

MIDDLESBROUGH COUNCIL

AGENDA ITEM 6

OVERVIEW & SCRUTINY BOARD

6 JANUARY 2015

<p style="text-align: center;">INTERIM REPORT ON THE FUTURE ALTERNATIVE DELIVERY MODEL FOR ENVIRONMENT, PROPERTY AND COMMERCIAL SERVICES (EPCS)</p>
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PURPOSE OF THE REPORT

1. To provide a summary of the Environment Scrutiny panel's views / concerns in respect of the recommended future service delivery model for Environment, Property and Commercial Services (EPCS).

BACKGROUND

2. The future operating model for the delivery of the Council's Environment, Property and Commercial Services has been identified as a 'big ticket' item in the Council's Change Programme. The 'big ticket' items represent an initial view of the significant changes to current council delivery models, which will be required between 2014 and 2017.
3. The Assistant Director Environment, Property and Commercial Services informed the panel in August 2013 that an options appraisal exercise would be undertaken to assess the four shortlisted options for the future service delivery model for EPCS.
4. The four shortlisted options were as follows;

Option 1: Middlesbrough Council to maintain the status of the current business delivered by EPCS with potential for re-engineering and growth.

Option 2: Middlesbrough Council forming a Joint Venture Company with another local authority (with profits) to run these services.

Option 3: Middlesbrough Council outsourcing the EPCS business to the commercial sector.

Option 4: Middlesbrough Council consider an in-house bid from the existing management team to form a locally managed company to run these services.

5. A copy of the Assessment Panel Pack for use in the options appraisal process was circulated to Members of the panel in November 2014. This was with a view to providing scrutiny with the opportunity to understand the various options being considered prior to a decision by the Executive on which future service delivery model to progress.
6. The information contained in the Assessment Panel Pack included:
 - A description of the main features of each option including the main HR and legal features.
 - An assessment of the ability of each option to achieve the key criteria / critical objectives which each option must have the potential to achieve.
 - The key financial features afforded by each option.
 - The major risks associated with each option and how these risks could be managed or mitigated.
 - A copy of the scoring system designed to aid in the decision-making process.
7. The panel was also advised that a decision on the outcome of the options appraisal and a recommendation to outline the next stage of the process would be taken by the Executive on 20 January 2015. The panel was invited to consider the various options presented and express any views / concerns Members had in respect of the four options.
8. The Assistant Director Environment, Property and Commercial Services attended the panel's meeting on 1 December 2013 to respond to queries from Members on the information received in respect of the four shortlisted options.
9. The panel focused its questions on the following areas: -
 - What services are included in the scope for delivery by an alternative delivery provider / what is not in the scope and are there any areas of uncertainty?
 - Has a market testing exercise been undertaken and if so can any examples of potential providers be given?
 - Are other local authorities in the region / nationally looking at similar options / already implemented alternative delivery models for EPCS and what have their experiences been?
10. At that meeting the panel was advised that the outcome of the options appraisal exercise was to recommend the following option :-

Option 2 - Middlesbrough Council forms a Joint Venture Company with another local authority (with profits) to run these services.

11. All ten members of the assessment panel scored **Option 2** as the preferred option. The panel was also informed that there was a clear consistency in the ranking of the remaining options with option 4, 1 and 3 taking 2nd, 3rd and 4th place consecutively.
12. It was explained to the panel that the next stage of the process, if the recommended option is approved by the Executive, will be to undertake due diligence work with the Joint Venture Company and develop a detailed business case to present to the Executive in July 2015. It was emphasised that at this point in time the decision to be taken by the Executive relates to the next stage in the process. It is not a final decision on the future service delivery model for Environment, Property and Commercial Services.
13. In the information provided to the panel in respect of **Option 2** reference was made to the 'Teckal exemption' and the panel requested further details. It was explained that the 'Teckal exemption' is a piece of legislation that allows public sector bodies to form partnerships with other public sector bodies where certain conditions are met. In instances where these conditions are met there is no requirement for a full OJEU process to be undertaken. Instead the process is more straightforward with due diligence and business planning taking place to establish whether both parties wish to continue. The 'Teckal exemption' also allows for the protection of staff, as public sector pensions and public sector terms and conditions are protected.
14. In terms of the timeframe to progress this option the panel was advised that it would take approximately 6 months to develop the business case. The mobilisation process would then take a further 3 – 6 months if the Executive opt to advance this option. The whole process could be undertaken in 9 months but there is a need to build in some slippage time.
15. The panel raised the issue of the profit element involved in forming a JVC with another local authority and how this compares with Option 4 – an in house bid from the existing management team to form a locally managed company to run these services. It was advised that the reason as to why option 1 scored higher than option 4 relates to the level of risk involved. Option 4 would require the establishment of a new company rather than working with an already well-established business. The panel was advised that the (with profits) element relates to the potential for business growth and by generating increased business there is the potential for job creation. Any profits generated will also be shared equally between the JVC and the Council.
16. The panel was advised that there are a number of established JVC's operating in the UK and Norse are one such company. The panel was informed that the Council received a presentation from Norse in 2012, when the idea of forming a JVC was first floated and the company has successfully established 23 Joint Ventures with other local authorities throughout the UK. The panel was informed that Norse has significant

experience in setting up Joint Ventures. However, a business case will need to be developed, which is agreeable to both the Council and Norse, before any further steps can be taken.

17. In respect of staffing issues the Assistant Director Environment, Property and Commercial Services advised that under a Joint Venture arrangement all transferring staff will be protected for the duration of the agreement. If additional jobs are created the Joint Venture can introduce new terms and conditions for the staff employed in these roles, which can be both beneficial and detrimental when compared with the terms and conditions applied to former Council employees. Any changes to Council employee circumstances, however, would need to be enhanced. No staff member can be detrimentally affected. These provisions would be contained in the Joint Venture agreement.
18. In terms of Norse's experience in this area it was stated that the company was first established by Norfolk County Council over 20 years ago. The company has formed Joint Ventures with over 20 local authorities over that period, with the furthest North being Barnsley Metropolitan Borough Council.
19. With regard to scrutiny's involvement in the ADM process the point was made that there is a cultural issue to be addressed in how the Council wants to deliver services in the future. Is the Council looking to be a commissioner of services or is the Council keen to deliver services from within? Where Middlesbrough Council chooses to position itself on this spectrum is a political decision. The Assistant Director Environment, Property and Commercial services advised that his role in this process is to put forward the results of the options appraisal exercise.
20. It was advised that the outcome of the options appraisal exercise in respect of the ADM for Environment, Property and Commercial Services is quite clear. The option to form a JVC with another local authority received the highest score but only the business case will prove if this is the right option for Middlesbrough. Until this piece of work is undertaken it is impossible to assess whether there may be substantial benefits / no real benefits to be gained in forming a Joint Venture agreement. The Assistant Director advised that he would undertake this piece of work over the next few months and scrutiny would be consulted as part of that process.
21. The point was also made that over the next 2 years every service in the Council will be tested against the ADM process and the Council may end up with services being delivered through a range of delivery models. Each Assistant Director is to be tasked with identifying the best delivery model for their individual service areas. For example, in respect of the Sport and Leisure ADM the recommended option for future service delivery, following the options appraisal exercise, is to transfer the management of Sport and Leisure services to an Established Trust. A member of the panel expressed the view that the

options appraisal process is effectively identifying the best option in a confined market.

22. In terms of the services to be included in the scope of the ADM for EPCS it was advised that all services contained in the Assistant Director for Environment, Property and Commercial Services outcome area are currently included. As the process continues some services may remain in scope and others may be removed. The rationale for including all services at present is that the service is managed by a single management team, which is relatively compact. In total upwards of 1500 staff is employed by the department and the service area's budget is in excess of £40million gross. A list of the services included in the scope is attached at Appendix 1.
23. The query was raised by the panel as to whether the overriding factor in exploring alternative delivery models for future service provision is financial. The Assistant Director stated that there is inevitably a financial element to the process and the weighting applied to the financial criteria in the options appraisal assessment is higher than the other key criteria. However, the final decision in respect of future service delivery is as much about the delivery of strategic outcomes in the most efficient and effective manner, as it is about achieving financial savings.
24. The recommended option – **option 2** - is effectively the easiest route to achieve the savings identified in the Change Programme by 2017. It may be the case that the recommended option will be in place before that date but in any event the savings identified in the Change Programme remain the same.

RECOMMENDATIONS

25. That the Environment Scrutiny Panel recommends to the Executive:
 - a) That a non-Executive Member is appointed to each options appraisal panel to provide a community perspective when the scoring of the potential options for future ADM's are undertaken.
 - b) That the guidance applied in the options appraisal scoring system be revisited with a view to narrowing the range of scores that can be awarded against each key criterion to ensure greater consistency.
26. The following background papers were used in the preparation of this report:-

Middlesbrough Council Assessment Panel Pack

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