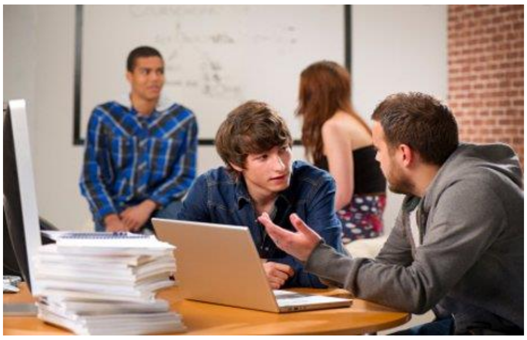
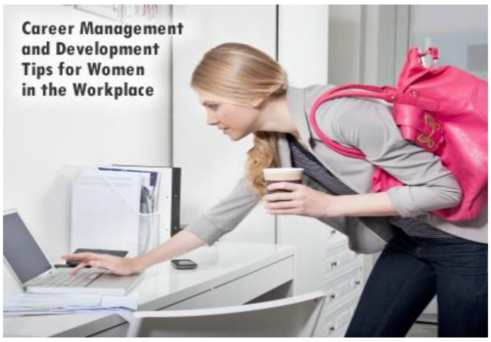
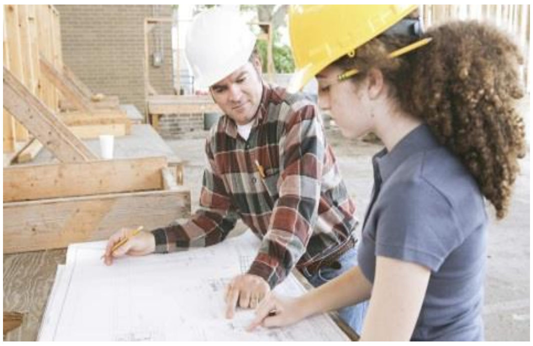
An overview of the delivery options for a sustainable young person's services accessible to all.







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Acknowledgements

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1. Executive Summary

Through a process of evaluation and analysis, this report details the Council's options for retaining a vibrant, proactive youth offer against a backdrop of funding cuts and increased demand on the Council's resources from statutory services.

This is intended to be a light touch review which sets out the key issues and anticipated financial forecasts. The report is based on the information made available at the time of the review. Further analysis may be required to further interrogate the full legal consequences and detailed costings.

The evaluation between a spun out service and in-house service was undertaken using a cost: quality scoring matrix. Based on the dynamic approach taken by its current leadership team, the in-house service was scored at an aggregate 75 (30:45) against 61.5 (26:35.5) for the best fit spun-out mutual model, demonstrating that during the three year period of review the major financial and service benefits anticipated by spinning out under a different legal framework i.e. access to new markets and tax benefits, would not be realised. In addition, the likely start-up costs, estimated at around £135k for a mutual, would not be returned within this period.

The report also highlights that, to avoid the challenges faced by many new mutuals' in finance and governance, a mutual based on the current framework of service, with a lack of assets or broad source of funding, would be at risk during the early stages of its formation without further support from the Council.

Finally, the wider impacts to the quality of the Council's services of trying to create such a model may distract from the Council's wider preventative, demand management strategies.

The paper concludes that under the Council's Transformational Programme the Inspire youth offer remains an in-house service and that it continues to incubate the business principles it has been adopting. Further, that a detailed business plan is drawn up to demonstrate how the service should align itself to take advantage of the next round of opportunities that might be realised.

2. Introduction

In accordance with its Service Review Principles, Thurrock Council has been reviewing its delivery model for youth services and invited external consultants Benesse (UK) Ltd to provide a consolidated review of the options and make recommendations accordingly.

3. Background

The report starts from a presumption that the benefits of a Youth Offer delivered by local people must be preserved for the foreseeable future either directly via an in-house delivery model or through some form of spun out service run by the community and service users for the benefit of the local community as a whole - a mutual.

The Council has a proud heritage for delivering high quality, innovative, high performing Youth Offer and accepts that youth services can act to reduce unemployment, crime, health and socio economic inequalities.

Against this background the Council has ever more reducing resources available to support non-statutory services in the long-term and under its Service Review Principles requires that Service Managers look at alternative delivery vehicles which might produce better (Cost and quality) outcomes.

There have been numerous case studies recently to suggest that Council youth services can be spun out into various forms of mutual these include organisations such as the charities of CXK (Kent), Advizor (Berkshire) and Careers Connect (Liverpool) and the community interest companies such as Epic (Kensington and Chelsea) and Achieving for Children (Richmond and Kingston). More recently, the London Borough of Sutton transferred its education services into a community interest company structure and many other authorities are also considering the value of such delivery models.

In contrast, the author identified a number of examples of organisations considered less successful or having failed for the combination of reasons encapsulated by the closure of the charity Kids Company. In parallel, the report recognised the short term risks to the Council, identified by Officers at the Children's Overview and Scrutiny Committee in February 2016.

The purpose of the Inspire young person offer is to provide services to all 13 – 19 young people (up to 25 for those with disabilities) in Thurrock and surrounding areas so as to improve their opportunities. However, with the pressures of diminishing resources and increasing demand the priority is to focus on those with greatest need and those against which the council's wider performance is judged e.g. education, unemployment, crime, disorder and the health and wellbeing of communities.

Delivered well, an effective youth offer can help reduce demand for these high cost statutory services.

During its review of services over several days, Benesse (UK) met senior managers from each of the four services, the Deputy of Children's Service, the Director of Public Health and the Portfolio holder for Children's services. The Author also visited the Inspire Youth Hub at Grays and toured the Grangewaters Outdoor Activity Centre with both managers and activity leaders observing a range of the activities and programmes provided at each. The author was highly impressed with the level of knowledge of the service being provided at all levels of the organisation and the skill and commitment of both the delivery teams and the leadership team.

Informal discussions were also held with experienced legal advisors at Winkworth Sherwood Law and Bates Wells Braithwaite's. Both parties having considerable experience in assisting Council's in the spinning out of a range of services. The author also has direct experience at Board level of mutuals' delivering health, leisure and youth services and met with the Chief Executive of Thurrock Lifestyle Services, a community interest company spun out from Thurrock Council in 2014.

The Council is forecast to subsidise the current youth service, including the operation of Grangewaters Outdoor Activity Centre, to the effect of £1.3m. This represents a reduction of £530,000 on 2015/16, adding to the reduction over the past four years of £600,000. Despite the level of subsidy reducing it is evident that the range of services has expanded to include self-funded programmes such as the National Careers Service the Princes Trust Programmes and the Youth Employment Initiative. As a consequence the actual value of the service will have risen to over £2.5m in 2016/17 with around £1.2m funding realised from these self-funded programmes. This is a fantastic achievement and demonstrates the commitment, innovation and self-challenge of the current leadership team.

Despite this achievement to date, the leadership team have committed themselves to a further 15% reduction in costs over the next three years through the service review process by continuing to focus on the six principle of customer, commercial, ITC/Digital, people, procurement, property and assets. The £600k saving in 2014/15 came from the review of the management structures and “people” aspects of the service, the recent growth has demonstrated the ability to realise improved effectiveness through adopting a proactive commercial approach, winning new funding contracts and grants. This paper prioritises on the procurement aspect and seeing whether short term benefits can be created by delivering the service in a different way i.e. via a mutual.

Faced with this the Council has taken the opportunity to explore whether the greater autonomy and different legal standing gained by spinning out the service will result in financial gains or service improvements.

4. Options for spinning out

This section of the report considers the nature of the different options available to the Council were the youth offer to be spun out. The evaluation section sets out the benefit, costs and risks associated with a spun out service compared to the in-house service.

4.1 Incorporation versus un-incorporation

Incorporation is the recommended format for any youth offer mutual, creating a separate legal entity where the entity is liable for debts or liabilities rather than an individual or single person. This provides reassurance to grant and commission awarding bodies, Board members and the Council and is essential for securing future business. On this basis the formation of a Trust (an unincorporated body) is rejected as an option for mutualisation.

4.2 Charities

The public, generally have confidence in charities and their ability to deliver better outcomes when working collaboratively in a local community. Charities are exempt from corporation tax, business rates and can invest 100% of surpluses back into the charity in furtherance of its objects. To take advantage of these benefits successful charities usually operate a wide range of trading activities and own or operate from significant number or large premises. This is not the case in respect of the current Inspire Youth Offer.

As implied, charities can be “tax attractive” and provide opportunities to maximise tax free giving through gift aid, corporate donation, sponsorship, philanthropic investments and legacy payments. A review of accounts from a range of similar charities suggests that in the first instance the level of voluntary donations to this type of public service spin out is usually low (less than 5%) and the infrastructure required to grow this fundraising activity (fundraiser, fundraising materials etc.) reduces down any direct subsidy from donations to less than 1%.

In the event of the winding up of a charity, any assets remaining must be transferred to another “similar” charity - not necessarily in the locality. Although this preserves the asset for the cause, it does not necessarily preserve the asset for the local community. Should an Inspire Trust be wound up, then any financial or physical assets have been accrued they would not automatically be returned for the benefit of Thurrock Council.

The Kids Company collapse in 2015 identified the need for charities to properly record and manage its risks, to demonstrate a broad range of sources of revenue avoiding reliance on one or two major funders; the ability to raise funds by charitable means (I.e. public donations); establish strong lines of governance; maintain robust financial reporting and demonstrate an asset base or reserves capable of withstanding significant pressures (i.e. 4-6months revenue)

The collapse of the Kids Company in 2016, also resulted in the Charities Commission enhancing the conditions to register, operate and report as a charity, constraining services which were fundamentally based around one or two core contracts. As a registered charity, the mutual would not only have to comply with the requirements of the Companies Ac creating additional levels of bureaucracy and cost.

A review of Inspire and other youth charities demonstrates that despite their good intentions to deliver valuable community based services there is very low levels of funds generated from charitable giving. Inspire currently relies upon one core funding source (i.e. Thurrock’s youth offer) and delvers limited trading activities from a small property base.

On the basis of the lack of financial benefit, the loss of control over the asset ownership, the lead time to generate charitable funding income streams and the arduous reporting and governance spinning out as a charity would not see any real benefits until further down the line when the charitable purpose is better understood and service realigned to take advantage of the wider benefits identified.

4.3 Company Limited by Guarantee (Ltd.), Community Interest Company (CIC) or Community Benefit Society (formally Industrial and Provident Society)

A commercially run Limited Company model does not meet the Council’s requirements in that it does not easily allow for any local or community lock in of assets or surpluses for use or to benefit the local community and its delivery is often not flexible to the requirements of the local community.

The Community Benefit Society is formed around similar principles but usually formed around social housing models where there are a limited number of members who each hold shares and where the focus is on preserving the core asset rather than a flexible service.

In contrast Community Interest Company tends to be focused on the benefit via ownership of the wider community. Any assets created or maintained by the CIC are usually locked in to the local community ownership model which ensures any gains or benefits are retained within the community it serves both whilst it operates or should it subsequently cease to trade.

The CIC model does appear to have received support from central and local government recently, as it does not carry the baggage or problems associated with becoming a charity or pseudo charity listed above.

One final, supporting factor in favour of the CIC model is the fact that Thurrock has recently created a CIC to deliver its disability services and this provides a good working model which can be monitored during its early stages when its financial sustainability is considered most vulnerable.

Following discussions with the Chief Executive of TLS, it was considered a possibility that a memorandum of support could be put in place similar to that seen between federated schools, which would allow the parties to mutually benefit from the complimentary services they each delver or provide. For example, procurement arrangements, management expertise, shared training, use of facilities (e.g. Grangewaters, the Hub etc.) and community networks. Again this would further strengthen a mutualised youth offer when conditions are right.

In light of the above it is proposed that the Community Interest Model may be a more advantageous model for mutualisation in due course, however the financial implications and timescales require further consideration.

4.4 Other considerations

The process for setting up a mutual from conception to legal entity to service transfer can take from 12 to 36 months based on the due diligence required before any service transfer and the experience of other mutuals'.

The costs required to set-up a mutual of any form, based on early discussion with other providers, the various government advisors and consultants are also likely to be an important consideration. In particular whether these resources are to be funded directly by the new organisation out of existing resources or form part of a loan and the period over which they are to be recovered or written off.

The formation of a mutual require Council approval and would involve the setting up of a shell company, the scoping of services to be included and a business plan to demonstrate the sustainability of the new mutual, its resource base and governance structures.

5. Evaluation between an In-House and Mutualised service

To evaluate the opportunity presented by continuing with an in-house service over the next three years to setting up a best fit mutual, ten measures of evaluation were used against each category of cost and quality. Maximum score was achieved where it delivered least cost to the Council or where higher standards or quality might be realised.

The summary scores shown in table 1 below indicate that during the three year window of this review the in-house model delivers a slightly higher rating than its mutual counterpart. However, this is based on the current scope of services, three year timescale and mix of revenue/services. Over a longer timeline and against a wider mix of income streams the evaluation may move more towards a mutualisation model.

Detail	Option		
	Weighting %	In House	Mutual
Cost	50%	30.00	26.00
Quality	50%	45.00	35.50
Overall Score		75.00	61.50
Rank	100%	1	2

The more detailed evaluation of these two options is broken down in the assessments and narrative below

5.1 Financial implications

Criteria Financial	Option Weighting %	Detail In House	In House Score	Detail Mutual	Mutual Score
Start up costs and short term senior officer support	10%	No impact	1.0	£85-135k estimated support costs. Secondment of lead officer to coordinate setting up of mutual and business plan.	0.0
Tax and financial efficiency	10%	No impact	0.0	A mutual may access financial benefits but these will take time to realise	0.5
Revenue flow during period	10%	Reduced funding targetted at 15%	1.0	Costs to secure longer term savings with no guarnetee of new funding sources created by mutualisation in period	0.8
Support cost overhead savings	10%	Reduced funding targetted at 15%	0.5	HR, Finance, insurance, corporate service savings. Proportional benefits cannot be realised due fixed cost structure of central overhead function	0.8
Asset and liability risk	10%	Reduced funding targetted at 15%	0.5	Historical costs underwritten with future cost responsibilities transferring to new provider beyond current period of review	0.5
Weighted score	50%		30.00		26.00
Non Financial					

The financial benefits of mutualisation would revolve around three areas

- Tax benefits (e.g. VAT exemption), reduced support costs and liabilities
- Ability to access or generate wider funding streams
- Freedom from local authority operating constraints with freedom to adopt commercial principles

Over a three year timeline, due to the size and scope of current service being considered and anticipated start-up costs, it has not been possible to clearly identify any significant financial benefits from mutualisation. This is shown in the table below and explained more fully in the notes

In House delivery targetting 15% saving					
	2016/17	2017/18	2018/19	2019/20	
Costs	2,583	3,517	3,251	3,184	
Rates exemption (Grangewaters)					
Mutual start up rebate					
Start up costs					
Costs	2,583	3,517	3,251	3,184	
Income	- 1,259	- 2,259	- 2,059	- 2,059	
Income	- 1,259	- 2,259	- 2,059	- 2,059	
Target Deficit/(Surplus)	1,324	1,258	1,192	1,125	4,899

Mutual delivery model					
	2016/17	2017/18	2018/19	2019/20	
Costs	2,583	3,517	3,251	3,184	
Rates exemption (Grangewaters)		- 10	- 10	- 10	
Mutual start up rebate		- 68			
Start up costs		135			
Costs	2,583	3,575	3,241	3,174	
Income	- 1,259	- 2,259	- 2,059	- 2,059	
VAT exempt income (Grangewaters)		- 10	- 10	- 10	
New contracts					
Charitable donations					
Income	- 1,259	- 2,269	- 2,069	- 2,069	
Corporation Tax					
Transfer of asset liabilities					
Reduced central overhead					
Target Deficit/(Surplus)	1,324	1,306	1,172	1,105	4,907

The in-house delivery model would deliver a marginal benefit (£8K) over the mutualisation option based on a number of assumptions. Should it not be possible to obtain some government relief or rebate toward start-up costs this increases to £76k over the period

5.1.1 Tax benefits and reduced costs

VAT

Grants and commissions	These are typically exempt of VAT and therefore as the major source of revenue on the current mix of services unlikely to provide any tax break to a mutualised service
Voluntary donations	Only charities are able to realise income from this source and typically this takes a significant amount of time (3-5yrs) and resource (fundraising department) to translate into substantive positive revenues
Commercial revenue	All organisations, including charities, are required to pay VAT on commercial revenues (The income taken at Grangewaters is currently VAT exempt due to its educational status). At this time the Inspire youth offer do not have any commercial income streams and it would take 3-5yrs to generate any significant new revenue streams.
Fees and charges	A VAT benefit can be realised in this area as a charity, however, the service does not have any significant

Rates

Charities can receive up to 100% exemption on rates. Currently the service operates limited premises on which it has a responsibility for the payment of rates. The rates charged at Grangewaters are £9,900 p.a. providing a potential saving of £29,700 over the three year timeline. Since 2014 recovery of rates moved from central to local government, consequently any saving realised through the mutualisation would be offset by the reduction in recoverable rates by the Council.

Corporation Tax

Corporation Tax is only paid on profits a company or association makes from trading, investments or selling assets at a profit. Whilst this might be an ambition of any mutual, the short term likelihood is that the services under the current scope would not realise profits in the way defined. Consequently, the protection offered by being a charity, where profits can be reinvested through an exemption from corporation tax is no longer relevant.

Reduced Bureaucracy and central costs

Although the mutual may have low direct overhead costs the Council would inevitably have to underwrite any pension liabilities and the new mutual would be obliged to retain core salary costs under TUPE for a full business cycle.

Based on experience the anticipated reduced workload for the Council's support services following the spinning out of the mutual would not result in any material reduction in the cost of those central support services despite this being recognised as one of the benefits of mutualisation. This is often because services are already rationalised down and the demand on the services from discretionary services is often quite low.

Assets and liabilities

With the transfer of some assets to the new mutual the Council will realise some financial gain through the transference of long term or future risks. However, the Council will inevitably need to recognise its role in transferring these risks and underwrite certain elements of the risks inherent at the time of the transfer (e.g. Pensions, loans, debts, inventory, contracts or arising from previous underinvestment etc.) or provide some protection for a period of time through the transfer of assets or underwriting of working capital so as to allow the newly created service to bed in and raise its own capital assets.

Once again this emphasises the fact that the long term sustainability of any new mutual will require the Council to allocate time and resource to scope out the mix of services whereby the long term liabilities and asset values are recognised within a transfer and time should therefore be set aside to scope these assets and liabilities and the process for transfer.

5.1.2 Additional funding sources

An independent mutual acting independently from the authority may, as either a charity or social enterprise, bid independently or as consortium bid for a wider range of contracts. However, experience shows that the success rate for independent organisations can be as low as one in 30. As a consequence additional resource may be required in the form of a business development team and lead time from soft market testing to contract go live can be between 6 months and three years. Many start-up spin outs often get into trouble during the first three years as they attempt to ride this negative cash flow.

5.1.3 Increased operational freedom

The ability to increase revenues, flex costs and respond to market opportunities requires a focus on quality matters and benchmarking across and within services. This can and is difficult to achieve or quantify as there is limited information available from within the Council or across other providers. Consequently, this is something that should be further investigated and where possible improved and more transparent benchmarking reported.

5.2 Quality

Ten quality measures have been identified for the service based on the consultation with stakeholders and reports available to the author. These have been scored with 1 representing the best value to the Council and zero least value.

The scores show a slightly higher weighting being given to the in-house service during the forthcoming budget review period, primarily, as the changes to any systems would not be realised until the end of the period.

Should the period be extended and/or the process of change be commenced during the next budget phase then quality benefits may be seen further down the line.

Table to show measures of quality assessment between in-house and mutualised service over three year budget period

Criteria Quality	Option Weighting %	Detail In House	In House	Detail Mutual	Mutual
Ability to contribute to strategic objectives of Council	5%	Full compliance	1.0	To continue to obtain council funding the mutual will remain in tune with the Council's strategic objectives but reliance changes over time	0.5
Level of control by the council	5%	Full control	1.0	representatives and setting the terms for the articles and Objects a mutual can retain close links with the council's objectives	0.5
Level of control by young people	5%	Youth representation at a cabinet/Board level	0.5	Youth representation at a cabinet/Board level can be built into governnace structures	0.5
Freedom to innovate and expand service provision beyond current levels	5%	Service Review Principles provide increased flexibiliites for serviceleaders.	1.0	The externalised services may not be able to adopt an expansionist service until stability and sustainability established.	0.5
Opportunity for staff development and engagement	5%	Recent changes combined with a new proactive approach under the service review principles and transformational agenda allows staff to become more directly involved in service development	1.0	The externalised services may not be able to support and develop teams until the governance and financial stability of the mutual is established	0.5
Ability to proactively engage communities through targetted outreach	5%	Improvements in digital and CRM capabilities focused on young people services form part fo the service review principles	1.0	Improvements in digital and CRM capabilities focused on young people services require infrastructure and resources which may not be avialable within the period	0.8
Ability to demonstrate wider impacts on outcomes linked to young person employment	5%	Under the service review process there is a remit to develop services outside of core funded service where positive revenues can be generated	1.0	Remit to develop services outside of core funded service will be developed once mutual framework established	0.8
Long term commitment to service delivery	5%	Non Statutory service under long term threat of delivery unless continued improved commercial performance can be demonstrated	0.5	Opportunity to establish mutual free from constraints of government and local council funding	1.0
Quality assurance and compliance	5%	Quality remains at the top of the agenda for service providers	1.0	Quality remains at the top of the agenda for service providers.	1.0
Ability to invest in, develop and grow services	5%	Remit based budget period/3yr vision for the service under transformational agenda	1.0	Remit based on long term vision for the service based on mutualisation vision, requiring business plan and new governance	0.5
Weighted Score Total	50%		45.00		35.50

5.2.1 Governance

To ensure the widest stakeholder input and maintain young person and staff input at the highest level a Governance structure should be established which would see a youth board and a staff board having representation onto the Main Board. This main Board would then have further representation from local stakeholder groups including the Council and other youth service providers. It is anticipated that this governance structure will require funding through the start-up costs and time to establish its Articles and legal status and to recruit and manage its members - A process that could take between 6 and 12 months.

6. The case for Grangewaters Outdoor Activity Centre and the Inspire Hub, Grays

A further assessment of the Grangewaters outdoor education centre has also been undertaken by Benesse under separate cover and included in Appendix A. The report identifies that the potential of this asset should form part of a three year business plan within the Inspire Youth Offer under whichever operating model is adopted.

As has been found in the case of other spun-out models, the inclusion of facilities at the point of the transfer of services can provide further opportunity to realise financial gains for both the Council and the mutual whilst allowing the Council to “lock in” the benefits of the assets for the long term. Something which either a wholly in-house service or a fully externalised service could do.

By “locking in” to the spun out mutual the Council will reduce its liabilities for maintenance investment and development, whilst the mutual can take advantage of the asset to realise both social value through free or discounted use alongside the ability to generate income and surpluses to reinvest or support the core youth service. A model seen at Epic’s kayaking centre on the River Thames, which now sells kayaking trips to the general public with profits reinvested back into Epic’s core youth services.

The leasing or licencing of Grangewaters and the Hub may also generate other financial savings through tax efficiencies, business rate relief and match funding opportunities.

The exiting team have demonstrated they have the capability to do this (as seen in recording studio, the youth hub and now the resurgence of services at Grangewaters both in the form of direct services to the benefit of young people in Thurrock but also through traded services which can help to maintain and improve the infrastructure of this excellent council facility whilst also providing funds to subsidise wider young person’s services.

7. Conclusion and Recommendations

The report concludes that based on the current scale, scope and mix of service and facilities, and the current three year timeline of review, retaining the service in-house would provide the best focus of quality and cost for the Council. The key assumptions that support this conclusion rest on the fact that a significant amount of time, resource and consideration has yet to be given to the setting up and scoping of a mutual and many of the benefits of mutualisation would be realised over a longer 5 to 10 year period.

During the next three year period the Council should continue to explore the six Service Review Principles enabling the service to be expanded, widening the customer base with new income sources to be delivered and promoted. During the period to develop more effective use of digital platforms and identify new commercial, surplus generating income streams through the provision of professional services in careers, training, recruitment, health and wellbeing. In parallel, looking at how better use of the assets at Grangewaters and the Hub can serve to widen service and reduce costs.

The report recommends

7.1 that the Council revisit and redraft the Inspire Youth Offer Business Plan including the operations of Grangewaters to take into account the fuller service review principles and transformational agenda to deliver as a minimum a 15% reduction in the cost of the service over the three year period.

7.2 Using the three year window created by the current business plan, for the Council to explore as part of its service review principles the long term opportunities that delivering the service under a mutualised model might present.

8. References

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Charity Commission. Setting up a charity. On line resource. Update 14 July 2016

Charity Commission. Choosing a charity type. On line resource. Updated 4 November 2014

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9. Appendices

A Review of Grangewaters Outdoor Education Centre