/12	12/13	13/14	14/15
	£ 000				
<b>Balance to be met</b>	£1,293	£1,678	£3,206	£3,558	£3,973

*[Ref: Taunton Deane Borough Council 5 YEAR GENERAL FUND REVENUE BUDGET FORECAST]*

It is clear from this table that there is a significant deficit in Council revenue that will need to be met by making substantial efficiency savings, across the Council.

There are forecast budget restrictions year on year and this will ultimately lead to a reduction in spend on non-essential services. Members are likely to find themselves in challenging situations, forced to make decisions about where it is acceptable that fundamental savings can be delivered by way of front line service cuts.

There is some potential for this to lead to redundancies and the DLO is likely to be affected, as they contain the largest proportion of frontline workforce within Taunton Deane Borough Council. The Council acknowledges that there is now an urgent need to establish an innovative efficiency programme that will enable it to meet the financial reductions required, while retaining the best possible services to the community.

### 3.1 Stakeholder Objectives

It is critical that Taunton Deane look forward and outward in reviewing their services: forward to identify the significant changes in what local people want (demand); outward to identify the potential alternative ways in which those demands can be met and potentially where those services can be better provided by an alternative provider.

As part of the review, the project team met with multiple stakeholders across the whole Council and external parties to understand their current views and strategic objectives.

Meetings with elected Members, Tenants and client groups during the course of the review substantiated the findings of the consultation exercise originally conducted in June 2009 by Pengelly Consulting / Roger Wilkin Associates Ltd.





A combination of views of the stakeholder group expressed in respect of the services provided by the DLO is summarised in the following table: -

Positive	Negative
Currently provides a high quality service	Lack of clarity over responsibilities
Provides a flexible and responsive service	General lack of effective communication
Local knowledge and commitment to community is valued by tenants & customers	No evidence that the DLO are delivering Best Practice
Provides better quality of environmental services than neighbouring authorities	Lack of clear financial monitoring arrangements e.g. the treatment of overhead recharges
Shows a strong commitment and investment in the local community by supporting events and providing services 'at cost' or for free	Little understanding of the effect of changing front line delivery models on the remainder of the Council
	No understanding of the level of overheads recovered from the DLO by the Council, through it's agent SouthWest One
	Heavy reliance on undertaking external work to reduce overhead costs (increases in productivity). This approach has proven risk laden for the majority of Local Authorities who have planned to achieve cost improvement by way of income generation.
	Clear indications that the Council would not necessarily use the DLO if it was not delivering efficient and cost effective services to the council taxpayers.



### 3.1.1 Application of Stakeholder Objectives to the Options Assessment Exercise

The Project Team established a set of evaluation criteria in order to marry the stakeholder views to the options assessment. The criteria are developed from 'best practice' service delivery assessments carried out across similar public sector organisations, including DLO reviews previously undertaken by Turner & Townsend.

These criteria were applied to the generic service delivery options in order to contextualise a preferred option for Taunton Deane Borough Council's individual requirements. The strategic appraisal was carried out by Officers and Members, the results of which can be found in Section 5. The outcome is a set of agreed criteria, as follows:

Ref	Criteria
A	Has the ability to attract and retain the required skills & staff
B	Imports best in class knowledge & know how
C	Continuity of service provision during transitional process
D	Security of employment for affected staff
E	Ability to achieve (significant) improved levels of service
F	Delivers a cost effective service
G	Set up costs to achieve change
H	Stakeholder/customer confidence in the option
I	Level of retained risk to the Council
J	Security of LG Pension Scheme
K	Improves ability to become more commercial

Members scored these criteria revealing their preferences. Criteria E, F and K received the highest scores emphasising the requirement for any solution to reflect higher levels of services, cost efficiencies and a more commercial approach.

These criteria represent the direction and motives of Taunton Deane Borough Council and provide the Members with a route for selecting the preferred option based upon outcome led benefits.



Any option chosen as a result of this report should be able to deliver against these criteria as well as undergoing a rigorous test in the marketplace.

The following Section details the current arrangements and benchmarks them against other (comparable) Authorities.



## 4 Review of the Current DLO Arrangements - As Is

This element of the review sought to understand and assess where the DLO is in terms of service delivery and the potential for improvement. A benchmarking exercise was carried out to assist with comparisons with others; the detailed results can be found later in this document

There are currently approximately 200 staff employed at Deane DLO, based at Priory Depot on the outskirts of Taunton (and satellites) they are responsible for carrying out the following functions

- **Highways DLO:** To provide the Council with a high-quality, reliable and cost-effective civil engineering service, including maintenance of hard surfaces and drainage, an out-of-hours response to flooding emergencies, and other related activities.
- **Parks Service DLO:** To provide high quality parks, gardens and sports pitches that are safe and secure, and accessible to everyone and ensure that the Borough is an attractive place for residents, visitors and businesses.
- **Building DLO and Housing Property Services:** To provide continued investment in the maintenance and management of the Housing stock and assets thus ensuring that they meet the tenants' needs.
- **Cleansing DLO:** To provide a high-quality and cost-effective street cleansing and public convenience service throughout the Deane.
- **Nursery:** To provide cost-effective plants and floral displays to Taunton Deane Borough Council
- **Transport DLO:** To provide a cost-effective fleet management and maintenance service for the Council.
- **Stores Function:** To supply goods and materials for the various DLOs, at the time they need them, as well as purchasing materials for a number of other clients.

The DLO has historically adapted to the budget constraints imposed upon it. Some of the measures taken to redress the lack of revenue include: reducing the frequency of grass cutting; reducing fleet numbers; closing public toilets; and freezing recruitment.



However, these are small piecemeal measures and changes of this nature (i.e. incremental) will not provide the level of savings required to meet the budget gaps of the Council, or the increasingly challenging National efficiency targets of the Government.

The DLO (on behalf of the client TDBC) needs to take a more radical approach to service delivery in order to retain, or improve upon, current quality and employment levels.

For the purposes of reporting this review, the DLO services have been separated in to the following service streams:

- Housing and Property Building Services
- Street Cleansing, Highways & Transport Services
- Horticultural Services
- Stores Function

#### 4.1 Current Arrangements

Turner & Townsend facilitated an As-Is review and SWOT analysis with DLO Managers to understand the current position. The summary outcome is laid out in the following table:

**Table of SWOT Analysis**

STRENGTHS - <i>Retain</i>	WEAKNESSES - <i>Address</i>
<ul style="list-style-type: none"> <li>▪ <b>Strong regional DLO brand</b> with good reputation</li> <li>▪ SouthWest One provides efficiency</li> <li>▪ Retained stock provides <b>certainty of revenue</b></li> <li>▪ Mid level performance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Do not have the right skill sets to become more commercial</li> <li>▪ Wider investment limited (commercial issue?)</li> <li>▪ Current internal investment reduced (Council wide issue?)</li> <li>▪ Succession planning at managerial level</li> <li>▪ Processes require review</li> </ul>



OPPORTUNITIES - <i>Access</i>	THREATS - <i>Mitigate</i>
<ul style="list-style-type: none"> <li>▪ Potential to <b>increase commerciality / customer base</b></li> <li>▪ Use of better technology</li> <li>▪ Well established <b>Partnership ethos</b> in region</li> <li>▪ Resourcing Model</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increasing financial pressure</li> <li>▪ Increasing national <b>pressure for partnering/"unitary" models</b> of delivering service.</li> <li>▪ Tightening Market Place</li> </ul>

The DLO Managers are proud of their service and it is clear that they are highly respected as a workforce. There are barriers to their success predicated in the existing management structure and inherent processes that have remained in place within the DLO for many years.

The DLO recognised in discussions with the project team that driven by the client TDBC (although it should be recognised that the DLO are part of TDBC) there is a 'fire fighting' culture and they would like to see this change. There appears to be a strong motivation to improve and the DLO would need assistance to undertake the required fundamental/innovative changes to adopt new ways of operating.

Further meetings with stakeholders resulted in the following notable observations:

- General recognition that there is a need to further improve the DLO's performance in order to create a sustainable, high quality service for its end users, the citizens of Taunton Deane.
- There are a variety of reasons why (public sector) DLO services struggle to adapt to changes within the market, but principally within Taunton Deane Borough Council it is *suggested* that there does not seem to be a clear vision of what future service delivery should look like or what is required to get there. This is exacerbated by the shortage of resources within the authority that are able to dedicate time to review the services and implement change. (Hence this review.)



- It is important that consideration be given to the sustainability of options for recruitment, retention and training, especially if it is deemed that services should be extended. The DLO managers believe that the current age profile is balanced, although it is noted that 45% of current employees are over 50. In our experience, it is not unusual to see ageing workforces within local authorities, as many craft employees tend to stay with their employer throughout their working life. However, expansion would require recruitment and training beyond that experienced to date. This must be accounted for when establishing expansion budgets.
- The DLO services require investment in their software and hardware capability in order to make significant business improvements. There is a national agenda to require services to become 'e'-enabled and utilise web-based resources to increase productivity and drive efficiencies.
- There is currently a lack of overall corporate direction, especially in increasing the commerciality of the service. There are mixed opinions within Taunton Deane Borough Council about whether this is a critical factor of success. This leads to a lack of clarity around economic strategic direction of the DLO and uncertainty surrounding external competitors and potential customer base. This issue is a good example of where the TDBC ownership of the DLO hampers the DLO's independence and ability to self-determine.
- Currently, DLO managers indicate that they find it difficult to implement the necessary levels of financial control over their budgets due to issues with SAP implementation. This means that the DLO service is struggling to monitor and manage income and expenditure causing problems to the overall commercial management and the effective delivery of front line services.

## 4.2 Individual Service Stream Review

The following sections provide further detail for individual service areas. The main reference documents used to populate these sections are -

- DLO Full Costs 2005-2009 as incorporated into the Authority final accounts (30 July 2009 - detailed breakdown of the DLO yearly costs from 2005 to 2009)
- Payroll list in respect of the DLO staff as extracted on 31 July 2009 - excluding on- costs.



This element of the review covers the following areas in respect of each service stream:

- Structure, staffing, resourcing
- Current Performance Levels
- Areas for (internal) improvement/opportunities – including Quick Wins(QW)

### 4.3 Building DLO & Housing Property Services

#### 4.3.1 AS-IS Current Position

The Building and Property Services DLO provide repairs and maintenance functions to the existing housing stock (approximately 6100 properties) and corporate property within Taunton Deane. (Revenue of £3,700,000 Annual - Gross)

Approximately 4% of revenue is generated through existing external contracts. The following table identifies the current external order book

Client	Value
Parish Councils	£9k
Housing Associations	£31k
Tone Leisure	£6k
Blagdon Village	£2k
<b>Smiths Gore (Crown Estate Properties)</b>	<b>£75k</b>
British Legion Dunkirk Memorial House	£6k
Southwest One	£30k
<b>TOTAL</b>	<b>£159k</b>

The overall revenue generated from these contracts is small. This indicates that there may be potential to increase the value/number of these contracts.





The majority of revenue will come by way of a contribution of HRA funding. Any efficiency made through the implementation of a recommended option can be directly passed through the HRA (tenants) should Taunton Deane Borough Council wish to do this. This should be recognised at project start-up and form part of the business case.

#### **4.3.2 Staffing Arrangements**

Currently the Housing Client function is managed through the DLO. The Property Manager is responsible for Building Services as well as Housing Client services. This was established under one structure following the tenants vote on stock transfer in 2006 and the subsequent need to make substantial annual revenue savings in the Housing Revenue Account.

There is acknowledgement that the current structure has afforded some positive characteristics primarily based upon the strong working relationship between client and contractor and the commonality of location. However, Housing Client services are usually managed from within the estate management function and not by the Property Maintenance Service.

It is our view that the Housing Client function should be separated and placed within a client function role. We consider this recommendation to remain valid whichever option (including Stay As-Is) is selected to deliver services going forward. Our logic here is that we envisage significant financial pressure by way of the next central government settlement and beyond - such that value-for-money and the evidence supporting the delivery of value-for-money will require a clear separation of duties. It is generally not acceptable for the monitor of value to be the deliverer of the monitored service.

For the reasons outlined above, we have assumed that the Housing Client function will not be included in the review process, but would be brought back into Estate Management forming part of the client function under any transformational re-structure.

Therefore, the statistics table (below) only identifies the Building Services DLO. The Housing Client function includes 13 employees in total with salary costs totalling £240k. (Excludes Strategic Director and PA)



Summary Statistics – Building Services		
<b>Total Number of Employees</b>		<b>69</b>
<b>Structure</b>	<b>Number</b>	<b>Salary Costs</b>
Senior Management	0.7	£24k
Middle Management	6	£169k
Front Line	62	£1171k
<b>Total Salary Cost</b>		<b>£1364k</b>
<b>Average Salary (£/Employee)</b>		<b>£20k</b>
<b>Average Age of Employees</b>		<b>49</b>

*Table refers to head count and does not include on costs  
Adjusted to reflect proportional time allocations (Non DLO tasks exclude)*

#### 4.3.3 Areas of Opportunity/Improvement Identified in this Review

The table below summarises areas of current service delivery that our research suggests could be improved:

Activity Area	Comment
<b>Range of Services / Products</b>	Tenants have discussed the absence of regular Gas Servicing checks. There are several other external existing contracts in place, which could be reviewed to understand where improvements to contract monitoring could be made to ensure that higher quality services are delivered. (not a DLO function)
<b>Use of Technology</b>	There are a number of technological improvements that could improve management of fleet. For example, using vehicle tracking and/or PDAs to improve services associated with day-to-day repairs and maintenance appointments.



Activity Area	Comment
<b>Management Structures &amp; Resource</b>	<p>There is also a requirement for the service to see a shift of fire fighting reactive work to more programmed planned maintenance. The Property Services manager estimates that the current ratio of reactive work to planned work is in the order of 60:40.</p> <p>This could also inform a revised governance structure that was more conducive to current workload in addition to providing flexible cover and have the capability to adapt easily to increasing demand.</p> <p>A combination of lack of flexible working arrangements and limited understanding of integrated daily resource requirements results in an over reliance on agency staff and therefore compromises skill base, efficiency and service continuity.</p>
<b>Stores Function</b>	<p>The building service function relies heavily on the existing stores to stock parts for day-to-day repairs and maintenance. Carrying inventory incurs cost and habituates management of stock-keeping. There are more intelligent techniques that can be adopted (e.g. Just in Time – JIT) to allow services to reduce inventory stores by improving processes and understanding demand/trends.</p>

#### 4.3.4 Financial Analysis

	2005/06		2006/07		2007/08		2008/09	
	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £
Total Expenditure	4,650,740	4,371,383	4,441,600	4,352,620	4,441,600	3,686,389	3,940,050	3,834,228
Total Income & Capital Financing	-4,655,790	-4,541,120	-4,441,600	-4,364,352	-4,441,600	-3,648,919	-3,940,050	-3,970,249
Net Expenditure & Capital Charges	-5,050	-169,737	0	-11,732	0	37,470	0	-136,021

Last year (2008/09) the Building DLO & Housing Property Services made a 3.5% surplus over total expenditure. This last year is considered the most successful of recent years.



## 4.4 Street Cleansing, Highways, Fleet Management

### 4.4.1 As-Is Current Position

This part of the DLO delivers Street Cleansing services along with several other services including drainage services, toilet cleaning, small engineering works and internal fleet maintenance generating an overall income in the region of £1,380k.

External contracts account for approximately £80k and equate to almost 6% of the overall income generated. A list of current clients is shown in the below table

Client	Value
Environment Agency (Highways)	£24k
Taunton Town Centre Management Company (Highways)	£3.5k
Taunton Town Centre Management Company (Cleansing)	£42k
Housing Associations	£1k
Other Local Authorities (Highways)	£25k
Viridor Waste (Highways)	£7k
Tone Leisure (Highways)	£1k
<b>TOTAL</b>	<b>£83.5k</b>

There are currently no clients that could be classified as business critical within this list such that their loss would place the wider business at risk of collapse. This service stream has hardly penetrated the market and there is potential capacity to increase value/number of external contracts.



#### 4.4.2 Staffing Arrangements

Summary Statistics – Street Cleansing Services		
<b>Total Number of Employees</b>		<b>35</b>
<b>Structure</b>	<b>Number</b>	<b>Salary Costs</b>
Senior Management	0.22	£10k
Middle Management	2.61	£74k
Front Line	32	£539k
<b>Total Salary Cost</b>		<b>£622k</b>
<b>Average Salary (£/Employee)</b>		<b>£17k</b>
<b>Average Age of Employees</b>		<b>47</b>

*Table refers to head count and does not include on costs  
Adjusted to reflect proportional time allocations (Non DLO tasks excluded)*



#### 4.4.3 Areas of Opportunity/Improvement Identified in this Review

The table below summarises areas in which our research suggests that current service delivery could be improved:-

Activity Area	Comment
<b>Range of Services / Products</b>	There is potential to extend the small works part of the DLO which is included within the Highways service stream. Currently the revenue generated through these external contracts is small (approx £100k). It is suggested that this is partly due to the fact that it is not widely known that the DLO offer these services. There is therefore potential to expand this market and generate more work.
<b>Use of Technology</b>	This service could also benefit from similar technological investment mentioned within the Building Services section above in order to achieve improvements to service delivery function. There are also examples of Street Cleansing fleets that are fitted with GPS, GPRS tracking systems. This can be utilised to monitor productivity and vehicle utilisation, as well as add further safety to drivers when lone working.
<b>Management Structures &amp; Resource</b>	The Fleet Management service has been created to maintain the entire vehicle stock including transit, mowers and small and large mechanical sweepers. The continuity of this service will essentially be dictated by the decisions taken around the other key service streams it supports.



#### 4.4.4 Financial Analysis

	<u>2005/06</u>		<u>2006/07</u>		<u>2007/08</u>		<u>2008/09</u>	
	<b>M10 Highways</b>		<b>M10 Highways</b>		<b>M10 Highways</b>		<b>M10 Highways</b>	
	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £
Total Expenditure	744,610	751,049	739,700	755,840	701,800	707,856	738,700	656,342
Total Income & Capital Financing	-745,850	-710,483	-739,700	-768,868	-704,400	-731,802	-738,700	-662,102
Net Expenditure & Capital Charges	-1,240	40,566	0	-13,028	-2,600	-23,946	0	-5,760
	<u>2005/06</u>		<u>2006/07</u>		<u>2007/08</u>		<u>2008/09</u>	
	<b>M40 Cleansing</b>		<b>M40 Cleansing</b>		<b>M40 Cleansing</b>		<b>M40 Cleansing</b>	
	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £
Total Expenditure	727,760	755,449	744,900	716,900	744,900	734,695	775,300	762,111
Total Income & Capital Financing	-727,080	-706,101	-726,700	-703,903	-726,600	-750,447	-729,900	-756,607
Net Expenditure & Capital Charges	680	49,348	18,200	12,997	18,300	-15,752	45,400	5,504
	<u>2005/06</u>		<u>2006/07</u>		<u>2007/08</u>		<u>2008/09</u>	
	<b>M60 Transport</b>		<b>M60 Transport</b>		<b>M60 Transport</b>		<b>M60 Transport</b>	
	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £	Budget £	Exp £
Total Expenditure	65,880	83,367	120,710	116,868	113,380	127,495	110,040	164,448
Total Income & Capital Financing	-67,340	-83,367	-120,710	-64,583	-113,380	-127,495	-110,040	-164,448
Net Expenditure & Capital Charges	-1,460	0	0	52,285	0	0	0	0

Overall, income and expenditure balances year on year although, it is noted that Cleansing income fails to respond proportionally to expenditure. Our conclusion here is that costs are not controlled as well as in other DLO areas.



## 4.5 Horticultural Services

### 4.5.1 As-Is Current Position

There has already been significant investment in this service with the building of the new nursery premises. Taunton Deane is proud of the successes achieved by the DLO and the service has achieved much accolade nationally from 'Britain in Bloom' and in receiving Green Flag awards.

The Unique Selling Point of this service stream is one of reputation rather than any significant financial reward. There is a strong brand associated with the support and investment that has been given to this service.

External contracts deliver a high proportion of the overall annual revenue as shown in the following table:

Client	Value
Environment Agency	£60k
Somerset County Council Schools	£847k
Musgrove Park Hospital	£75k
Parish Councils	£5k
Housing Associations	£30k
Other Local Authorities	£23k
<b>TOTAL</b>	<b>£1,040k</b>

Total income generation for this service is £2,718k with external contracts contributing 40% of this total. The two largest external contracts are with schools and hospitals in respect of grounds maintenance. These account for 22 FTEs employed to deliver these specific contracts at an overall employment cost of £347k. It is important to understand the certainty of both contracts to ascertain the level of guaranteed revenue.





#### 4.5.2 Staffing Arrangements

Summary Statistics – Horticultural Services		
<b>Total Number of Employees</b>		<b>73</b>
<b>Structure</b>	<b>Number</b>	<b>Salary Costs</b>
Senior Management	0.2	£9k
Middle Management	5.75	£149k
Front Line Internal	45	£795k
Front Line External	22	£347k
<b>Total Salary Cost</b>		<b>£1300k</b>
<b>Average Salary (£/Employee)</b>		<b>£18k</b>
<b>Average Age of Employees</b>		<b>44</b>

*Table refers to head count and does not include on costs  
Adjusted to reflect proportional time allocations*

#### 4.5.3 Areas of Opportunity/Improvement Identified in this Review

The table below summarises areas of current service delivery that could be improved upon:

Activity Area	Comment
<b>Range of Services / Products</b>	The Parks Section manages a large nursery. There has been a considerable investment to upgrade and extend these facilities as it is considered an area of growth for Taunton Deane. This is not a usual service offered within a Grounds Maintenance DLO and does provide opportunity for marketable growth.
<b>Use of Technology</b>	Grounds maintenance usually require similar technology investment to that of Street Cleansing and more of the emphasis is on plant and/or vehicles rather than actual technology.



Activity Area	Comment
<b>Management Structures &amp; Resource</b>	This service will always suffer from huge seasonal variation between winter and summer maintenance. This flexibility is usually addressed using agency staff. This is not ideal as it will impact the continuity of service provision and potentially require additional training for new seasonal employees.

#### 4.5.4 Financial Analysis

	2005/06		2006/07		2007/08		2008/09	
	M20 Grounds		M20 Grounds		M20 Grounds		M20 Grounds	
	Budget	Exp	Budget	Exp	Budget	Exp	Budget	Exp
	£	£	£	£	£	£	£	£
Total Expenditure	2,274,790	2,238,446	2,345,200	2,402,686	2,345,200	2,470,297	2,543,980	2,759,843
Total Income & Capital Financing	-2,284,610	-2,229,042	-2,345,200	-2,390,951	-2,345,200	-2,465,571	-2,543,980	-2,718,393
Net Expenditure & Capital Charges	-9,820	9,404	0	11,735	0	4,726	0	41,450
	2005/06		2006/07		2007/08		2008/09	
	M50 Nursery		M50 Nursery		M50 Nursery		M50 Nursery	
	Budget	Exp	Budget	Exp	Budget	Exp	Budget	Exp
	£	£	£	£	£	£	£	£
Total Expenditure	131,250	146,561	110,000	89,698	92,950	88,211	100,540	157,149
Total Income & Capital Financing	-121,390	-146,561	-110,000	-89,698	-92,950	-88,211	-100,540	-157,149
Net Expenditure & Capital Charges	9,860	0	0	0	0	0	0	0

This is the overall financial statement for the Parks DLO. Over the last 4 years the Council has incurred costs averaging £17k annually above their budget. The nursery has proven cost neutral and has clear potential to make surplus from the sale of produce.

#### 4.6 Stores Function

##### 4.6.1 As-Is Current Position

The consultants were tasked with specifically addressing the future of the stores function.

The stores function provides two main purposes:



- To supply goods and materials to the DLO itself and to provide goods to any other corporate Taunton Deane Borough Council client; e.g. External clients include Tone Leisure and Somerset County Schools
- As a warehouse for stock required (stock value up to £130k)

The current situation is that the stores service is a combined (joint service) whereby the DLO owns the stores building and the stock, and the staff are seconded into and governed by the Southwest One contract arrangements. Taunton Deane Borough Council has also recently transferred their procurement function to the Southwest One JV.

It is our understanding that any efficiency savings achieved by way of improved buying or distribution is already covered within the Southwest One contract. It is our view that, if Southwest One is not delivering to contracted savings levels, this issue should be resolved by way of the contract performance management route. *(N.B it is suggested that store stock replacement is out of scope in respect of Southwest One. If this is proven to be the case there remains an efficiency opportunity for the TDBC or other owner of the DLO)*

Surpluses of in excess of £80k have been realised in the most recent accounting year (08/09). It is understood that these surpluses have been achieved by way of the supply of goods to third party organisations. This would be shown within the DLO account as a net reduction in stores operating costs. This net reduction would need to be considered if a full transfer to any commercial partner is proposed.

For example if the DLO where to be allocated full control of stores then any commercial outsourcer would be expected to maintain the same level of income as exists today and this should be built into the whole cost base. On the other hand, if full stores control were ceded to Southwest One then this same level of income should be built into their cost base.

It is likely that the current shared arrangement may provide a false accounting impression whereby the cost of goods sold (supplied) and distributed is not properly represented within any unit cost reports. A far more transparent solution would be to transfer all functions to a single point of 'ownership'.

There is no particular preference for this function to reside entirely within the DLO or entirely within Southwest One. Either would produce the desired centralised control. However, clarity around where savings are made and who the financial beneficiary of savings (additional income or reduced costs) are would be a requirement of any change of operating method.



The DLO business should, regardless of the chosen future option, re-engineer business processes to reduce the requirement for a storage warehouse. Our view is that whichever option is chosen by Taunton Deane Borough Council, the stores function should cease operating from the DLO site and that 'Just in Time' methods are adopted for buying & supplying in the future. The redundant warehouse could then either be sold to generate revenue or utilised for a more beneficial purpose.

In summary, the current contract arrangement means that the DLO currently receive financial business benefits through the Stores Function of approximately £80k in addition to the standard benefit brought about by good buying.

However, the effects upon stores and any potential DLO change business case is neutral in financial terms. The impact upon a commercial DLO operation is already set by way of the current Southwest One contract, i.e. supplies are contracted for delivery by Southwest One and any future commercial organisation would accept the cost of this overhead regardless of engagement.

Given these constraints, it would appear logical to pass the management functions associated with procurement and supply to one of the two candidates - Southwest One or DLO. These recommendations apply equally to any DLO operating model including the 'Stay As-Is' option. Given that the stores function should change regardless of the option chosen in respect of the wider DLO, we will set aside any further detailed exploration of stores in favour of focus on the primary operating models.

#### **4.7 Benchmarking**

During the review, benchmarking information was gathered from a number of Local Authorities to gain a better understanding of their arrangements and costs of delivering similar services. Organisations engaged included:

- Mendip
- South Somerset
- West Somerset
- Sedgemoor
- Renfrewshire



Further benchmarking material was collected for Taunton Deane's relevant peer group members which included accessing information from the Audit Commission and compiling data about service delivery from individual Housing Strategy reviews.

The following table assembles much of the data gathered.

	Sedgemoor	West Somerset	South Somerset	Taunton Deane	Mendip
Population	104,000	35,500	157800	107400	105000
Budget Street Scene	£795,302	£392,000	£1,085,530	£762,111	£968,021
Employees Street Scene	31	16	33	34	30
Average Age Street Scene	54	43	50	50	51
Budget per employee	£25,655	£24,500	£32,895	£22,415	£32,267
Service Delivery Street Scene	Internal	Outsourced	Internal	Internal	Outsourced
Km of roads / footpaths	1079	1368	1025	1103	1193
Km per employee	34.8	85.5	31.1	38.0	45.9
Budget per Km	£737	£286	£1059	£684	£811
Budget Grounds Maintenance & Horticulture	£795621	£224,689	£1,469,000	£1,541,258	£777,924
Employees Grounds Maintenance & Horticulture	19	9	38	51	20 inc contractors
Average Age Grounds Maintenance & Horticulture	54	35	30	39	51
Budget per employee	£41,874	£24,965	£38,658	£30,250	£38,896



	Sedgemoor	West Somerset	South Somerset	Taunton Deane	Mendip
Service Delivery Grounds Maintenance & Horticulture	Internal	Internal	Internal	Internal	Outsourced
Hectares of grass	115	Unknown	262	210	Unknown
Hectares per employee	6.1	-	6.9	4.12	-
Budget per Hectare	£6918	-	£5,606	£7,339	-



Our interpretation of the tabulated output above follows:

### **Street Scene**

TDBC reveal the lowest unit cost in terms of the provision of Street Scene services. This suggests that the Council have achieved a good value solution. However, the DLO has yet to organise into a true Street Scene service replicating that of benchmarked colleagues. Drawing conclusions solely based on benchmark data is not recommended as benchmarking as a 'methodology' can only be considered a guide. The detailed content of benchmarked authorities' data is not tried and tested in respect of quality of output or extent of service and therefore is a loose indicator.

For the purposes of this exercise, it is reasonable to assume that TDBC show no evidence of ineffective delivery and that their nearest (in cost terms) three authorities contain both outsourced and in-house services. Therefore, both service configurations can deliver similar results.

### **Grounds Maintenance**

The benchmarking data shows that Taunton Deane has the second lowest score against the criteria budget/employees. This suggests that there is either an under budget in this area or the DLO deploy a higher than normal number of staff in this same area. Matching the two tabulated data sets (budget per employee and Hectares per employee) provides further evidence that staff numbers are higher than would normally be expected. At this point, there is no evidence that GM practice is significantly different between benchmarked authorities and a tighter match would be expected.

Recognising that there may be accounting anomalies in respect of resource deployment, it is wise to view both data sets together as one whole service. This view indicates that TDBC are more 'middle of pack' than poor. Our interpretation is that TDBC are achieving reasonable value from the current service and that further opportunities to deliver savings remain untapped.

Beyond the standard benchmarking exercise, we also completed a light exercise aimed toward establishing the popularity of internal DLO teams (service specific) within the wider 'Family Group'

Our findings reveal that six Authorities, (Babergh, High Peak, Mid Devon, North Dorset, South Kesteven, Stroud) out of the total twenty Authorities still deliver all these services through their DLO. The remaining 70% of have chosen to establish a type of public and/or private partnering arrangement to deliver all or part of these services. This outcome is consistent with the rise in public sector outsourcing as reported by outsourcers within the Financial Times (November 2009).



## 4.8 Key Findings

The Project Team have identified several areas where Taunton Deane Borough Council has already made progress to address the challenges ahead. Substantial work has been undertaken through the Core Council Review. This has delivered considerable efficiency savings in the first phase and the other phases will also achieve savings, including those identified within this Report, which relates to Phase 3 of the Core Council Review.

There has also been significant progress made through the establishment of Southwest One. Southwest One is predicated upon gaining efficiencies from delivering support services through a centralised function with three other partners. This will recognise a degree of efficiency and there remains potential for further efficiencies within the front facing service delivery of the DLO.

Taunton Deane is part of a minority of authorities that have not redesigned their DLO service delivery model. Over 70% of similar sized district authorities within Taunton Deane Borough Council's family group have moved away from the traditional approach of employing a DLO, toward partnering arrangements with the public and/or private sector in order to establish and deliver a better and more efficient service.

Other notable problems facing the service include the sustainability and training needs of the employees. A high proportion (20%) of the workforce are approaching - or are over - 60 years of age already and are due to retire in the next 5 years. The Council's ability to attract and retain employees is unclear. However, what is clear is that TDBC need to make available a substantial budget to recruit and train 20% new employees over the next 5 years.

Overall, the Deane DLO has a strong marketable brand; however, research carried out to date suggests that more could be done to exploit this brand strength. External stakeholders have limited knowledge of the range of services that the DLO can offer and this is culminating in a restriction upon their prospective market access. This suggests that there may be a significant opportunity to target a wider customer base across the South West.

These are the AS-IS findings for the DLO service. When determining the future of the DLO a wider view of the Council's strategic objectives must be considered alongside the single DLO option/view.





## 5 Alternative Delivery Models

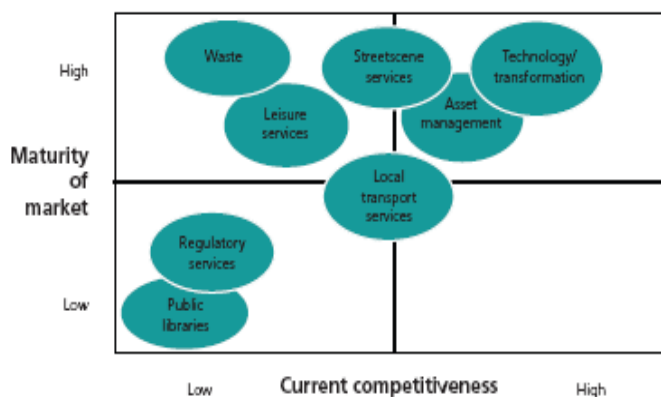
As part of the review the Project Team agreed to consider a number of alternative delivery models that have the potential to assure continuity and improve upon the services which the DLO currently offer. A phased approach analysis & explanation with regards to the generation of the options appraisal is set out within the following sections.

### 5.1 Context - Service area 'maturity'

The local government services market has developed over time in response to a range of policies intended to influence the shape and behaviour of local government. Some of the key influences include:

- Compulsory Competitive Tendering (CCT);
- The Private Finance Initiative (PFI);
- Best Value;
- Strategic Service Partnerships and other forms of Public-Private Partnerships;
- Procurement capacity-building; and
- The Efficiency Review and related initiatives.

All of these initiatives have had a significant influence on the size and shape of the local government services market as a whole, and local government's capacity to engage with and extract value from the market. The more mature the market the more likely it is to return value and expose the Council to less risk. The maturity of the market (within Local Government) to provide services is shown below:



Ref: Developing the local government services market to support a long-term strategy for local government. November 2006: Department for Communities and Local Government

This maturity diagram demonstrates that the service areas under scope of this review are 'mature' and are offering competitiveness in the marketplace, therefore providing Taunton Deane Borough Council with the opportunity to realise value within these services, at relatively low risk.

## 5.2 Identifying and Assessing Options

As part of the review, a number of applicable service delivery models were explored. In summary, there are three overarching models to consider:

- Private sector led;
- Public sector involvement; and
- Retained internal model.

A further analysis of these models generates a series of options that include:

- Option 1 - Outsourcing
- Option 2 - Joint Venture
- Option 3 – Shared Services
- Option 4 – Lead Authority Model
- Option 5 – (Internal) Transformation
- Option 6 – Staying As-Is

A detailed description of all these options along with generic strengths, weakness a associated risks were presented to the Taunton Deane Borough Council Scrutiny Committee on 03 September 2009.



The following table describes the key elements of each option and how they relate to the requirements of the Taunton Deane Borough Council DLO review.

Option	Summary Description
<b>Private Sector Led</b>	<p><b>1. Outsourcing</b></p> <p>A common route for many local authorities is outsourcing where specific types of change is achieved through subcontracting processes (services or whole operations) to a third-party organisation while retaining overall ownership and ultimate responsibility.</p> <p>A Contract is set up with a private sector provider. The provider will be paid a service fee which may be adjusted upwards (incentives) or downwards (penalties) as a consequence of whether or not the standards and/or targets have been achieved.</p> <p>Staff will normally be subject to TUPE arrangements within this model and would require resolution of pension risk</p> <p>The provider would be sourced via an OJEU competitive procurement exercise thereby meeting any VfM considerations</p>
	<p><b>2. Joint Venture</b></p> <p>This option involves the creation of a new company, potentially in the form of a Joint Venture company with a Private Sector partner, sourced through an OJEU competitive procurement process. There are a range of company structures (company limited by shares or guarantee; Limited Liability Partnership – LLP) available for this type of model</p> <p>The Council would hold a share in the new company and may have senior officer and/or member representation on the new organisation’s board.</p> <p>This approach would allow TDBC staff to TUPE transfer to the New Company or in specific circumstances follow the seconded employee route</p>
<b>Public Sector Involved</b>	<p><b>3. Shared Services</b></p> <p>Partnership with one (or more) public authority to deliver services. The arrangements may involve the creation of a separate subsidiary company, wholly owned by the public sector or the application of a consortia contract with separate budgets.</p> <p>Shared services have existed as a change option for local government for a number of years. They constitute the merging of services between organisations and can be geared to deliver efficiency savings through reductions to overheads or performance improvements through the lead being taken by the highest performers.</p> <p>Under this model staff are more likely to remain host or home Authority employees</p>



Option		Summary Description
	<b>4. Lead Authority</b>	<p>This approach could feature a solely public sector organisation led by the parent Local Authority or the establishment of a “best of breed” solution with private sector involvement. The Lead Authority would establish the vehicle and carry out services on behalf of other public (and potentially private) organisations and would grow its market share through the provision of a particular range of services. (with the local authority being suitably indemnified)</p> <p>Under this model staff are more likely to remain host or home Authority employees</p>
<b>Retained Internal Model</b>	<b>5. Internal Transformation</b>	<p>Under this option, a “Transformation Team” is established to develop and implement necessary changes. It is likely to require significant (capital) funding and resource commitment from the Authority.</p> <p>There is also some risk that, post transformation, the service(s) revert to the original performance level.</p> <p>Employees will remain as Authority employees throughout</p>
	<b>6. Stay AS-IS</b>	<p>Assumes the same improvement approach as currently being applied in respect of proposed scope, level and rate of change that is currently being delivered.</p> <p>Its evaluation is important in highlighting the implications of not proceeding with the project and provides a benchmark against which the costs and benefits of the other options can be compared – “the base case”</p> <p>Employees will remain as Authority employees throughout</p>

### 5.2.1 Assessment of Options

A series of workshops were held in August and September 2009 to qualitatively review the options presented above. These involved Officers from across the Authority, Trade Unions and Customers of the DLO. All sessions took place prior to the financial analysis and without the benefits of soft market test results

Officers were asked to consider the ability of each option to deliver the criteria and award it a score from 1 to 4. (1 - unlikely ability to achieve outcome: 4 - certainty of ability to achieve outcome).



The output from this exercise produced a ranking and that ranking is presented below in order of preference, Option 2, Joint Venture, is the preferred option.

Service Delivery Option	Options Ranking
<b>2. Joint Venture</b>	<b>1</b>
3. Shared Service	2
4. Lead Authority	3
5. Internal Transformation	4
1. Outsource	5
6. Stay As Is	6

### 5.2.2 Weighting of Assessment Criteria

The project team facilitated an options review and criteria session with elected Members of the Scrutiny Committee on the 03 September 2009. Again, all sessions took place prior to the financial analysis and without the benefits of soft market test results. Participants were given an overview of each of the available options and subsequently required to weight the criteria, in order of preference, using a matrix scoring mechanism ('Pairwise'). From this exercise Taunton Deane Borough Council Members/scrutiny group ranked their criteria in order of preference. The top 3 are represented below:

Ref	Criteria	Ranking
F	Delivers a cost effective service	1
E	Ability to achieve (significant) improved levels of service	2
K	Improves ability to become more commercial	3

Success of any proposed model will be measured by its ability to meet the range of criteria and, specifically, the top three criteria identified.



### 5.2.3 Combined Option Assessment

Upon completion of the options and criteria rankings, the project team combined these to produce an overall options ranking, as follows:

Service Delivery Vehicle	Combined Score (option preference x criteria weighting)	Overall Options Ranking
<b>Joint Venture</b>	<b>21%</b>	<b>1</b>
Shared Service	19%	2
Outsource	17%	3=
Internal Transformation	17%	3=
Lead Authority	16%	5
Stay As Is	10%	6

As a secondary check, the review team applied the OGC best practice method of 'weighted' scoring. The outcome mirrors that of the original assessment.

The weighting model allocates zero percent to the lowest scoring option and the other scores are weighted against this. The results are shown below:

Service Delivery Vehicle	Options Ranking	Total Weighted Factor
Joint Venture	1	108
Shared Services	2	81
Outsource	3	63
Internal Transformation	4	61
Lead Authority	5	56
Stay As Is	6	0

Under the weighted model, the highest scoring option is the Joint Venture. It scored significantly higher than any of the other options.



### 5.3 Financial Implications & Assumptions

Taunton Deane is required to significantly reduce spend and improve efficiencies (or generate additional revenue). The recommended option needs to have the ability to generate the necessary level of savings and demonstrate value for money (VFM). Issues to consider in this section included the cost to achieve each option versus the achievable saving that each option represents and how long it will take until financial/cashable benefits accrue by option.

The following assumptions apply in the analysis of financial implications of the adoption of the range of options (cost assumptions are based upon 08/09 accounts information provided to us)

- Materials are assumed cost “neutral” – these will remain under the bulk Southwest One arrangement and therefore cannot achieve any efficiency. **08/09 values are assumed at £2.7m (actual). Some consideration will be required if business growth occurs and more materials need to be source which should generate some upside.** For the purposes of this modelling exercise £1m of business growth will generate a positive effect of £50,000 per annum, 5%
- Fleet is an area for potential efficiency gains – on the basis that this is largely owned by Taunton Deane Borough Council and would transfer into any new model. **08/09 values are assumed at £0.65m.**
- Views on potential efficiency gains associated with each option are based on analysis of other similar reviews and feedback from the supplier marketplace during soft market test in October 2009
- Pension arrangements are assumed ‘cost neutral’; in the event of TUPE and continuation of existing LGPS arrangements through ABS status being sought it is assumed that Taunton Deane Borough Council would underwrite any liability of future contribution increase and any accumulated pension deficit. (Actuaries will provide detailed advice prior to any action which would open TDBC to pensions risks)
- Redundancy costs are assumed to be cost neutral in respect of DLO cost model. However, where the TDBC is identified as the sole employer i.e. internal transformation and lead authority it is likely that efficiencies will only be achieved by way of head count reduction. A prudent conservative allocation of 5% workforce reduction at a cost of £60,000 per head (Biased average range between £50,000 and £80,000 totalling to £600,000) would not be unusual.



These costs are excluded at this time under the working assumption that re-deployment would be achieved. If this were not the case, both options would be adversely affected. (although they would not change their position in respect of preference of priority)

- Effective Headcount is circa 200 and direct employment costs (08/09) are £3.98m (non inclusive of on-costs )

- Income analysis is broadly: -

£1.5m external income

The balance of income (circa £6.9m) is from Taunton Deane Borough Council internal Clients (it should be noted that the corporate building contract is at risk due to re-procurement

- Rate of potential business growth – discussions with a number of providers in the Soft market test (section 5.3 of this report) indicated that it would be reasonable to assume circa £1m of new business by year 3. Further work is required to assess this; however for the purposes of this report the assumption stands.

### 5.3.1 Tax Considerations

Local authorities are able to recover VAT and pay no corporation tax or capital gains tax. However, when a local authority enters into partnership transactions involving other corporate bodies (private or public sector) and are involved with property transactions, they need to understand the tax implications. If the chosen model means that VAT is irrecoverable it can add 15% (17.5%) to ongoing costs, converting what might appear to be an affordable scheme into an unaffordable arrangement. This may require specialist advice as it is complex and situation-specific. For the purpose of this exercise, it is assumed that:

- Any VAT on materials (all sourced via Southwest One) would be passed on
- VAT on labour would be recoverable from/by the Council under current VAT treatment for Local Authorities





### 5.3.2 Southwest One Assumptions

The Southwest One Partnership has been implemented to deliver the following services

HR	Revenues & Benefits
Finance	Call Centre Customer Services
IT	Procurement
Property Services	

Taunton Deane Borough Council formed a partnership with Somerset County Council, Avon & Somerset Constabulary and IBM to centrally deliver these services. This arrangement commenced in Autumn 2008 covering the next 10 years. It is predicated upon achieving savings for Taunton Deane year on year of 2%. Constraints on the contract include an assured secondment employment model.

This contract is designed to deliver and continually drive efficiencies over the next 10 years through sharing services across a wider range of organisations and fits in with the strategic objectives of the Council.

The Project Team recognise that this is an important step for the Council and represents a longer term strategic approach. However, there remain details within the existing contract that need to be resolved such as the uncertainty as to how the contract will be adapted if there are any changes to the IT Systems or increases/decreases to employees. Southwest One is still in the transition phase and there is still significant work to embed these new arrangements.

This model is an established approach to delivering back office functions and as such has been adopted by a number of local authorities. Examples include: Suffolk County Council (IBM), Mendip (Capita), Blackburn with Darwen (Capita), Nottingham (BT), Rotherham (Capita).

Partnership is predicated upon joined up solutions in respect of back office functions and frontline service delivery. Southwest One is a good model; however removing the DLO service from the Southwest One contract could undermine the Southwest One business case and projected efficiency savings.

The conclusion is that it would be preferable for any future partnering arrangement to include the existing Southwest One as part of the delivery mechanism.



Further due diligence is required to ascertain the full impact of the Southwest One arrangements on any recommendation. Information is not available to support this review; Taunton Deane Borough Council would need to re-enter negotiations in respect of the current contractual arrangements to establish the full facts.

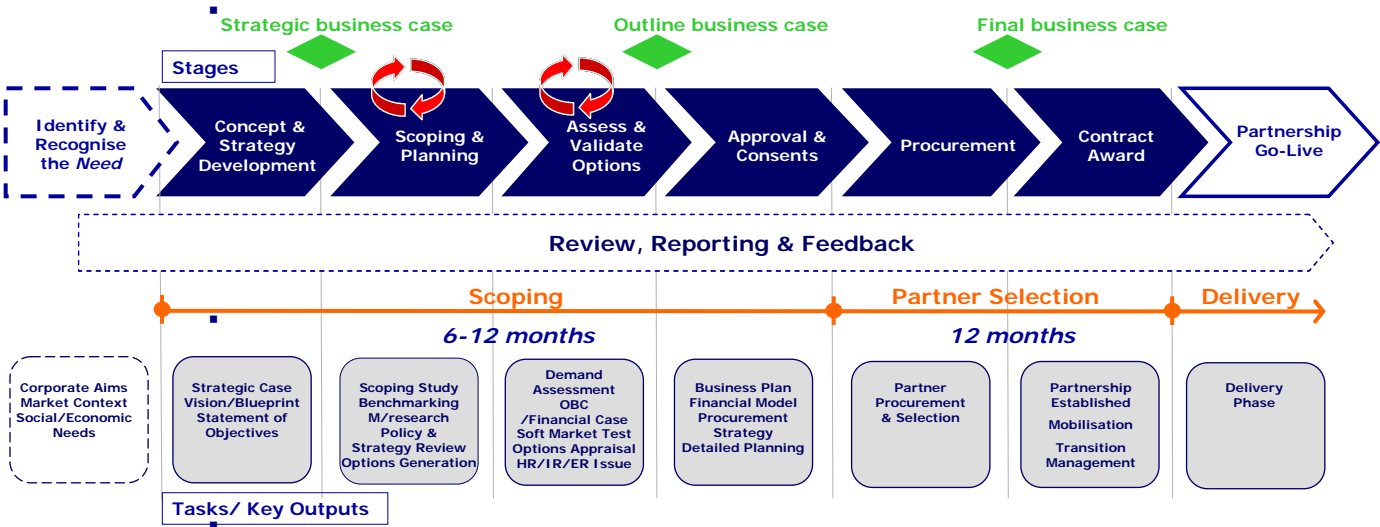
For the purposes of modelling to reach conclusion, there have been several assumptions applied with regard to the Southwest One Contract:

- Southwest One support services recharges for the DLO will be broadly similar to those presented in the last 5 years of financial data and efficiency savings will be applied to these over the 10-year contract period.
- Public and/or Private sector partners would continue to utilise the Southwest One contract for support services.

All partners (Private & Public) that were consulted were provided with this information and any recommendation or opinions given by these stakeholders are based upon the above assumptions.

### 5.3.3 Implementation Assumptions

A standard implementation method has been assumed in order to be able to compare the costs of each option. This approach is represented below (note that timescales shown are indicative only):



This is a 6-stage process, Taunton Deane Borough Council is currently moving through stage 3. The time spent within each of the remaining stages will vary depending on the chosen option but the overall strategic approach is the same. All these stages apply, irrespective of the option chosen. The reference to procurement does not refer to the OJEU process (Outsourcing/Joint Venture) but to the process of scoping and bundling services. Any involvement of a public and/or private partner will add a further complexity to the implementation process but a proportion of the costs will be shared.

#### **5.4 Private Sector Model: Outsource/Joint Venture**

These options are predicated on the ability of Taunton Deane Borough Council to attract the interest of the private sector. It is therefore good practice to consult the market early to gauge potential interest in such a project, challenge fundamental business assumptions and to gather ideas for alternative service delivery models. The process may also have the benefit of identifying possible third party customers for services.

##### **5.4.1 Soft Market Testing – seeking views from the marketplace**

During late September/early October 2009, Turner & Townsend tested the proposition with a recognised range of established private sector providers of the DLO services. We completed this task at strategic level (Company Director) and anonymously (i.e. TDBC was not disclosed as the Local Authority DLO under review). The companies were sent a high level financial breakdown of services and an overarching brief that included the assumption that Southwest One would be a pre-requisite to contract negotiation. The main issues/questions covered included:

- Have you carried out this range of services for other public sector bodies?
- How does the mix of services look – combined? Could you offer this as a single service?
- What is your opinion on this type of proposition – DLO with procurement and back office restrictions?
- Would it affect the viability of an outsource vs. joint venture model?
- What scope exists for efficiencies and improvement i.e. %?
- How would this be impacted by margins you would aim for?
- When do you think cashable efficiencies (or new business generation) would occur – year 1, 2 etc?



- Is this project attractive for your organisation? If so/not what could be added to make it attractive/more attractive?
- Could a DLO win/secure more work in the market, in the current context?
- How/where might the order book be improved?
- What would you see as being the ideal length of contract i.e. 5+5 etc...?
- How might any Local Government Pension Scheme considerations (for Admitted Body Status) affect the commercial terms?

#### **5.4.2 Organisation Targeted/Area of Interest**

The list of organisations contacted during this exercise are indicated below – not all have responded; therefore it is suggested that additional market testing is carried at the next stage of the project to further inform any assumptions made at this point.

- Enterprise plc
- Kier Support Services
- Connaught plc
- Serco
- Mears
- Morrisons Facilities Services
- Norfolk Property Services(NPS)

These organisations were chosen because they are all recognised as reputable providers and, in our experience of implementing private sector partnership arrangements, consistently deliver high quality services within the areas of operational services – grounds maintenance, street cleansing and property/housing repairs and maintenance.



The table below summarises the response from the market and area(s) of interest.

Company	Service Areas			Preferred Delivery Model	
	Grounds Maintenance	Street Cleansing	Property R&M	Outsource	JV
Enterprise	Y	Y	Y	Y	Y
Kier	Y	Y	Y	Y	Y
NPS	Y	Y	Y	Y	Y
Connaught	Y	Y	Y	Y	Y
Serco	Not of interest – too small				
Mears	Awaiting response				
Morrisons	Y – with local partner	Y – with local partner	Y	Y	N – too small

This table shows which service areas the private sector organisation would be willing to deliver, and through which delivery model (Outsource or JV)

The private sector were also made aware of the potential requirement to undertake an existing contract for support services, though the full arrangements of Southwest One were not made available. It was agreed that the private sector would either have to buy in the back office services including utilising the procurement set-up from Southwest One, or exit the contract and pay a penalty cost. For the purposes of this high-level cost benefit it is assumed that the current arrangements would utilise the Southwest One contract and be funded through an SLA arrangement.

The following bullet points summarise the private sector comments:

- In general positive response from the market
- View that externalisation projects of in these area deliver:
  - Service improvement & modernisation
  - Efficiencies
  - Commercialism – control & growth, Improved customer focus



- 'Core services' on offer:
  - Market are confident they can deliver
  - Would like to see more in scope e.g. waste collection
- No preference for JV over outsource
  - E.g. Morrisons – JV marginal due to Legals/scale/scope
  - NPS – JV only, could offer seeded authority route in 6 months
- LGPS/ABS: Pension – marketplace 'cautious', top and bottom limits of risk may be a pre-requisite
- Integrated service approach (One lot) considered to offer greatest benefits:
  - Too small individually
  - Fewer interfaces to manage, greater scope for efficiencies
- Southwest One arrangements will need further review
  - Restrictions on back office efficiencies.
  - SLA's & cost base need to be understood
  - Procurement arrangements – especially if growth occurs
- Use of IT/interfaces – major area of focus for any new provider
- Efficiencies: 10% net (impacted by SWOne)
- Profit: 2.5%(NPS) to 6% (Outsource)
- Growth: needs further review
- Target 10% by Yr 3
- Contract term: no major preferences, 5-7 years with extension discussed



### 5.4.3 Cost Benefit Analysis – High level

The following table is based upon the review team’s experience of delivering these options within other Local Authorities and the information provided by the Private Sector during the soft market test. It assesses the options in terms of costs and potential benefits and is summarised below.

Measure	Outsource	Joint Venture
Ownership/Employment Model	100% Private Sector	Private/Public ; 80/20% Assumed 20% owned by TDBC, industry norm for this type of model e.g. Sheffield, Stoke, Manchester
Cost base	£4.6m (direct staff cost plus transport)	£4.6m (direct staff cost plus transport)
Set-up cost	Outsource via OJEU route : £150k - £200K  Encompasses: TDBC Officer time plus Specialist Adviser input during the procurement process	JV via OJEU route: £300k  More expense as additional Legal documentation will be required – e.g. Shareholders Agreement, Memorandum, Articles of Association etc.
Implementation Timescales	12 months to procure, 12 months to fully transition	12-15 months to procure – longer than outsource as legals will take longer to complete on.  12 months to fully transition
Efficiency gain accessible by TDBC	Net 6% p.a. (suppliers profit margin removed)	Net 8% p.a. (suppliers profit margin removed, 20% of it returned to TDBC)
Employment/HR issues	Assumes no redundancies – surplus capacity/duplication absorbed by increase in levels of business  TUPE would apply – may	Assumes no redundancies – surplus capacity/duplication absorbed by increase in levels of business  No issues with LGPS/ABS



Measure	Outsource	Joint Venture
	be some issues around LGPS/ABS to consider	
Potential annual savings	£278k	£371k
Time to Realise Benefits	24 to 36 months	24 to 36 months
Potential to generate new business	High – assume increase in annual turnover be £1m in Yr5	High – assume increase in annual turnover be £1m in Yr5
Potential net benefit by Yr 5	£0.95m	£1.17m
Level of retained risk to TDBC(High/Medium/Low)	Low/Medium	Medium/High(as a result of share ownership in JV)
Popularity to TDBC/Option Ranking	Medium/3 <sup>rd</sup> place	High/1 <sup>st</sup> place

#### 5.4.4 Further Considerations

Taunton Deane Borough Council have experienced difficulties in the past when trying to establish change programs and have felt the negative effects of those contracts failing to deliver.

Outsourcing these mature market service streams would offer Taunton Deane Borough Council a less risk-laden approach to transformation as the private sector would accept risk and manage the process. Taunton Deane Borough Council will lose a level of control of the service but flexibility can be included in the contract to retain elements of decision making (reserved matters)

The Outsourcing option offers improvements in performance from bringing in wider experience from the private sector; VFM through the OJEU procurement process; and commerciality.

This will be achieved if Taunton Deane Borough Council ensure that they scope their requirements thoroughly in order to attain a good service though the contract arrangements.

A Joint Venture would offer similar levels of efficiencies, VFM and commerciality. However, JV would require a more resource intensive implementation process, but allow the Taunton Deane Borough Council to have greater direct input into the delivery of services. This is mainly due to the more complex legal contract required between the public and private sector parties. It requires a Board to be established





and requires a more resource intensive contract monitoring and client function due to the shared services nature of the contract.

The private sector has expressed an interest to include other services in scope (during the market engagement exercise); Taunton Deane Borough Council has a potential to offer the following services:

Service Streams	Consider Transferring in to Southwest One	Of Potential Interest to Private Sector
Regulatory Services	Y	N
Parking Services	N	N
Building Control	Y	N
Cemeteries & Crematorium	N	Y
Environmental Health	N	N
Housing Operations	Y	N

It is clear from this service that the majority of services on offer are best provided through the existing JV Company, Southwest One.

These services could still be offered within an OJEU Notice and the private sector could be asked to express an interest in delivering these services through the contract.



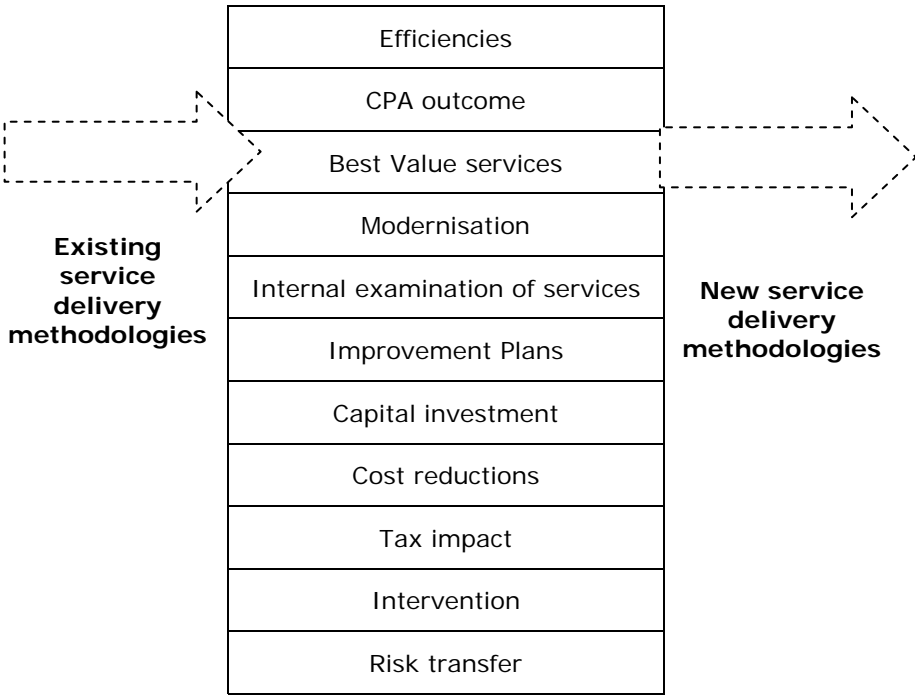
**5.5 Public Sector Model – Shared Services or Lead Authority**

**5.5.1 Shared Services**

Taunton Deane could explore sharing services with other authorities/organisations in the area. These authorities include: Sedgemoor, South Somerset, West Somerset and Mendip. This approach should be cognisant of stakeholder comments expressed earlier in this report.

**5.5.2 Neighbouring Authorities – Opportunities for Collaborative Working**

A key aspect of this report was to explore the options of potential partnerships with neighbouring local authorities. It is widely recognised that partnering can deliver upon a number of key drivers as depicted below.



[Ref: Service Transformation through Partnership, DCLG June 2006]

The Project Team recognise that potential partners will have different objectives such as profit in public/private partnerships and possibly different performance aims in public/public partnerships but there will be consistent drivers and a common purpose that will underpin any relationship formed.



The Project Team met with Mendip, Sedgemoor and West Somerset to discuss the potential for partnership working. The objective was to reach a better understanding of their and level of interest in implementing new ways of working through establishing partnership arrangements with their equivalent services streams. The summary comments are shown below:

Authority	Current Arrangements	Motives for Change
<b>Mendip</b>	Have already outsourced the vast majority of their DLO services:  Interpublic Urban Systems UK - Public Conveniences  Connaught Partnerships Ltd - Street Cleansing  Quadron Services Ltd - Groundcare  Have also established a partnership with Capita to deliver IT, Revs and Bens, Accountancy, Electoral Services, Postroom / Copyshop, Council Tax Collection.	Potential for partnering exists within: Housing Repairs & Maintenance function only  Mendip believe that a critical success factor to outsourcing is effective Client side management. Their motives for changing their existing contracts would be predicated upon sharing these arrangements.  Mendip have already realised the benefits of establishing partnering arrangements with the private sector. Partnering with Mendip would require utilising existing contracts similar to other partners requiring to utilise the Southwest One contract, when considering partnering with TDBC.



<p><b>Sedgemoor</b></p>	<p>Connaughts provide building &amp; property repairs &amp; maintenance function.</p> <p>Since the public/private partnership was established Sedgemoor assess that they have moved from a 1 star rating to a 2 star rating.</p> <p>Further benefits of the partnership have been made within the call centre. Call handing has become more focused upon resolving calls at first point of contact and in booking Connaught engineers directly through the Connaught diary system.</p>	<p>Potential for partnering exists within the Streets Cleansing and Grounds Maintenance Functions only.</p> <p>Sedgemoor were interested in setting up partnering arrangements with TDBC and their Street Cleansing DLO.</p> <p>This was put on hold for a number of reasons. However, this is a feeling that too much effort was put into something for very little gain and would be reluctant to give this anymore resource to further develop.</p> <p>Due to the experiences to date with the A39 project, although working in partnership is still possible, Sedgemoor would want to be convinced that any further effort would deliver significant benefit to service delivery before work would be undertaken.</p>
<p><b>West Somerset</b></p>	<p>Housing stock outsourced to, Magna Housing association and DLO function is provided through this contract.</p> <p>Street/Cleaning under contract with "Veolia"</p> <p>Grounds Maintenance, have a team of 9 people.</p>	<p>Potential for partnering exists within the Grounds Maintenance function only.</p> <p>The option for partnering would with West Somerset exist through the parks services. Public/private contracts are already in place to deliver the other parts of the DLO service streams.</p> <p>TDBC parks vans are already serving the schools within West Somerset and are known within the borough and have built up relationships with clients in the area.</p>
<p><b>South Somerset</b></p>	<p>The Project Team were unable to arrange a meeting with South Somerset.</p> <p>It is known that the housing stock has been divested to a number of RSLs.</p>	<p>It is probable that the only partnership exists between Street Cleansing and Grounds Maintenance service areas.</p>



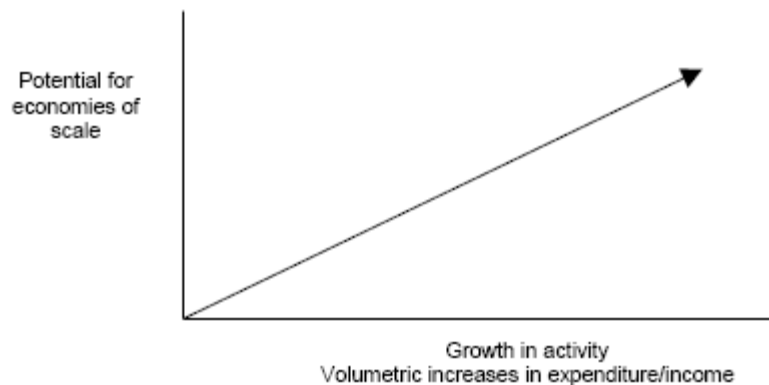
### 5.5.3 Opportunity & Partnering Possibilities Explored

The meetings held with the neighbouring authorities have offered little opportunity for any significant partnership efficiencies to be made. The main reason for this is that these authorities have already established public/private partnership to deliver some, or all, of the DLO service streams under review. This is shown in the table above.

It is widely recognised that the economic case for joint working is commonly based upon the principle of economies of scale: the greater the level of activity, the greater the opportunity for cost reduction. This is overlaid by the principle that after a certain level, scale becomes a problem in itself and causes economic inefficiency.

TDBC and these other authorities are delivering small-scale services and there are already restrictions on the level of efficiency gains to be made from partnering. These become significantly reduced when we consider only part of the DLO function and it is unlikely that significant economies of scale will arise, as the volume of transactions being considered for inclusion within a partnering arrangement is too small. The following diagram represents the potential economies of scale from joint working:

#### Potential Economies of Scale from Joint Working



[Ref: Strategic Partnering Taskforce Rethinking Service Delivery: Volume Two: From Vision to Outline Business Case: April 2003; Office of the Deputy Prime Minister]

The graph is a simplification as economies of scale are not likely to be linear. However, it represents the relationship of efficiencies that are likely to be secured as the additional volume of transactions increases.



Previous observations within this report have recognised that there are limited opportunities within each of these authorities to share services. This is due to the complexities of the existing public/private contracts and potential conflicts of private sector partners delivering similar service e.g. IBM and Capita.

The services that remain, that lend themselves to form partnering arrangements include services like Sedgemoor's Street Cleansing and West Somerset Grounds Maintenance. The small scale of these DLO services will not recognise significant improvements in service delivery nor have the ability to generate efficiency gains in the order required. Similarly, implementation of the partnering approach would offer little value as it would be difficult to set-up due to political alignment between authorities and has the risk of a smaller authority adopting the 'take-over' perception, rather than a partnering approach.

As it stands, it is difficult to support an option that is unable to include the range of services offered in the previous section, to the Private sector and contains complicated constraints because of existing contracts within the other authorities.

#### **5.5.4 Lead Authority Model**

Authorities with excellent performance records are being allowed to form arm's length management companies. These companies are wholly owned by the authority and have the responsibility of managing aspects of its capital programme and operations. Consent is required before such companies can be formed and the benefits to the local authority are additional capital resources and greater flexibility.

Under this model, the local authority arrangements may involve the creation of a separate subsidiary company, wholly owned by the public sector or the application of a consortia contract with separate budgets. The primary provider in the marketplace is NPS Property Consultants Ltd (NPS are a wholly owned subsidiary of Norfolk County Council)

The Lead Authority model is based upon the ability of that authority to be able to offer any other Local Authority best in class service knowledge and know how. The Lead Authority must have the ability to extend its services and be motivated to take on new contracts on a UK wide basis.

The implementation of this model is more appropriate for larger authorities with the diversity of experience, ability to attract resources, and to compete for - and win - large contracts nationally. It is costly to implement and does not allow for any immediate efficiency gains. The main advantage of adopting this model is to separate the service(s) from the commercial constraints imposed upon a local authority and bid for much larger work.



The following table is based upon discussions with NPS.

### Cost Benefit Analysis – High Level

Measure	Lead Authority Model – led by TDBC	Lead Authority Model – led by NPS
Ownership/Employment Model	100% TDBC	100% NPS
Cost base	£4.6m (direct staff cost plus transport)	£4.6m (direct staff cost plus transport)
Set-up cost	Lead is TDBC: £400k Encompasses – TDBC Officer time plus specialist Adviser input to implement the project – business case/plan, legal agreements with out LA's, commercial and performance management models etc...	£100k if non OJEU route is adopted Costs relate to Officer time, Legal/Financial Advisors, Due Diligence, Contract Management
Implementation Timescales	12-18 months to set-up, 12 months to fully transition	6 months to set up contract 6 months to fully transition
Efficiency gain accessible by TDBC	Net 2% p.a. (Southwest One efficiency targets built into model)	Net 6% p.a. (model is similar to an outsource)
Employment/HR issues	Assumes 10% redundancies – assumed redundancy cost of £60k per person (approx £0.6m) TUPE would apply No issues with LGPS/ABS	Assumes no redundancies – surplus capacity/duplication absorbed by increase in levels of business TUPE would apply No issues with LGPS/ABS
Potential annual savings	Uncertain	£150k
Time to Realise Benefits	24 to 36 months	24 to 36 months
Potential to generate new business	Low – assume only half of that of NPS model	Medium – assume increase in annual turnover be £0.5m in Yr3, 50% of Outsource/.JV options



Measure	Lead Authority Model – led by TDBC	Lead Authority Model – led by NPS
Theoretical net benefit by Yr 5 – Outsource	£0.20m	£0.5m
Level of retained risk to TDBC(High/Medium/Low)	High	Medium
Popularity to TDBC/Option Ranking	Low/5 <sup>th</sup> place	Low/5 <sup>th</sup> place

### 5.5.5 Summary of Section 5.5

There is limited opportunity in the neighbouring authorities to share services. Only parts of each of the service could be shared because of other existing contracts. There are other services within Theme 4 that offer greater potential for partnering, which are listed in the table below:

Service Streams	Consider Transferring in to Southwest One	Of Interest to Neighbouring Authorities
Regulatory Services	Y	Y
Parking Services	N	Y/N
Building Control	Y	Y
Cemeteries & Crematorium	N	N
Environmental Health	N	Y
Housing Operations	Y	N

- It has already been demonstrated that because of the relative small size of services in scope, this option would not offer much value as the efficiencies that would be realised would not be large enough to warrant the work needed to establish them in the first place.
- The best option for Taunton Deane Borough Council under this model would be to investigate the opportunity presented by joining with another authority to utilise their existing partnership arrangements e.g. with Connaughts





- Establishing a Lead Authority model requires consent from the Secretary of State. This will only be granted to an excellent authority.
- This model is also predicated on the ability of that authority to be able to offer best in class services to any other local authority in the UK.
- Taunton Deane Borough Council does not have the breadth of experience to offer the necessary level of services. For example as a lead authority Taunton Deane Borough Council could be asked to accept delegated responsibility for delivering street cleansing services to Manchester City Council and provide best in class delivery solutions under that contract. Local lead is unlikely.
- There is an option to delegate responsibility to an existing Lead Authority e.g. NPS. This would be a similar solution to JVC/outsource though it would be to another public sector entity and would not require to be tendered.

## 5.6 Retained Internal Model – Internal Transformation or Stay as Is

Both these models are predicated on the same basis that the DLO remains within Taunton Deane Borough Council. This transformation / change will be lead and initiated by resources solely within the Council.

An internal transformation could deliver a similar level of change as that predicted for private sector intervention. All expertise, knowledge and capital will be funded by the Council including the external consulting support. In addition, this route would require value-for-money testing.

Our assessment based on previous experience is that the approach most likely to succeed requires the establishment of an internal change team of four capable people coached by an external consultant using a proven change model. Lowest costs with regards to the Consulting assistance would be approximately £100k as per the West Lancashire model. Further costs of £100k per annum, for two years, would be realised in respect of the internal team and possibly a further £300k IT system change/support. Whilst achievable this level of investment could only be justified if the Council as a whole required the services of the same change team.

A notable risk is that internal transformation as described here would be unlikely to include the recruitment of appropriately experienced commercial style managers. Equally, there would be little doubt that in order to achieve the level of net savings required staff would face the prospect of redundancy. This may not be the case where options include access to a wider range of work such as that offered by JV or Outsourcing.



Further risks around the potential additional costs of redundancies within this option would need to be considered if other options fail and this becomes the chosen way forward and if redundancies cannot be avoided and costs will remain with the DLO

At the present time, the stay as is option simply will not deliver savings at levels required to conform to the Council requirements.

#### **5.6.1 Summary of Section 5.6**

Taunton Deane Borough Council would need to dedicate the appropriate level of resources that would require recruiting experienced change manager assistance to drive this option forward. This option would require significant funding to implement.

This option does not offer Taunton Deane Borough Council the opportunity to partner with the private or public sector and therefore could potentially not deliver the strategic requirements of the DCLG.

This option will only deliver the necessary level of savings required to meet the budget reduction by placing the staff and quality of the service at risk.



## 5.7 Risk Summary

The Project Team recognise that there are important risks that require consideration prior to agreeing any fundamental change. Our discussions through this review process have identified the following risks and potential mitigations.

Risk	Affected Model	Description	Mitigating Factors
Core Council Review is taking place across all TDBC's services	Internal Transf. Shared Services	This will affect the resource solutions and hence the achievability for the implementation of a significant change programme to transform the DLO.	If either of these options were chosen by TDBC the Council would need to delay the commencement of the programme until the review was nearly complete to ensure the right level and commitment of resource.
Implementation of Southwest One	Internal Transf. Shared Services	Further to this is the level of change the Council can withstand at one time considering that Southwest One is still being implemented	If either of these options were chosen by TDBC the Council would need to delay the commencement of the programme until the implementation of Southwest One had been established to ensure the right level and commitment of resource.
Perceived lack of value of offering	Outsource JV Lead Authority	The DLO services on offer are relatively small and do not provide a secure trading stream.	TDBC need to utilise a combined solution across all service streams to maximise the efficiency gains.  Maximise additional funding streams/revenue lines – other authorities, public buildings, cross sector – include other service streams in OJEU



<p>TUPE transfer process – IR/ER disputes</p>	<p>Outsource JV Lead Authority</p>	<p>Unpopular with affected staff and has the potential to affect moral and impact service delivery through the implementation phase.</p>	<p>TDBC need to ensure clarity of staff allocation process and engage with TU early and continue this throughout the process.</p> <p>Provide HR support – staff briefings, surgeries, employee support.</p> <p>Use Line Managers to reinforce message.</p> <p>Remove any conflict of interest – e.g. TUPE allocated staff on project team.</p>
<p>Partner Selection – risk of not selecting right organisation/partner</p>	<p>Outsource JV Lead Authority Shared Service</p>	<p>TDBC will be required to select a partner based upon completion of any of these options.</p>	<p>It is prudent to start market warming/market engagement early in the process to gain a better understanding of potential partners.</p> <p>Ensure that procurement is effectively managed by experienced professional procurement managers to ensure the development and evaluation of:</p> <p>A rigorous (hard) selection process – financials, track record and softer side of partner selection – behavioural, cultural fit</p>
<p>Assessing the worth of the asset/business – incorrect perceived value</p>	<p>Outsource JV Lead Authority</p>	<p>There are reservations about the validity of the overall value of the asset. This includes all resource elements of the business as well as the financial transactions.</p>	<p>It is important that TDBC commission an accurate business valuation prior to going to the market place.</p> <p>'Sell' of opportunity to market place. Take a practical view – dowry (if any) v rates.</p>



<p>Poor internal communications – Members, stakeholder groups</p>	<p>ALL</p>	<p>High risk of any change strategy that messages are not always filtered out to stakeholders.</p> <p>However this can delay progress as work is done to address issues</p>	<p>Appoint Communication Manager to take ownership of the comms strategy and provide a continuous (learning) comms model</p> <p>TBDC should encourage an innovative &amp; targeted approach to Comms – identify key players and engage early</p> <p>Employee Relations Board Investment in decision making</p>
<p>Adverse market conditions</p>	<p>Outsource JV Lead Authority</p>	<p>Current financial climate is not very stable and private partners will be looking at how to maximise deals and reduce their risk.</p>	<p>Suppliers will potentially be looking to secure long term partnerships/revenue streams – consider 5+5 or 10 year deal</p>
<p>Poor Market interest/prohibitive bid costs</p>	<p>Outsource JV Lead Authority</p>	<p>Significant financial commitment from the private sector required to enter in to a tender process.</p>	<p>TDBC need to carry out a Market engagement exercise to raise profile.</p> <p>Focused (CD) procurement process – down select quickly and simplify</p> <p>Consider offsetting some of Bidders cost</p>
<p>Unable to secure funding for change process</p>	<p>Internal Trans</p>	<p>TDBC need to secure significant up front capital to enable the change process, without which the programme cannot commence</p>	<p>Identify funding prior to the approvals process. Fully scope out the level of capital required to ensure there are no additional costs.</p>



<p>Pension risk affects pricing</p>	<p>Outsource JV</p>	<p>Securing pension can be significant risk to a partner and a Council if they required to underwrite the fund.</p>	<p>TDBC need to ensure that acquire an accurate (Actual) assessment of pension fund</p> <p>Consider alternative ways to handle risk – e.g. retained/capped by TDBC</p>
<p>The workforce reverts to their old ways of working.</p>	<p>Internal Transf</p>	<p>It is likely that the level of change is not sustainable as there has been no external influence to establish a different culture and approach.</p>	<p>TDBC need to continue to invest significantly, post transformation, to sustain the level of change and monitor the service on a similar basis to the other options.</p>
<p>The existence of the Southwest One contract affects the flexibility of any partnership option</p> <p>It has been assumed that TDBC will not move the support service away from the Southwest One contract</p>	<p>JV Shared Services</p>	<p>The Private sector might not be able to realise enough benefit through a JV</p> <p>The neighbouring Authorities may choose not to enter in to the Southwest One contract</p>	<p>Need to understand the Southwest One arrangements and flexibilities within the contract before choosing a partner.</p>



## 6 Recommendations

The journey from exploring stakeholder preferences to the gathering of business data reveals that early preferences as expressed by stakeholders cannot, in their entirety, be fulfilled. For example, where a high preference for shared services were expressed the outcome of our work exploring the appetite for such arrangements with local partners fell short of that required to make this course of action a likely reality.

Our review indicates the real business need for a private sector partner or public sector partner who can provide evidence of a high level of commerciality within their approach. That partner must be capable of introducing efficiency enabling technology, effective work management and planning processes, opportunity exploitation skill, sufficient critical mass in terms of existing workforce such that the current DLO skill set will be enhanced in both volume and depth, and proven business development success within both private and public sector service.

This review provides a good indication of the potential way forward. If the partnership routes below are accepted as possibilities, further due diligence specifically around the identified constraints will be required to assure the council that the opportunity can be delivered in a manner acceptable to the Authority and the Authority workforce.

We are confident at this time that the following options are viable and will bring about the financial rewards required. Equally, we understand that further detailed analysis including modelling the effect upon, and desires of, the workforce will offer clearer separation of the options outlined below.

- Establish a Joint Venture company with a credible mature market supplier 80% owned by the commercial supplier.
- Outsource all DLO services to a credible mature market supplier

It should be noted here (reiterated) that both options traditionally refer to commercial partner arrangements; however, our research has identified the potential opportunity to include as a 'pseudo commercial' partner the public sector owned organisation NPS property consultants. This is likely to conform to the broad arrangements of JV and should be included within any further analysis.

## 7 Selecting a single option: additional advice

### 7.1.1 Introduction

This paper develops the case for changing the current DLO ownership arrangements. The outcome suggests that the most appropriate way forward for Taunton Deane Borough Council is to introduce a commercial partner to the DLO either by way of full outsource or joint venture. The joint venture suggestion is further detailed by offering two styles of joint venture one fully commercialised and the second a less commercialised public sector partner, NPS.

### 7.1.2 Summary of criteria satisfaction

The option appraisal outcomes can be simply represented by a 'does or does not satisfy' analysis as shown below

Options	Net Benefit	Finance	Achievability	Sustainability	Performance & Efficiency
Outsource	✓	✓	✓	✓	✓
Joint Venture	✓	✓	✓	✓	✓
Shared Service	✗	✗	✗	✗	✓
Lead Authority	✗	✗	✓	✗	✓
Internal Transformation	✗	✗	✓	✗	✓
Staying As-Is	✗	✗	✗	✗	✗

This table demonstrates that there are only two options that satisfy all business criteria, Outsource and Joint Venture. Whilst it is clear that the paper to this point satisfies the TDBC original brief by bringing to conclusion these two feasible options Taunton Deane Borough Council recognise that two options do not present as a final solution upon which Members can signify approval or non approval.

### 7.1.3 Consulting opinion

The report and recommendations presented up to this point are fully supported by way of the systematic research conducted within the DLO and Taunton Dean Borough Council. This section of this report goes further and induces by way of *our views and opinions* as consultants and provides a logical progression based upon our wider experiences and understanding of the wider Taunton and Deane Borough Council agenda.



We offer this section as *opinion* and as such, Officers and Members should consider the relevance of this opinion in terms of their wider requirements and Taunton Deane Borough Council overall strategy.

## **7.2 Our view of the options presented**

The options as present and supported by research provide for financial advantage to be gained by Taunton Deane Borough Council. The levels of Financial advantage are roundly Outsource £0.95m, JV commercial £1.17 m, JV public £0.65m. Simplistically, it is possible to take forward the highest financial benefit option and/or dismiss the lowest option. However, the highest benefit can only be achieved if Taunton Deane Borough Council maintain high levels of input and accept high levels of risk throughout the life of the contract whilst, at the same time, committing to a high workload during set up. On the other hand, the lowest return option would involve the lowest risk and lowest effort to achieve.

## **7.3 Joint Venture – highest net gain option**

The effort required to manage a JV solution delivering a return of £1.2m net is in our view likely not to be sustainable. Taunton Deane Borough Council is or will be facing significantly greater financial pressures post- the CR10 settlement than those experienced to date. It is likely that the Taunton Deane Borough Council officers will be more than fully focussed on delivering to the new agenda. Maintaining a high input into a JV will not be a priority, the consequence of which is likely to be a significant performance drift. It is our experience that JV's without full and formal active commitment fail to deliver the promised service improvements and savings. In Taunton Deane Borough Council's case, this would place additional financial pressure at the worst possible time.

Additionally JV's offer rewards based on risk sharing. In the event that the JV did not deliver, savings or efficiencies losses would be shared with the Council. Where JV's are predicated on gaining new business within the locality the application of 'prudence' suggests that in these difficult times the likelihood of achieving these aspirations diminish. If aspirations are not met, savings will not be delivered nor will service improvements.

Our view is that the highest net gain option of commercial JV should not be the priority option

## **7.4 Joint venture – the lowest net gain option**

The easier option, which requires little input from Taunton Deane Borough Council is certainly the public partner, NPS. The business case here is to a much smaller degree predicated upon new business acquisition and therefore brings lower risk. However, the potential net gain to the Council falls short of aspirations. If the Authority

required a quick and easy solution to the DLO efficiency issue then this would fit the requirement. However, the potential additional pressure (CR10 etc) would suggest that the low level of non-guaranteed savings might result in a greater pressure within the remaining council spend areas.

Our view is that the lowest net benefit option should not be the priority option.

## 7.5 Outsourcing option

This leaves the full commercial outsource option. The net gains indicated appear to be 'reasonable' in the sense that they appear both attainable and significant. Financial risks are fully transferred to the commercial supplier and, aside from an intensive period of work around the establishment of a sound contract, monitoring - if completed effectively - should be minimal and focus on service delivery standards.

The significant advantage of Outsourcing is simply that savings can be guaranteed; service levels clearly defined and client input minimal. The significant disadvantage is that the original contract specifications and negotiations must be conducted expertly and include a significant recognition that issues around staff conditions and transfer must be fully explored.

This rationalisation of the options suggests that the Full Commercial outsource option should be the priority option for Taunton Deane Borough Council.

## 7.6 The way forward

It is important that when entering into potential commercial service delivery partnerships that those outcomes promised during negotiations be drawn into the contract. However, as indicated within the main body of the report there are some important areas within which due diligence must be performed i.e. the Southwest One contract impact, forward order book etc. It is possible that due diligence may raise issues which weaken the financial case in respect of savings. If this is the case, Taunton Deane Borough Council must be prepared to review the options and reprioritise. Bearing this in mind we suggest that Taunton Deane Borough Council adopt the following process -

- ▶ Complete all service standard specifications
- ▶ Complete Taunton Deane Borough Council own due diligence exercise
- ▶ Offer for tender the full DLO as an outsource proposition
- ▶ Invite alternatives for consideration
- ▶ Complete due diligence specifically around the risks of the short-listed suppliers

- ▶ Develop an internal 'ideal supplier' profile
- ▶ Measure the short list against the profile and how well they meet the original specification.
- ▶ Negotiate security of return and where applicable any 'must have' elements within the profile
- ? ▶ If negotiations do not result in the suppliers meeting Taunton Deane Borough Council requirements re-use the original specification data updated to reflect the knowledge gained from the ITT exercise and re-tender for JV or move toward the public partner option (NPS)
- ? ▶ If the JV/public partner option does not deliver the specified requirements use the knowledge gained to deliver an in-house transformation option.

*Given the issues raised within this section, we recommend that Taunton Deane Borough Council adopt the process identified above starting from the position that a **full outsourcing model is the preferred way forward.***

[end]

## Appendix A – Review Methodology

### Stage 1

#### Phase 1



The As is Review is where we intend to begin engaging with key stakeholders on a one to one level. This will enable our understanding of the overall strategic objectives the Council wish to deliver and we will begin to develop our understanding of the organisation. This will assist us in developing options that best fit with the Council's culture and perceived outcomes.

#### **ACTIVITIES**

Identify key stakeholders and set up initial interviews and meetings

Review potential options with key TDBC officers/stakeholders

Co-ordinating and gathering data on relevant Council business units, market demand & supply, public sector comparator models

#### **OUTPUTS**

- PID and project plan
- Governance reporting established
- Stakeholder engagement workshops
- DLO service benchmarking data

#### Phase 2



Develop Option Range: (longlisting) will consist of a series of interactive workshops that will require the interaction and participation of the service groups. This will include all levels from Strategic Directors through to the operational employees. It is beneficial to understand the service from every angle if we are to define and effectively reshape it.

#### **ACTIVITIES**

Benchmarking interviews

Engagement workshops on service delivery models and benefits/outcomes including the "future customer experience"

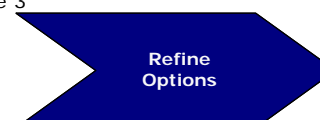
Development of assessment criteria for short-listing by Members

#### **OUTPUTS**

- Option appraisal on delivery models
- Summary of options available
- Facilitated engagement workshops
- Presentations to Members

### Stage 2

#### Phase 3



Refine Options: At this stage T&T will have presented solutions to the major decision makers within the Authority and will collate all the feedback in order to capture changes and requirements. This is a crucial part of the communication strategy and will require regular interaction with the project board to ensure that the feedback is being interpreted correctly.

#### **ACTIVITIES**

Further engagement with key TDBC stakeholder groups to detail requirements

Some limited market engagement

Assessment and appraisal of short-listed delivery models

#### **OUTPUTS**

- Market assessment/soundings
- Presentation of first draft plan to project board and Members for validation

#### Phase 4



Final Recommendations will be reached when the Project Board are satisfied that the Option(s) have the ability to deliver the strategic objectives that were developed back in Phase 1. Frequent and informative communication should facilitate a timely final decision from Exec Members and definitive support from all stakeholders within the Council.

#### **ACTIVITIES**

Consultation on initial benefits articulation, appropriate measurements and ownership for the programme

Preparation for final presentation to relevant board members on preferred options

#### **OUTPUTS**

- Benefits realisation framework
- Presentation(s) to project board
- Presentation to TDBC Members

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## Taunton Deane Borough Council - Core Council Review

### THEME 3 – DLO - FREQUENTLY ASKED QUESTIONS (FAQs)

Set out below are a number of FAQ's that were asked by DLO staff at Briefings held at the DLO on 13 and 14 January 2010 and at the DLO Staff Focus Group on 19 January 2010.

If you have issues you would like to raise, or questions which you would like answered about the DLO Review, these can be raised with any of the following people:

Ann Forester  
PA to Brendan Cleere, Strategic Director, Room 120 Deane House  
[a.forester@tauntondeane.gov.uk](mailto:a.forester@tauntondeane.gov.uk)

Brian Gibbs, Highways and Cleansing Manager, DLO  
Extension 2134 of 01823-356361 ([b.gibbs@tauntondeane.gov.uk](mailto:b.gibbs@tauntondeane.gov.uk))

Chris Mulcahy, Parks Manager, DLO  
Extension 2147 or 01823-356362 ([c.mulcahy@tauntondeane.gov.uk](mailto:c.mulcahy@tauntondeane.gov.uk))

Phil Webb, Housing Manager/Property Services  
Extension 2146 or 01823-356505 ([p.webb@tauntondeane.gov.uk](mailto:p.webb@tauntondeane.gov.uk))

Brendan Cleere when he is based at the DLO  
(by ringing Ann Forester on 2302 or 01823 356406 for an appointment)

### **FOR INFORMATION, ADVICE AND SUPPORT ON EMPLOYMENT MATTERS (e.g. Pension, TUPE) please contact:**

Martin Griffin, Retained HR Manager  
Ext 2818 or 01823-356533 ([m.griffin@tauntondeane.gov.uk](mailto:m.griffin@tauntondeane.gov.uk))

Laura Holland, HR Manager  
Ext 2101 or 01823-356452 ([l.holland@tauntondeane.gov.uk](mailto:l.holland@tauntondeane.gov.uk))

Amy Sutton, HR Officer  
Ext 2213 ([a.sutton@tauntondeane.gov.uk](mailto:a.sutton@tauntondeane.gov.uk))

### **UNISON**

Ian McCulloch  
Ext 2800 or 01823- 356342  
([unison@tauntondeane.gov.uk](mailto:unison@tauntondeane.gov.uk))

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## **BACKGROUND**

DLO staff have been briefed about the recommendations made by Turner and Townsend, who were commissioned to review and recommend a preferred way forward for DLO services, as part of the Council's Core Council Review.

Five staff briefings were held over two days (13<sup>th</sup> and 14 January 2010) and a further Focus Group session was held on 19 January. The sessions were led by:-

Brendan Cleere, Strategic Director, TDBC (all sessions)  
Chris Vaughan, Director, Turner and Townsend, Consultants (all sessions)  
Martin Griffin, Retained HR Manager, TDBC (9am sessions 13<sup>th</sup> and 14<sup>th</sup>)  
Laura Holland, HR Manager, TDBC ((all sessions 13<sup>th</sup>)  
Amy Sutton, HR Officer, TDBC (all sessions 14<sup>th</sup> & 19<sup>th</sup>)

UNISON were represented at the briefing on 14<sup>th</sup> January (9am) and at the focus group on 19 January

The following documents are available from DLO Managers, and copies are available at DLO Reception, in the Mess Room and at other locations at the DLO. They are also available on the CCR Intranet Sharepoint site:-

- Turner & Townsend's report (available on 13/14 January)
- Staff Briefing sheet (handed out on 13/14 January), including details of the timetable and next steps for the review.
- TUPE information sheet (handed out on 13/14 January)
- These FAQs

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## **1. TURNER AND TOWNSEND RELATED QUESTIONS**

### **QUESTION**

#### **WHICH COUNCILS HAVE T&T REVIEWED AND HOW SUCCESSFUL HAS OUTSOURCING BEEN?**

T&T have reviewed a wide range of local authority types and sizes, recommending and helping to implement a range of different options, from internal transformation to joint venture and outsourcing. Outsourcing has been a successful option in many authorities and T&T have extensive experience of advising before and during the "due diligence" and contract processes.

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**QUESTION 1.1****HAVE TURNER AND TOWNSEND SUPPLIED ALL THE INFORMATION TO SUPPORT THEIR SUGGESTIONS?**

Yes. The evidence to support T&T's recommendations is in their report. Staff and members will be able to challenge this evidence during the formal consultation and committee process.

**QUESTION 1.2****HOW ACCURATE IS TURNER AND TOWNSEND'S REPORT?  
HAS STAFF FEEDBACK BEEN INCORPORATED INTO THE REPORT?  
NEED ALL THE FACTS FOR AN HONEST REVIEW**

T&T's report is based on evidence provided by TDBC (staff and members), potential partner organisations (public and private) and T&T's experience of developing and implementing these options in other areas,

Over the course of the review, T&T met with DLO managers to ensure that the factual evidence in the report was robust.

**QUESTION 1.3****IT WOULD BE BETTER IF REPORT HAD BEEN AVAILABLE BEFORE THIS BRIEFING (eg: before 13/14 January)**

The staff briefings were the start of consultation process, giving an opportunity for staff and Members to consider T&T proposals and give their comments and feedback. The full report is now available and a further consultation session for DLO staff has been arranged for 19 January.

**QUESTION 1.4****T&T SEEM BIASED TOWARDS THE OUTSOURCING OPTION. WILL THIS INFLUENCE MEMBERS' DECISION TOWARDS THE OUTSOURCING OPTION?**

T&T were asked to give a recommendation, and the balance of facts and information gathered during the review have led T&T to recommend outsourcing over other options. Members will challenge the T&T report and then select a preferred option



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## **2. OUTSOURCING/PARTNERSHIP/OPTIONS/CONTRACT RELATED QUESTIONS**

### **QUESTION 2.1**

#### **WHAT IS AN OUTSOURCING CONTRACT?**

In an outsource arrangement, TDBC would enter into a contract with a private sector provider (outsourcing partner) to deliver the services currently provided by Deane DLO.

### **QUESTION 2.2**

#### **WHAT SAVINGS WILL BE MADE BY OUTSOURCING DLO SERVICES?**

Indicative annual savings from the outsource option are £278k per annum. This is an indication based on the 'soft market testing' undertaken, and would need to be confirmed through a business case emerging from a full procurement process.

### **QUESTION 2.3**

#### **WAS OUTSOURCING A CLEAR WINNER? WHAT METHODOLOGY WAS APPLIED?**

The review highlighted two favoured options, outsource and joint venture. Outsource was recommended on balance, because set up costs and risk to the council would be less, and savings would be contractually guaranteed. The methodology used to arrive at this conclusion is described in detail in Turner and Townsend's report, and included discussion with staff, members and partners, benchmarking, soft market testing and financial analysis.

### **QUESTION 2.4**

#### **PLEASE EXPLAIN HOW POTENTIAL SAVINGS WILL BE MADE, AND ALSO HOW PROFITS WOULD BE SHARED WITH OUTSOURCER'S SHAREHOLDERS**

In an outsource arrangement, savings to the authority would be made by paying less year-on-year to the private sector provider than it costs at the moment to deliver the same services. The amounts involved would be negotiated between the Council and a preferred bidder, and built in to a contract.

Profits to the private sector provider would derive primarily from commercial growth. How any profits are shared would differ from company to company, but would typically comprise a mix of re-investment to stimulate further business growth and return to shareholders.

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**QUESTION 2.5**  
**DID YOU CONSIDER A SMALL COMMERCIAL PARTNER?**

During the 'soft market testing' six large companies were approached. If members decide to pursue the outsource option, a full procurement process would be undertaken and small commercial companies would be able to take part in this.

All bidders, regardless of size, would be subject to rigorous checking to ensure that they are financially viable.

**QUESTION 2.6**  
**IS OUTSOURCING A "DONE DEAL"**

No, it is T&T's recommended preferred option but members may decide to select a different option.

**QUESTION 2.7**  
**HOW MANY DLOs HAVE OUTSOURCED AND HOW SUCCESSFUL HAS IT BEEN?**

Among TDBC's 'family group' of authorities (20 in total) over 70% have moved towards partnering arrangements with the public or private sector in order to deliver efficiency savings.

Turner and Townsend estimate that approximately 30% of councils have outsourcing arrangements for DLO services, with an excellent success rate.

**QUESTION 2.8**  
**WHAT IS THE TIMESCALE IF THE OUTSOURCING RECOMMENDATION IS ACCEPTED?**

It will take approximately 12 months from approval of decision by Members at Full Council to a contract being signed.

**QUESTION 2.9**  
**RENT & REBATES, PUBLIC CONVENIENCES AND HOUSING SERVICES HAVE ALL BEEN UNSUCCESSFULLY OUTSOURCED AND THEN BROUGHT BACK IN-HOUSE**

It is critical to choose the right (which is not necessarily the cheapest) commercial partner in the first place. A successful partner will understand how to work more efficiently at less cost. The "due diligence" process is critical when preparing for transfer and the Council will not sign any contract unless it is satisfied that the business case and overall rationale for change are strong.

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**QUESTION 2.10**  
**WOULD IT MAKE MORE SENSE TO GO WITH A UNITARY AUTHORITY?**

The unitary option is not currently available for Somerset, having been rejected by the Government in 2007. The Council strongly opposed the unitary bid by Somerset County Council in 2007.

**QUESTION 2.11**  
**REORGANISATION THREE YEARS AGO BROUGHT HOUSING CLIENT AND CONTRACTOR SERVICES TOGETHER AT THE DEPOT, NOW YOU ARE SEPARATING THEM OUT AGAIN?**

Housing client and contractor functions were brought together following the housing stock transfer 'no' vote and the resultant need to make financial savings. The review has recommended that the functions are separated to enable a clearer distinction between those who specify and monitor service quality and those who carry the work out. Community Services Manager (James Barrah) is looking further at this issue and will bring a report to members shortly. Staff will be informed about any proposal and have the opportunity to comment on it.

**QUESTION 2.12**  
**WHO ARE POTENTIAL COMMERCIAL PARTNERS AND ARE ANY OF THEM LOCALLY BASED?**

T&T spoke to a number of national companies (as shown in their report - without revealing the identity of TDBC) who fed back their potential interest in running DLO services. We would not know who genuine potential partners might be until a procurement process gets under way. In any procurement process TDBC would ask for expressions of interest from both national and international companies, through the Official Journal of the European Union (OJEU).

**QUESTION 2.13**  
**WHAT IF NO SUITABLE OUTSOURCING PARTNER IS FOUND?**

If the Council selected outsourcing but no commercial partner could be found, we would seek to implement one of the other options outlined in T&T's report. All of the work required to take the Council down an outsource route could effectively be re-used to implement other options.

**QUESTION 2.14**  
**HOW WILL YOU CHECK THE SERVICE STANDARDS OF POTENTIAL OUTSOURCING PARTNERS?**

This will be tested fully through a robust procurement process. The Council would also specify the standards required in contract specification documents.

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**QUESTION 2.15**  
**WHAT HAPPENS IF THE OUTSOURCER'S BUSINESS FAILS DURING THE CONTRACT?**

If this were to happen, staff would be brought back 'in-house'. The financial viability of all bidders would be investigated thoroughly to minimise the risk of this happening in the first place.

**QUESTION 2.16**

**WHAT HAPPENS IF OUTSOURCER DOES NOT PROVIDE PROMISED SERVICES?**

Provision for this would be built in to a contract, and the risk of it occurring in the first place would be minimised through the procurement and due diligence process.

**QUESTION 2.17**  
**THE COUNCIL IS ALREADY A GOOD COUNCIL – IT SHOULD BE REWARDING STAFF NOT CHANGING PROCESSES**

In order to remain good, the Council needs to respond to the challenges of delivering quality services in an environment of diminishing public funds. If we do not respond to these challenges, we will not be a good council in the future.

If outsourcing is selected as the preferred option, one of the key factors in selecting a private sector provider will be how staff and clients are treated.

**QUESTION 2.18**  
**COULD A NEWLY ELECTED COUNCIL REVOKE THE CONTRACT?**

Potentially, yes, but this would be likely to incur significant cost, reputational damage and potential disruption of services. The decision to select any of the options in the first place will be taken by Full Council, which comprises all 56 elected members from all political groups, who represent communities all across Taunton Deane Borough.

**QUESTION 2.19**  
**WHAT IF THE COUNCIL DOES NOT ACCEPT THE RECOMMENDED OPTION?**

We will implement whichever option is selected by Full Council, which consists of all 56 Members from all political parties, representing all areas of Taunton Deane Borough.

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**QUESTION 2.20****IS TENANTS' APPROVAL NEEDED, AS IT WAS FOR THE HOUSING STOCK TRANSFER?**

No, but we are including tenants in the consultation process. Brendan Cleere and Turner & Townsend will be making a presentation to a Special Tenants Forum on 19 January 2010.

A ballot of tenants was required for the proposed housing stock transfer as we were asking them if they wanted a new landlord. TDBC would still be the housing landlord in the event of members selecting the outsource option for the DLO.

**QUESTION 2.21****WHAT SERVICES WILL BE PROVIDED TO RESIDENTS BY A CONTRACT WITH AN OUTSOURCER?**

The services to be provided would be set out in detailed contract specifications drawn up by TDBC, which potential private sector providers would need to bid for. The specifications would be drawn up by a Project Team, with input from a variety of sources including staff and key stakeholders.

**QUESTION 2.22****HOW DO THESE PROPOSALS BENEFIT TAUNTON DEANE RESIDENTS?**

Residents would be able to continue receiving services to a standard specified in contract specifications, at a lower overall cost.

**QUESTION 2.23****OUTSOURCER'S STAFF WOULD NOT BE AS KNOWLEDGEABLE ABOUT LOCAL ISSUES (SUCH AS HOUSING STOCK) AS DLO STAFF ARE. STAFF WORKING IN THE PUBLIC SECTOR OFTEN PROVIDE A BETTER SERVICE TO LOCAL RESIDENTS**

Under an outsource arrangement, DLO staff would TUPE transfer to the private sector provider. Any outsource provider would be required to continue providing services in the Taunton Deane area, and the local knowledge, professionalism and experience of transferred staff would be valuable in this.

**QUESTION 2.24****HAVE YOU CONSIDERED RETAINING PARTS OF THE DLO, FOR EXAMPLE JUST THE SERVICES THAT MAINTAIN, SAY, HOUSING STOCK**

This has been considered and it would be possible. However, the review has found that the level of potential savings to the Council would be less if certain

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services were retained in this way. The soft market testing exercise also confirmed this.

#### **QUESTION 2.25**

##### **WHAT WILL HAPPEN TO DLO STAFF, BUILDINGS AND SITE**

In an outsource arrangement, DLO staff would transfer (under TUPE regulations) to the private sector provider under their current terms and conditions. A separate briefing note on TUPE has been made available for all staff.

The issue of what would happen to the DLO site and buildings was not part of the consultant's brief under this review. Potential private sector providers would give their own thoughts on this issue in any procurement process, and staff would be kept informed on this issue. In an outsource arrangement, services would still be required to be delivered in the local area.

#### **QUESTION 2.26**

##### **WHAT WILL HAPPEN TO DLO STORES STAFF, BUILDING AND STOCK?**

The review is recommending that, whichever option is chosen by members, the stores function should cease operating from the DLO site and a 'just in time' approach should be adopted for buying and supplying in the future. This issue will be looked into further during the DLO transformation process, with a solution ready to begin operating at the inception of whichever model is selected by members. Many organisations run a "Just in Time" (JIT) electronic ordering system which plans how stock is ordered and delivered to service vehicles and specific locations. Vehicles carry some standard equipment, and specific equipment is ordered and delivered for particular jobs as required. The system also allows surplus stock to be collected and returned. Proactive planning/prediction of work is critical to gain maximum efficiencies from this system.

Stores staff are currently seconded to SWOne, while the function is still operated by TDBC. The review is recommending that this dual arrangement is brought to an end and that the whole function is managed either by SWOne or by TDBC. This issue will be resolved prior to any new model being implemented.

#### **QUESTION 2.27**

##### **HOW WILL CAPITAL SPEND BE AFFECTED IN THE RUN UP TO ANY NEW ARRANGEMENT BEING ESTABLISHED (VEHICLES, TRAINING ETC)**

Day to day services would continue to be planned and operated as they are now, and decisions on capital spend would be made on a case by case basis.

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**QUESTION 2.28****WHAT ARE THE RISKS TO THE HOUSING REVENUE ACCOUNT FROM AN OUTSOURCE ARRANGEMENT?**

There would be a guarantee in the form of what TDBC agrees to pay for specified services and this would be monitored closely by client staff retained by TDBC. Risks would be minimised by provisions in the contract specifying the consequences of any failure to deliver to the required standard at the agreed cost.

**QUESTION 2.29****HOW WOULD AN OUTSOURCE CONTRACT BE MONITORED AND HOW WOULD SURPLUSES BE USED?**

The contract would be monitored by TDBC retained client staff. The client arrangements would be drawn up before any contract is signed. Client staff would be focused on ensuring that outcomes set out in the contract specification are being delivered at the price agreed. Penalties in the event of any failure on the part of the contractor would be specified in the contract.

The savings made by the Council (in the form of reduced payments for specified services) through any outsource arrangement would be for the authority to decide how to use. The private sector provider would decide how to use any surpluses made on an outsource contract.

**QUESTION 2.30****WHAT WILL HAPPEN TO HOUSING CLIENT STAFF?**

The review is recommending that Housing Client staff are separated from the contract staff at the Depot. Community Services Manager (James Barra) is reviewing this recommendation and will bring a paper forward for members to consider shortly. Staff will be informed and have the opportunity to comment on any proposals.

**QUESTION 2.31****THE HOUSING REPAIRS TEAM ARE CONFUSED AND DON'T KNOW WHERE THEY WOULD BE BASED UNDER AN OUTSOURCE ARRANGEMENT – WITH THE CLIENT OR CONTRACTOR**

The separation of housing client and contract functions was recommended by T&T, and this matter is being taken forward by the Community Services Manager (James Barra). Staff will be informed and have the opportunity to comment on proposals.

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### **QUESTION 2.32**

#### **WOULD A COMMERCIAL PARTNER ISSUE A NEW HOUSING REPAIRS HANDBOOK, OR USE TDBC HANDBOOK?**

Repairs services and handbook would remain similar, as TDBC would remain the housing landlord. Changes would be made only if the Council decided to change service standards in consultation with tenants

### **QUESTION 2.33**

#### **IF THE OUTSOURCE OPTION IS CHOSEN, WILL INTERNAL DLO BE ABLE TO COST SERVICES?**

Outsourcing involves transferring services to a private sector provider, so the DLO would not be able to submit a tender. As part of a due diligence process, further detailed analysis of current costs will be carried out, and if the business case for outsourcing did not yield sufficient benefits over the status quo, it would not be implemented and the Council would revert to one of the other options.

### **QUESTION 2.34**

#### **WHAT PERCENTAGE OF DLO SERVICES WILL BE CONTROLLED BY SWONE/TDBC/NEW COMMERCIAL PARTNER**

Support services provided by SWOne would continue to be provided to a new provider of DLO services, unless there is agreement to an alternative arrangement.

A client function would be retained at TDBC, and this would be identified as part of 'due diligence' work undertaken before any contract is signed.

### **QUESTION 2.35**

#### **SURELY A POTENTIAL COMMERCIAL PARTNER, NOT TDBC, WILL BE THE BENEFICIARY OF SAVINGS?**

TDBC would benefit under an outsource arrangement by paying a lower price for the delivery of service outcomes described in contract specifications

### **QUESTION 2.36**

#### **IF THE GOVERNMENT REDUCES TDBC'S GRANT SETTLEMENT, THE COUNCIL WOULD STILL HAVE TO PAY CONTRACTORS AGREED AMOUNT. WHAT WOULD HAPPEN THEN?**

This is a risk that could be managed in an outsource contract by building flexibility into contract terms and conditions. The risk of reduced Government funding is there with all options, and would need to be managed in different ways depending on which option is chosen.



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**QUESTION 2.37****STAFF HAVE ALWAYS RESPONDED TO REQUESTS FOR CHANGE, WHY NOT CHANGE AS NEEDED, WITHOUT OUTSOURCING?**

T&T are recommending outsourcing because they believe it offers TDBC the greatest level of guaranteed saving at a time of major reductions in public funding, while maintaining services at specified standards. The financial climate facing TDBC and other public bodies is set to become much tougher in the years ahead.

**QUESTION 2.38****THE JOINT VENTURE OPTION GIVES MORE SAVINGS – WHY NOT RECOMMEND IT?**

The JV and outsource options were closely matched, but outsourcing was recommended by T&T on balance because it offers guaranteed savings, lower risk and lower set up costs.

**QUESTION 2.39****DLO IS CURRENTLY MAKING SAVINGS EQUIVALENT TO WHAT YOU ARE SUGGESTING. WHY NOT CHOOSE “INTERNAL TRANSFORMATION” OPTION, AND REORGANISE?**

Outsourcing is recommended because it offers guaranteed savings beyond those being achieved at present, with lower implementation costs and risk than other options, including internal transformation.

Members may choose a different option than the recommended one

**QUESTION 2.40****WHO WOULD WRITE THE CONTRACT? CONCERN THAT OMISSIONS WILL BE MADE IN CONTRACT, WHICH WILL COST TDBC MORE MONEY**

A Project Team led by Brendan Cleere would implement the outsource option, if selected by members. The process would take approximately 12 months and DLO staff and other stakeholders would have an input in the preparation of contract specifications

**QUESTION 2.41****WILL THE TDBC LEGAL TEAM BE PART OF THE PROCESS?**

Yes. The project team established to implement whichever option is chosen by members will have access to legal advice at all relevant stages.

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#### **QUESTION 2.42**

##### **WHY CAN'T TDBC FORM A PROPERTY SERVICES COMPANY SIMILAR TO NORFOLK PROPERTY SERVICES (NPS) MENTIONED IN T&T REPORT?**

This option was explored but is not recommended on the basis that TDBC does not have sufficient funds to invest, or the scale of operation to establish a new organisation like NPS

#### **QUESTION 2.43**

##### **WOULD A NEW PROVIDER BE REQUIRED TO SUPPLY EMERGENCY MATERIALS?**

This requirement would be built into contract specifications.

#### **QUESTION 2.44**

##### **WOULD A NEW EMPLOYER CHANGE THE LOGOS ON THE VEHICLES?**

A new commercial partner may decide to change logos to “advertise” their tie in with TDBC/DLO. This would be addressed during contract negotiations.

#### **QUESTION 2.45**

##### **WOULD THE ETHOS OF SERVICE TO THE PUBLIC BE LOST IN AN OUTSOURCE ARRANGEMENT?**

Not necessarily, as staff transferring to the private sector provider would still be delivering services to the public. The way that bidders treat staff and customers would be a key feature of any selection process.

#### **QUESTION 2.46**

##### **WHEN WILL WE KNOW WHAT COMPANIES YOU ARE TALKING TO?**

Tenders may come from international as well as national companies, as the Invitation to tender is legally required to be published in the Official Journal of the European Union (OJEU)

Staff will be told when a preferred bidder is known, probably in about nine months' time.

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**QUESTION 2.47**

**DOES TDBC TAKE MONEY FROM THE DLO TO SUBSIDISE POOR PERFORMING DLOs IN OTHER AREAS?**

No

**QUESTION 2.48**

**WILL TDBC BE REQUESTING MORE SAVINGS FROM THE DLO DURING THE TRANSITION TO THE OPTION SELECTED BY MEMBERS?**

Potentially, yes, along with all other TDBC services.

**QUESTION 2.49**

**20 YEARS AGO WE HAD COMPULSORY COMPETITIVE TENDERING (CCT). HOW IS THIS DIFFERENT?**

Councils have learned from 20 years experience' – contract and tendering processes have also matured and the climate is now far more constructive, based on choosing the right (and not necessarily the cheapest) provider

**3. SOUTHWEST ONE RELATED QUESTIONS**

**QUESTION 3.1**

**WILL SWONE (and SAP) CONTINUE IN AN OUTSOURCE ARRANGEMENT?**

The review has assumed that this will continue and any change would need to be agreed with SWOne, TDBC and the private sector provider.

**QUESTION 3.2**

**I HAVE HEARD THAT NO OUTSOURCER WOULD BE INTERESTED BECAUSE OF THE SWONE CONTRACT. IS THIS THE CASE?**

No.

The indication from the soft market test exercise was that potential suppliers would accept and work with the SWOne contract.

**QUESTION 3.3**

**SWONE WAS SUPPOSED TO MAKE SAVINGS – IS THIS HAPPENING?**

Yes. SWOne is contributing an additional £100,000pa to TDBC every year for the life of the ten year contract. .

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#### **QUESTION 3.4**

#### **WOULD SAVINGS FROM AN OUTSOURCE AGREEMENT COME TO SWONE OR TDBC?**

Taunton Deane Borough Council

### **4. SUB-CONTRACTOR RELATED QUESTIONS**

#### **QUESTION 4.1**

#### **WHAT WOULD HAPPEN TO SUB-CONTRACTORS IF DLO SERVICES ARE OUTSOURCED?**

The private sector partner would decide whether or not to continue using sub-contractors to deliver the outcomes specified by TDBC.

Contracts that are being carried out by the DLO for non TDBC clients (e.g. SCC) would in most cases move across (or 'novate') to the private sector partner, unless alternative arrangements are put in place prior to the contract starting.

### **5. CONSULTATION RELATED QUESTIONS**

#### **QUESTION 5.1**

#### **CONSULTATION FEEDBACK ENDS ON 5/2/2010 BUT SPECIAL CORPORATE SCRUTINY MEETING IS 28/1/2010**

That is correct. Interim consultation feedback will be reported to the Corporate Scrutiny Committee on 28 February and final feedback will be provided to the Executive and Full Council before their meetings on 9<sup>th</sup> and 16<sup>th</sup> February respectively.

#### **.QUESTION 5.2**

#### **WILL STAFF FEEDBACK FROM THE CONSULTATION PROCESS BE PRESENTED TO MEMBERS?**

Yes

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## **6. HR/EMPLOYMENT RELATED QUESTIONS**

### **QUESTION 6.1**

#### **TUPE – IF OUTSOURCED ON CONTRACT BASIS FOR PERIOD OF YEARS, IS CONTRACT RENEWED ON EXPIRATION?**

TUPE legislation includes protection of terms and conditions if staff are TUPE'd more than once – TUPE protection travels with their contracts whether working for a commercial partner or for TDBC. Protection only ceases if the job ceases.

An employer can apply to change the terms and condition of any post, including job description and duties, subject to consultation. A new employer will make these decisions before the contract is signed.

A new employer can only change the terms and conditions of employees transferred under TUPE if they meet a three pronged test (Economic, Technical and Organisational reasons) and by following laid down procedures on consultation.

Employees can choose to accept new terms and conditions offered by a new employer.

One of the responsibilities during any “due diligence” process is to ensure that any potential partner is a responsible employer.

There is a TUPE information sheet available (see page 1) and staff are encouraged to contact HR with TUPE queries. Staff will be notified if TUPE briefing session(s) are arranged.

### **QUESTION 6.2**

#### **TUPE/PENSIONS – HOW IS PENSION AFFECTED IF TRANSFERRED TO NEW EMPLOYER?**

Although pensions are not covered by TUPE the law requires the pension provided by a new employer to be broadly comparable to your current pension, so that you are no worse off, but it does not have to be identical to the LGPS. Staff would be strongly advised to get independent pension advice about what to do with their pension, as local authorities are not allowed to give pension advice to staff. TDBC will arrange for Somerset County Council to provide detailed information to staff so that they understand their current pension benefits.

Note that pension advisers cannot be appointed until after Members' decision on 16/2/2010.

At this stage it is not known what pension arrangements an external provider will seek to put in place but a number of the national organisations approached in the 'soft market' test already operate with Admitted Body Status in the Local Government Pension Scheme. This would mean that the pension fund remains intact whether or not the fund is administered by SCC or another body.

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Again, the responsibility to ensure the security and conditions of pensions is part of the “due diligence” process that is undertaken before a contract with a commercial partner is signed.

**QUESTION 6.3**

**TUPE - ON TRANSFER TO NEW EMPLOYER, DO YOU LOSE THE LENGTH OF SERVICE THAT YOU HAVE WITH TDBC?**

No, TUPE protects all terms and conditions of employment, including length of service. Note that if you agree to change your contract of employment with your new employer, you are then subject to those new terms and conditions.

**QUESTION 6.4**

**WHAT HAPPENS TO STAFF WHOSE CONTRACTS COME TO AN END?**

That would depend on HR/staff resources and service provision requirements at the time that the staff member’s contract ends.

**QUESTION 6.5**

**WHAT HAPPENS TO STAFF ON SIX MONTH CONTRACTS?**

This would be treated in the same way as such contracts are currently run. TUPE would cover any remaining term of the contract, and then the contract would be continued or finished, depending on service needs. A new contract could change the post’s terms and conditions, if required.

**QUESTION 6.6**

**HOW ARE TEMPORARY STAFF AFFECTED IN AN OUTSOURCE ARRANGEMENT?**

Temporary DLO staff would TUPE transfer to the new provider. At the end of the contract, the new provider would need to make an operational decision on whether or not to continue employment and on what terms. .

**QUESTION 6.7**

**WILL REDUNDANCIES RESULT FROM TRANSFER OF STORES INTO TDBC OR SWONE OR COMMERCIAL PARTNER?**

The review is recommending that the stores function, including staff, is managed wholly either by TDBC or SWOne. Staff in SWOne have guaranteed employment for the ten year life of the SWOne contract.

If the stores function and staff were to be wholly managed by TDBC, the staff would transfer to a new provider in an outsource arrangement, without the ten year employment guarantee. The function of providing supplies would nevertheless have to continue, and proposals from potential private sector providers would be sought as part of a procurement process.

This whole issue will be resolved prior to implementing any new arrangement.

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**QUESTION 6.8****WHAT HAPPENS TO STAFF WHOSE TERMS AND CONDITIONS INCLUDE THE PROVISION OF A COUNCIL-OWNED PROPERTY**

When staff transfer to a new employer, TUPE protects their terms and conditions, with the intention that they should be no worse off than before transfer.

Further detailed advice about this will be provided to affected staff who will also have the opportunity to speak to HR for advice about their individual terms and conditions.

**QUESTION 6.9****IN AN OUTSOURCE ARRANGEMENTS, WILL THE FACT THAT STAFF KEEP THE SAME TERMS AND CONDITIONS WHEN TRANSFERRING TO A NEW COMMERCIAL PARTNER BE CONFIRMED TO THEM WRITING?**

Yes – a letter confirming this would be sent to all staff before starting work with the new employer.

**QUESTION 6.10****CAN TERMS AND CONDITIONS BE CHANGED LATER BY A NEW EMPLOYER?**

Potentially yes, but as with TDBC any changes would be subject to consultation with staff

**QUESTION 6.11****WILL WE HAVE TO SIGN A NEW CONTRACT AT THE TIME OF TRANSFER?**

A letter confirming that your current terms and remain unchanged would be sent to staff before they start with a new employer in an outsource arrangement.

The new employer, to meet good practice, will probably send a new Statement of Main Terms and Conditions of employment.

**QUESTION 6.12****FROM YOUR EXPERIENCE (DIRECTED TO T&T) DO NEW EMPLOYERS SUBSEQUENTLY CHANGE TERMS AND CONDITIONS OF EMPLOYMENT?**

A new employer will not usually change staff terms and conditions as they want to avoid unsettling employees. If the company subsequently experiences trading or financial difficulties, they may then seek to change staff conditions through consultation, as TDBC would do.

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**QUESTION 6.13**  
**IS THERE POTENTIALLY MORE RISK OF BEING MADE REDUNDANT WITH A NEW EMPLOYER?**

Not necessarily. Employers generally want to avoid the costs involved in making redundancies. As with TDBC, any redundancies can only be made following consultation with staff and unions. .

**QUESTION 6.14**  
**DO TERMS AND CONDITIONS INCLUDE REDUNDANCY PACKAGE AND LENGTH OF SERVICE PROTECTION?**

Yes, these factors would move across from TDBC to the new employer, unless the employee chooses a different option. If the terms and conditions affecting TDBC staff change in future, these changes would also apply to transferred staff

**QUESTION 6.15**  
**IF YOU REFUSE TO SIGN A NEW CONTRACT AT ANY TIME, WHAT WOULD HAPPEN TO YOU?**

Existing employment contracts would transfer to the new employer, so there would be no new contract to sign at that point.

However the new employer may wish to issue a new Statement of Main Terms and Conditions of Employment confirming your terms and conditions.

If changes are made to employment contracts in future, by agreement with staff and unions, you would not have to sign it but it would become your contract by default after a specified period.

**QUESTION 6.16**  
**IF THERE ARE TWO PEOPLE IN YOUR JOB, WOULD YOU HAVE TO REAPPLY FOR THAT POST?**

No, all DLO staff would transfer.

Any changes would be subject to consultation as is the case currently with TDBC.

**QUESTION 6.17**  
**FIVE STAFF ARE CURRENTLY EMPLOYED IN THE DLO STORES. IF STORES CEASE TO OPERATE, HOW DO THOSE STAFF FIT INTO THE NEW ORGANISATION?**



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A stores service would still be required in an outsourced arrangement, but T&T are recommending that the method of stores delivery should change to a 'Just in Time' approach.

Stores staff will be consulted as soon as possible by TDBC and/or SWOne about the issue of bringing stores function either wholly under either TDBC or SWOne management.

**QUESTION 6.18**

**DO TERMS AND CONDITIONS INCLUDE PROVISION FOR JOB LOCATION TO BE WITHIN CERTAIN MILEAGE RADIUS OF TAUNTON AND/OR WHERE STAFF LIVE? COULD STAFF BE ASKED TO TRAVEL SOME DISTANCE TO DO JOBS?**

There is no specific legislation, but there is a test of reasonableness that is applied and employment caselaw which covers this issue?

A private sector provider in an outsource arrangement would be required to deliver services in the Taunton Deane area. It would be unusual and less efficient for an employer not to use the locally based staff that would transfer.

**QUESTION 6.19**

**WHAT HAPPENS TO THE PENSIONS SCHEME?**

In an outsource arrangement, the private sector provider would be required to provide a broadly comparable pension to the Local Government Pension Scheme. The exact pension scheme offered would be subject to negotiation with a preferred bidder. Staff would be able to take independent financial advice to make the best personal choices for them.

**QUESTION 6.20**

**IT HAS BEEN STATED THAT NO DLO STAFF WILL BE PLACED AT RISK OF REDUNDANCY AS A RESULT OF A DECISION TO SELECT THE OUTSOURCE OPTION. WOULD A NEW EMPLOYER GUARANTEE NO REDUNDANCIES AFTER A CONTRACT HAS BEEN SIGNED, AND WOULD REDUNDANCY BE ON LOCAL GOVERNMENT CONDITIONS?**

Any employer, whether TDBC or new employer, would be required to consult staff about changes to terms and conditions, including redundancies.

Staff transferred under TUPE would be subject to TDBC policies including the redundancy payments.

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## **7. GENERAL QUESTIONS**

### **QUESTION 7.1**

#### **HOW MUCH IMPACT DO YOU THINK THE GENERAL ELECTION RESULT WILL HAVE ON THIS PROCESS?**

Any elected government will need to make major reductions in public spending, regardless of political persuasion. The need for the Council to make savings is not likely to change because of the election result

### **QUESTION 7.2**

#### **WHY IS BRENDAN CLEERE LEADING THIS REVIEW INSTEAD OF THE CHIEF EXECUTIVE OR COUNCIL LEADER?**

Brendan Cleere is the strategic director with responsibility for the Core Council Review – including the review of the DLO

**BRENDAN CLEERE**  
**STRATEGIC DIRECTOR**

## Corporate Scrutiny Committee – 28 January 2010

Present: Councillor Williams (Chairman)  
Councillors Bishop, Cavill, Farbahi, Gaines, Horsley, Miss James, Mullins,  
Murphy, P Smith and Stuart-Thorn

Officers: Brendan Cleere (Strategic Director), Donna Durham (Democratic Services  
Officer), Martin Griffin (Retained HR Manager), Maggie Hammond (Acting  
S151 Officer), Penny James (Chief Executive) and Ian McCulloch (Unison  
Officer)

Also Present: Councillors Henley, Mrs Lewin-Harris, Morrell, Prior-Sankey,  
Mrs Smith, Mrs Stock-Williams, Mrs Whitmarsh and Mrs Wilson  
Dennis Galpin, Tenants' Forum  
Brian James and Jill Sillifant, Southwest One  
Chris Vaughn, Turner and Townsend

(The meeting commenced at 6.15pm)

### 12. Apologies/Substitution

Apologies: Councillors Hall and Thorne.

Substitution: Councillor Stuart-Thorn for Councillor Hall.

### 13. Public Question Time

The Unison representative, Ian McCulloch, had prepared a statement relating to the Review of the Deane DLO. The points made included the following:

- If the proposal was pursued, Taunton Deane would lose 200 staff plus plant and equipment. If this happened, the Council would then lose any ability to bring a direct labour organisation back under its control;
- Concern about management queries that had been circulated; and
- The DLO had been restricted in its ability to expand, grow or compete, initially by Compulsory Competitive Tendering and, in recent years by the requirement to make savings and reductions in service.

### 14. Declaration of Interests

Councillors Henley and Prior-Sankey declared personal interests as Members of Somerset County Council.

### 15. Independent Review of Deane DLO

Considered report previously circulated, concerning the independent review of options for the future of services provided by Deane DLO.

Full Council had approved an alternative approach to completing the Core Council Review in April 2009. The alternative approach included the commissioning of independent external expertise to advise the Council on Theme 3 of the Core Council Review – to develop options for the future of services provided by Deane DLO.

Turner and Townsend PLC were appointed to carry out the review after a rigorous procurement and selection process, culminating in an interview and presentation to a cross-party panel of elected Members, officers and a UNISON representative.

Turner and Townsend PLC had worked to a brief which was submitted. The review had been completed and set out the work that had been undertaken to establish the feasibility of six main options:

- Outsourcing – Where the Council contracted with a private sector company to provide services on the Council's behalf. Under this option, staff would transfer to the private sector provider under their current terms and conditions;
- Joint Venture – Where the Council formed a new organisation with a private sector partner to deliver services. Under this option, staff would also transfer to the private sector provider under their current terms and conditions;
- Shared Service – Where the Council joined with other local authorities or public sector partners to deliver services;
- Lead Authority – Where the Council transferred activities to another Local Authority who delivered services on the Council's behalf. Alternatively, other Local Authorities could transfer services to the Council to provide services on their behalf;
- Internal Transformation – Where the Council invested in services to achieve large scale improvements and efficiency; and
- As Is – Where services continued as now and were subject to continuing financial pressure requiring annual incremental change.

Turner and Townsend had recommended that the Council followed a detailed procurement process with full outsourcing to a private sector supplier as the preferred way forward.

Turner and Townsend had also made two further service specific recommendations which applied to all options:

- A clearer separation should be created between Housing Client and contractor functions. Both of these functions were currently based in Theme 3 at Priory Depot, overseen by the Housing Property Services Manager. The Community Services Manager would look into this

recommendation and bring forward a report in early 2010, to establish the feasibility of locating Housing Client functions with the Housing Estate Management service, as part of Theme 4; and

- The stores function should cease being operated from the DLO site and a 'just in time' approach should be adopted for buying and supplying in the future. This issue would be looked into further during the DLO transformation process, with a solution ready to begin operating at the inception of whichever model was selected by Members.

Turner and Townsend had consulted a variety of different groups, including:

- DLO Managers and staff;
- UNISON;
- Corporate Management Team;
- Taunton Deane Tenants' Forum;
- Elected Members;
- Other Local Authorities; and
- Potential private sector partners.

Formal consultation had started on 13 January 2010 and would end on 5 February 2010.

All options, except 'As Is' had one-off cost implications for implementation. Indicative costs for all options were submitted. In the case of the recommended outsourcing option, the one-off cost would be up to £200,000, with an implementation timescale of 12 months from a decision by Members. These one-off costs could be found from a mix of General Fund, Housing Revenue Account and DLO Reserves.

The potential annual savings arising from the recommended outsourcing were indicated at £278,000, achieved within 24 – 36 months of decision by Members to pursue the outsource option.

In the event of the Council selecting the recommended option, any savings required of DLO services during the transition to a fully outsourced service would need to be made using the savings plan mechanism that Members would be familiar with.

The Section 151 Officer had verified that the financial information and assumptions used up to this stage by Turner and Townsend PLC were sound, and that any formal sign up to an outsource arrangement in future would

need to be subject to Member approval of the business case emerging from a full procurement process.

During the discussion of this item, Members made the following comments and asked questions – responses are shown in italics:

- Concern that DLO accounts were unavailable due to problems with the SAP system – the Chairman confirmed that the Corporate Scrutiny Committee was being asked to consider a recommendation to explore an option;
- If the DLO was outsourced the Council would not have an opportunity in the future for making the DLO commercial;
- What would the return on investment be? – *This was not included in the brief given to Turner and Townsend but would become apparent when the tender process began;*
- Would an internal sales force be an option? – *The Council had little experience of securing contracts and was unlikely to meet the levels that outsourcing could offer;*
- What would the impact on tenants be? – *Standards would be set for the level of service, which could be improved dramatically;*
- The impact on the local economy was a concern – *If the resource was in the local area, suppliers would be likely to be sourced locally;*
- Concern that there was no dedicated Housing Accountant;
- The current ratio of reactive work to planned work was reported as 60:40 – *If maintenance was well planned, there would be fewer breakdowns;*
- Much of the work of the DLO was benevolent and concern that the level of service could be lost – *The Council had the opportunity to specify its requirements and it would be in the interest of suppliers to use such work for marketing;*
- Some staff could welcome the change; and
- Companies could question the back-up support of Southwest One – *The market could see Southwest One as an issue, but it just limited further efficiencies for suppliers.*

The Chief Executive explained that if work progressed to the 'due diligence' stage, any information gained would be used by the Council, even if the outsourcing option did not go ahead.

During the discussion of this item, a proposal was made to recommend the Executive to defer any decision to move to due diligence until such time as the Council had a greater understanding of the net benefit to the Council, of internal transformation'. This proposal was defeated by the Chairman's casting vote, who felt that deferring the decision to progress the outsourcing option, would lead to more uncertainty for the 200 staff employed at the DLO.

**Resolved** that the Executive be recommended to consider the views of the Corporate Scrutiny Committee and follow a detailed procurement process with full outsourcing to a private sector supplier as the preferred way forward, subject to further details from the due diligence process being shared with Members and Member approval of a full business case.

#### **16. Corporate Scrutiny Committee Forward Plan**

Submitted for information the proposed Forward Plan of the Corporate Scrutiny Committee.

Resolved that the Forward Plan be noted.

(The meeting ended at 8.17pm)