Service Delivery Models

1. Market Changes

Recent years have seen some consolidation within the environmental services market, with the effect of reducing the number of active bidders. In addition, private sector service providers have become generally much more risk adverse and far more selective about which opportunities they pursue.

We have also seen a trend of local authorities to bring services back in-house. This is often delivered through a local authority trading company (LATCo), where the shareholder is the awarding council. The key drivers for this approach appear to be:

- A LATCo has more flexibility on employment terms and conditions than a local authority, particularly in terms of pension provision.
- A Council can award a contract to its LATCo without undertaking an expensive procurement process, providing it meets certain criteria (often referred to as TECKAL).
- A LATCo has the opportunity to offer services more commercially, potentially generating additional profits for its shareholder which can then be used to help fund essential services.

2. Long List Options

There are a range of service delivery options that can be used to deliver services, and these are illustrated in Figure 1. Ultimately the approach taken is heavily influenced by the level of risk and reward a Council wishes to take and receive and the degree of influence and control a Council wishes to maintain over the services.

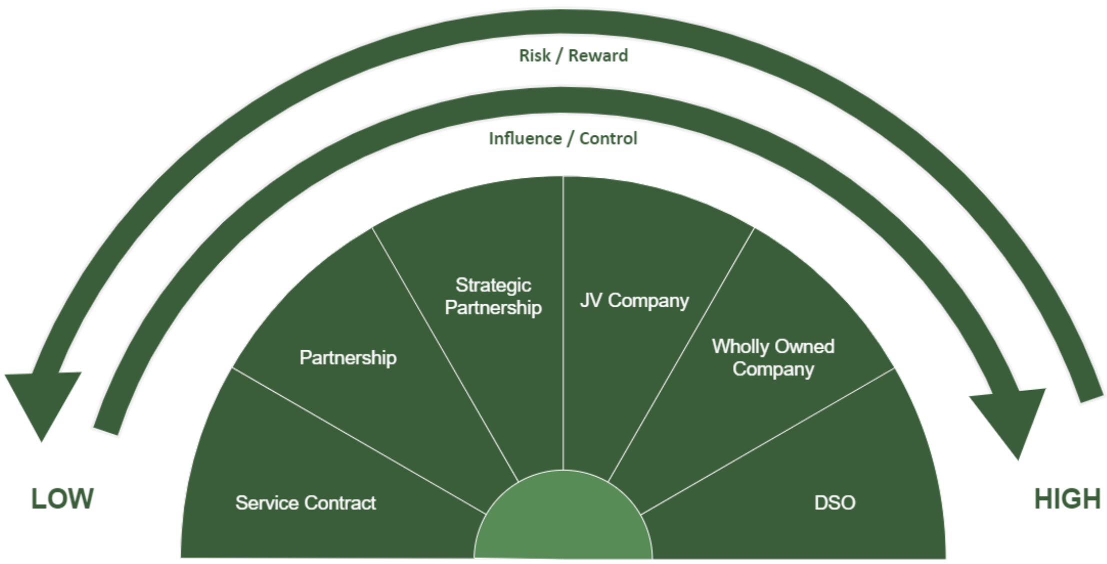

Figure 1: Alternative service delivery model options for delivering services.

__Table 1:__ Pros and Cons of alternative service delivery models

Service Delivery Model	Description	Pros	Cons
Service Contract	Procure a supplier to deliver a service contract for one or more service – this can be output (performance based), input (frequency based) or a hybrid of the two	• Large industry players offer support of multi-million-pound parent company. • Able to draw on internal operational best practice. • Depth / breadth of recent, real-world experience • Pool of expertise, readily available • Can (but not always) appear more affordable depending on the starting point.	• May not be flexible enough to deliver the level of change a council needs in a rapidly changing world. • Need to get risk / reward balance right – e.g. onerous performance framework can lead to a confrontational relationship
Partnership	Partnership between Council and private service provider. Typically, the partnership would deliver a range of services under a single arrangement	• Greater flexibility than traditional contractual arrangements • Shared risk and reward • Clear governance structure and responsibilities will need to be established. • Joint working / self-monitoring allows for thin client. • Management / industry expertise provided by private sector partner. • Council retains ownership of services and set strategic direction. • Less rigid than traditional style contract giving greater opportunity to deliver change. • Better utilises the range of available experience and expertise	• Need to get risk / reward balance and scope right – delivers for the client, drives right behaviours from contractor. • Need to stay realistic or can become a 'wish-list' of undeliverable aspirations. • Prioritisation across the range of services • Limited number of service providers that can offer the whole range of services required
Strategic Partnership	Partnership between Council and other public bodies to jointly develop and manage	• Potential for economy of scale efficiencies • Greater scale makes it more attractive to	• Services might not be compatible to deliver desired savings.

Service Delivery Model	Description	Pros	Cons
	services (typically for neighbouring local authorities).	established industry players. • Management / industry expertise provided by private sector partner. • Clear governance structure and responsibilities will need to be established. • Opportunity for thin client savings	• Requires alignment of partners (can be easier said than done) – agreed goals, priorities – at both officer and member level. • Need to retain autonomy can restrict cross boundary benefits. • Who / what takes priority?
JV Company	Joint venture between the Council and a private company to jointly develop and manage the business	• Fair balance of risk and reward	• Legal complexity • Very few examples of this model
Wholly Owned Company – service	Council owned company which is primarily concerned with delivering services back to the council but does not trade significantly with external organisations	• Provides a greater level of control for the council. • Profits reinvested back into the wider council services • Opportunity to engage additional / appropriate industry experience	• Added complexity can become a distraction. • Financial risk of under performance • Lack of in-house experience for this model requires some level of external recruitment.
Wholly Owned Company – commercial	Council establishes a company to trade in a wider commercial market with a view to generating a profit (rather than just on a broad cost recovery basis)	• Can provide council with additional revenue routes. • Profits available to support council budgets • Opportunity to engage additional / appropriate industry experience	• Increased commercial risk of operating in an unfamiliar environment. • Financial risk of under performance • Loss of focus on core activities • Lack of in-house experience for this model requires some level of external recruitment.
DSO	'In-house' services delivered directly by a Council's own team.	• Provides high level of control for council	• DSO's can be insular & often lacking in broad operational experience of running services day to day • Miss out on industry development / innovation

Service Delivery Model	Description	Pros	Cons
			• Level of intervention and council control is often a barrier to efficient service delivery which results in higher costs.

3. Cost Comparison

Table 2 below illustrates the likely key differences to the cost profile for the three most common (currently) service delivery options.

Table 2: *Key drivers for cost differentials for alternative service delivery models*

	Outsourced – private sector contract	Insourced – LATCO	Insourced – DSO
Third party income	Yes – retained by contractor	Yes – profits reinvested in services	Limited
Wage rates	TUPE / Market rates	TUPE / Market rates but may get pressure for unions to harmonise	Harmonisation
Pension	Broadly comparable with legacy LGPS only	Broadly comparable with legacy LGPS only, but may get pressure from unions for LGPS	LGPS
Overheads	Corporate infrastructure for support services (IT, HR, QHSE, fleet etc)	Company board would need to be established, plus support functions (outsource or via Council)	Support functions via Council
Procurement costs	Yes – including technical and legal support	No	No
Profit	Retained by contractor	Returned to shareholder (Council)	Offset against service costs

Inflationary pressures	Absorbed by contractor – Council risk limited to contract indexation method	Absorbed by LATCO – Council as sole shareholder would underwrite	Absorbed by DSO – direct impact on council budgets