

Appendix 1 -Analysis of Direct Labour Organisation versus Outsourced Contract

A Direct Labour Organisation (DLO) is where the majority of functions of an external contractor are provided by an in-house resource. The intention of a DLO is to provide an in-house service with only specialist works being bought in either as sub-contractors or through specific contracts. It should be recognised that the external element is still likely to be significant. The establishment of a DLO to deliver the building and technical aspects of the scope of this contract would require recruitment of a full workforce through TUPE and engagement with the market. This would be a major exercise.

The following analysis sets out the typical Strengths & Weaknesses of a DLO

Strengths	Weaknesses
Council retains direct ownership and control	Substantial set up costs of staff, space, vehicles, infrastructure etc.
Mitigated risk of contractor insolvency (only applies to sub-contractors)	Fixed costs which are difficult to flex with changed circumstances and work content
No procurement necessary as staff directly appointed.	Harder to exercise control (?) as all in-house
Short communication channels as all in-house	No contractual separation means responsibilities can become blurred
Potential for greater community spirit/ tenant relationship	Large organisation that needs effective ongoing management, which is difficult to consistently achieve
Effective and consistent branding due to self-ownership	Reduced imperative to innovate
No profit paid to third party	Reduced focus on creating and delivering best value
	Commercial management imperative removed
	Rectification of failures a cost
	Key Performance Indicators can be manipulated as there is no challenge – ‘self-marking’

The establishment of a DLO where one does not exist is a major undertaking with significant risks. The Council are in competition with established contractors for personnel, sub-contractors and suppliers and would need to put robust systems in place to procure these elements and manage them over the long term. In addition, the Council will need to procure and establish specialist IT systems.

Our Technical consultants estimate the cost of establishing a DLO for Croydon would be likely to exceed £1m.

Long Term Contracts are the typical route adopted when outsourcing responsive repairs contracts and is the current model Croydon uses. The basic structure of this arrangement is a Contract between two parties. Issues such as service levels, risk allocation and price certainty are all determined by the specific terms and conditions developed for the particular work content.

The following analysis sets out the typical strengths and weaknesses of the Long-Term Contract

Strengths	Weaknesses
<p>The Council concentrates on developing the requirements rather than delivering</p> <p>Private Sector expertise and process result in reduced cost</p> <p>Contractor incentivised to provide innovative solutions to reduce cost</p> <p>Set-up costs are low as incurred by contractor and amortised</p> <p>Low risk to Council as retained by contractor (see weaknesses)</p> <p>Low cost of re-procurement and increased time to adapt contract to produce an overall more successful service</p> <p>Council strategic management directly employed by the Council</p> <p>Performance Management relatively simple</p> <p>Ability to address varying volumes of work is contractors' risk</p> <p>Familiarity in operation reduces requirements for internal change</p> <p>Has potential for integration especially in cases of co-location</p> <p>Potential for reduced Council administration</p> <p>Opportunity to refine the interface between Council and contractor to optimise service delivery</p>	<p>Quality of Procurement documentation and requirements critical to success</p> <p>Information and data held by contractors need to be available to inform decision making</p> <p>Potential to realise savings can be compromised by Contract arrangement</p> <p>Long term nature can lead to complacency</p> <p>Pricing of changes or bespoke work lacks competitive edge of tendering.</p> <p>Lack of direct employment leaves ultimate risk of failure with Council</p> <p>Clear separation of Council and contractor may result in reduced productivity and unclear division of responsibilities</p> <p>Mechanism for equitable price adjustment over time difficult to implement</p> <p>The risk/reward balance needs to be optimised. If excessive risk is placed on the contractor, then there may be increased costs for the Council; conversely minimal risk transfer can lead to a lack of compensation for poor performance.</p>

We do not consider it feasible to insource the whole of the responsive repairs and voids service as a single activity before the Axis contract finishes. In that time the Council would need to develop a robust Business Case, recruit between 50 and 100 staff (both management and operatives), vans, equipment and plant, premises, supply chain agreements with sub-contractors and suppliers and a suitable IT system. In the time available and considering the governance requirements and pressures in the sector this does not appear feasible.

Considering the high level of risk associated with establishing a DLO and the relatively short timeframe until the current contract ends, the Council recommends that this approach is not considered at this time for the majority of the services, other than the contact centre set out in Appendix 2.

The Council is proposing to future proof this contract so that if moving forwards the Council want to in-source more of the components it will be able to do this without breaching its contractual commitments. This will allow any potential in-sourcing to be supported by a robust Business Case and a structured plan developed for implementation without the hard deadline of the Axis contract ending.

Considering the constraints and implications set out above alternatives for delivery such as a Shared Service with another Landlord, or a Joint Venture with a Contractor are not viable. The time required to carry out consultation and develop and agree documentation make them unrealistic. There are therefore only two realistic options for delivery of the scope currently delivered by Axis (in-sourcing or long term partnership).