

# MIDDLESBROUGH COUNCIL

## EXECUTIVE REPORT

### Future Delivery Model for Environment, Property and Commercial Services

Executive Member for Environment: Tracy Harvey

Executive Director of Corporate and Commercial Services:

Tony Parkinson

20<sup>th</sup> January 2014

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### PURPOSE OF THE REPORT

1. The purpose of this report is to update the Executive on progress with the Change Programme Project, which is examining Alternative Delivery Models (ADMs) for the future provision of the Council's Environment, Property, and Commercial Services (EPCS), and to seek approval to proceed to the next stages of the process.

### SUMMARY OF RECOMMENDATIONS

2. That Executive approves for appropriate senior officers to enter into formal dialogue with Norse Commercial Services Ltd (Norse), carry out a due diligence exercise, and develop a detailed business case, to assess the viability of creating a Joint Venture Company (JVC) between Middlesbrough Council and Norse, for the future delivery of Environment, Property and Commercial Services.
3. That the Executive Member (EPCS) is given the authority to approve any future changes in the services to be included within the scope of a JVC that might be considered appropriate as the business case develops.

### IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?

4. It is over the financial threshold (£150,000)
- It has a significant impact on 2 or more wards
- Non Key

### DECISION IMPLEMENTATION DEADLINE

5. For the purposes of the scrutiny call in procedure this report is

Non-urgent

Urgent report

If urgent please give full reasons

## BACKGROUND AND EXTERNAL CONSULTATION

6. The provision of the Council's Streetscene Services was included within the Council's Change Programme, as a 'big ticket item', with a remit to carry out an examination of Alternative Delivery Models (ADMs) for the future provision of these services.
7. Following a project update at Change Programme Board, the scope of the review widened to include all of those services within the Environment, Property and Commercial Services Outcome Area (EPCS).
8. This ensures that all of the services which contribute to the strategic outcome of **“Providing, maintaining and enhancing public buildings, streets, parks and open space, such that the quality of place supports the needs of residents, visitors and business”** are considered within the project.
9. The services within this outcome area have financial targets within the change programme of approximately £5.2M over the next three financial years (2015-2018).
10. The purpose of the project is therefore to determine the most appropriate ADM option for the future delivery of these services, whilst meeting the principles of the change programme, delivering the required budget reductions, and contributing to the Council's strategic outcomes and the Mayor's Vision for Middlesbrough.
11. A list of the services currently in scope is included at appendix 1 of this report.
12. The proposed scope of services may change during the development of the next phase of the project, it is therefore proposed that the Executive Member (EPCS) is given the authority to approve any future changes in the services to be included within the scope of a JVC that might be considered appropriate
13. In order to progress the project, a detailed options appraisal of ADMs for the future provision of these services was carried out in November 2014.
14. The process applied to the ADM options appraisal was as agreed by the Executive on 4<sup>th</sup> November 2014. This details the process to be followed, the criteria upon which each ADM option should be assessed, and the level of importance weighting which should be applied to each criterion when scoring each of the options.
15. This ensures through the application of a standard approach to all ADM projects within the Council, that the recommended option will support the principles of the Change Programme, and contribute to the Council's strategic outcomes and the Mayor's Vision, to ensure the maximum levels of financial and economic benefit to the Council and the town.
16. A number of ADM's were originally considered and from this, four were considered potentially viable. These were taken forward for full appraisal, using the approach approved by Executive.
17. In addition to these four options, the newly introduced corporate ADM guidance included the requirement to appraise the options of 'Shared Services' and 'Social Enterprise', both of which had been examined and considered unsuitable for this range of services in the original short listing exercise.

18. To fully comply with the corporate guidance, these options were revisited by members of the options appraisal panel, and again discounted as unsuitable for further detailed examination.
19. This was due to shared arrangements for refuse collection and recycling services having been investigated recently within the Tees Valley, and not being deemed suitable for progression due to issues of governance, deliverability and the loss of service control with a lack of any tangible additional savings from economies of scale.
20. In terms of the social enterprise option, there was not thought to be a suitable market for this, given the range and size of services being considered, however this was considered to be a very similar proposition to the in house, locally managed option.
21. The four ADM options considered were:
  - i. Middlesbrough Council to maintain the status quo of the current business delivered by EPCS with potential for re-engineering and growing the business.
  - ii. Middlesbrough Council forming a partnership with an established local authority owned Joint Venture Company (JVC), with profits.
  - iii. Middlesbrough Council outsourcing the business to the commercial sector.
  - iv. Middlesbrough Council considers an in house bid from the existing management team to form a locally managed company to run these services.
22. In advance of the formal options appraisal process, a detailed panel assessment and guidance pack was circulated to the appraisal panel. Part two of this pack (The options specifications) contained a detailed description of each of the options to be considered.
23. This included a factual summary of the pros and cons of each option, a description of how each option could meet the Council's corporate appraisal criteria, and a summary of the main financial implications and potential risks for each option.
24. The full panel assessment pack, which includes guidance notes for the assessment panel, the options specifications, and the scoring matrix, is included within the background papers to this report.
25. Each option was scored and weighted in accordance with the corporate ADM guidance. A summary of the panel scores is shown in the table below.

<b>Panel Member</b>	<b>Option i</b>	<b>Option ii</b>	<b>Option iii</b>	<b>Option iv</b>
<b>1</b>	<b>14</b>	<b>30</b>	<b>9</b>	<b>23</b>
<b>2</b>	<b>10</b>	<b>23</b>	<b>9</b>	<b>14</b>
<b>3</b>	<b>24</b>	<b>42</b>	<b>6</b>	<b>20</b>
<b>4</b>	<b>47</b>	<b>47</b>	<b>26</b>	<b>3</b>
<b>5</b>	<b>14</b>	<b>31</b>	<b>14</b>	<b>21</b>
<b>6</b>	<b>-21</b>	<b>29</b>	<b>16</b>	<b>-28</b>
<b>7</b>	<b>43</b>	<b>61</b>	<b>-35</b>	<b>49</b>
<b>8</b>	<b>61</b>	<b>81</b>	<b>17</b>	<b>47</b>
<b>9</b>	<b>19</b>	<b>39</b>	<b>18</b>	<b>24</b>
<b>10</b>	<b>29</b>	<b>39</b>	<b>9</b>	<b>30</b>
<b>Average Scores</b>	<b>24</b>	<b>42.2</b>	<b>8.9</b>	<b>20.3</b>

26. Having debated the variance in individual total scores, it is clear to the panel that due to the wide available scoring range, (plus or minus 0-7) different members of the panel had applied different interpretations of what they deemed to be a high or a low score. However as this has been applied consistently to all scores and options, it has not changed the order of preference of the individual panel members, based upon the agreed evaluation criteria.
27. As shown in the table, nine members from the panel of ten scored option ii as their highest scoring option, whilst the tenth member of the panel scored options i and ii as equal highest, but had scored the individual criteria differently.
28. Option ii, Middlesbrough Council forming a Joint Venture Company with an established local authority owned Joint Venture Company, with profits, is therefore the option which the panel considered to be the most effective model for the future delivery of these services, based upon the Council's agreed options appraisal criteria, and using the agreed scoring and weighting mechanism, and is therefore the ADM option being recommended to Executive for approval to proceed to the next stage of the process.
29. The Council now needs to carry out a process of further investigation, to determine the suitability of Middlesbrough Council forming a partnership with an established joint venture company, with profits, for the future delivery of EPCS.
30. Should a decision be made to proceed with such a partnership arrangement, a JVC can be established between two Local Authorities by agreement, without the requirement for a full OJEU procurement exercise. This is possible through the use of the 'Teckal Exemption'.
31. JVCs are co-owned by the participating partners and are operated at arm's length to the Council.

32. In order to ensure the Council achieve the desired strategic outcomes, and retain an appropriate level of control in respect of future service planning and delivery, such an arrangement would be managed and governed by the Council through a Strategic Board arrangement, with high level political and chief officer representation at board level, and an agreed balanced scorecard approach to performance and financial management of the JVC.
33. An operational stakeholder board is also established to ensure the efficient and effective day to day running of the service operations.
34. Following a review of potential joint venture partners, it is proposed that the Council explore further the creation of a joint venture company with Norse Commercial Services LTD. The rationale behind this is that they have:
  - i. A proven track record of working with local authorities to develop public sector joint venture companies.
  - ii. Significant experience across the range of front line service areas proposed within the scope of the joint venture.
  - iii. A proven track record in expanding commercial opportunities.
  - iv. A healthy and robust financial balance sheet.
  - v. A track record of maintaining terms and conditions for transferred staff.
  - vi. Excellent staff and Trade Union relationships
35. Whilst there are other public sector formed JVC's in existence, these tend to be service area or geographically specific in their scope of activities or their operating areas.
36. Norse Commercial Services Ltd (Norse) is a long established joint venture company, wholly owned by Norfolk County Council, and operating JVC's in partnership with over twenty Local Authorities across the country.
37. Norse delivered a presentation to the Council's Corporate Management Team in 2012, and senior officers have since then had ongoing discussions, and visited Councils who have entered into JVCs with Norse, to discuss with Members and officers how the arrangements work in practice.
38. Feedback from Members and officers, along with front line staff and Trade Union representatives who have transferred to work with Norse has been extremely positive, and there is clear evidence that significant growth in commercial business and social value for the areas of operation has been universally achieved through the JVCs.
39. It is now proposed to enter into formal dialogue with Norse to determine the suitability for a JVC between Middlesbrough Council and Norse.
40. This would commence with a presentation from Norse to the Executive on the principle of JVCs, and initial consultation with those staff and Trade Unions, who could be affected by, or transfer into a JVC.

41. This would be followed by a comprehensive due diligence exercise between both parties, and the development of a detailed business case, outlining the potential benefits to both partners from a JVC. This phase is expected to take three to six months.
42. It will be vital that the Council commit sufficient officer resource to support this process in order that the project timetable and subsequent efficiency savings are not compromised.
43. During this phase of the project, consultation with Trade Unions, staff and stakeholder groups would be carried out to ensure that all potentially affected groups are kept fully informed of progress and the potential impact upon them of the Council forming a JVC.
44. Following the development of the detailed business case, a further report will be brought to Executive, which will determine whether or not the establishment of a JVC with Norse would be the future delivery model for the Council's EPCS, which would be most able to meet the desired strategic outcomes.
45. This detailed business case would describe the final recommended scope of services to be delivered by the JVC, the level and standards to which those services would be delivered, the anticipated cost savings and other benefits to the Council, and the timescale for mobilisation of the JVC, following an Executive decision to proceed.
46. Further detailed information on how such an arrangement could benefit both the Council and Middlesbrough is contained within part 2 of the options appraisal panel assessment pack.
47. Should the Executive take a decision to form a JVC, the mobilisation phase would begin. This would include further detailed consultation with Trade Unions, staff and stakeholders, including formal consultation on the TUPE transfer of all relevant staff into the JVC. It is anticipated this phase would take a further three months from the Executive decision being taken.

## **IMPACT ASSESSMENT (IA)**

48. Initial proposals to look at alternative delivery models for services within the scope of this proposal were impact assessed. A further impact assessment will be undertaken as part of the procurement process prior to any partnership contract being agreed to ensure that the impact of the proposal is fully understood in line with the Council's Impact Assessment policy.
49. The information required to complete the Impact Assessment process will continue to be gathered and analysed as part of the overall due diligence and business case development processes to ensure that consideration is given to where impacts on individuals or groups may differ because they hold a protected characteristic and due regard is given to the equality duty throughout the process.

## **OPTION APPRAISAL/RISK ASSESSMENT**

50. A long list of ADM options were considered and researched by senior managers prior to proposing the suggested short list of options shown in paragraph 19 of this

report, which were to be taken forward for full appraisal and as such were presented to the Change Programme Board in April 2014.

51. Following the full options appraisal exercise, the evaluation panel concluded that a partnership arrangement with an established local authority owned JVC would be the most likely delivery model to meet the change programme principles and deliver the Council's desired strategic outcomes.
52. The due diligence and detailed business case work will establish whether or not the establishment of a JVC with Norse would be recommended to the Executive as the best ADM solution for Middlesbrough.
53. The detailed business case will clearly set out the final recommended scope of services to be delivered by the JVC, the level and standards to which those services would be delivered, the anticipated cost savings and other benefits to the Council, and the timescale for mobilisation of the JVC, following an Executive decision to proceed.
54. A risk log and assessment process will be developed by the project team, and this will be applied to all aspects of the due diligence and detailed business case processes.

## **FINANCIAL, LEGAL AND WARD IMPLICATIONS**

55. **Financial** – There are no significant financial implications for the Council in creating a JVC with Norse. The cost of the due diligence exercise and the preparation of the detailed business case being borne by Norse.
56. However a significant amount of officer time, particularly in legal and financial input, will be required in providing Norse with detailed information to ensure this process can be completed in a timely manner, resulting in a business case based upon accurate legal, financial and management information.
57. A limited amount of external legal assistance may be required during the due diligence stage, it is proposed that the cost of this is funded from the Corporate Change Fund.
58. It will be vital that the Council commit sufficient officer resource to support this process in order that the project timetable and subsequent efficiency savings are not compromised.
59. The due diligence process would enable the Council to gain a full understanding of the current costs of delivering these services through the current in house provision.
60. Management and front line staff, along with service specific support, and some central support staff would transfer into the JVC under TUPE legislation, and the cost of service specific and central support staff would be absorbed within the overall cost of the JVC.
61. A detailed analysis of the current cost of support services and the future effect of other change programme projects on these costs will therefore need to be carried out, as a full understanding of this cost and effect will be vital in the evaluation of the detailed business case for a JVC against the future cost of in house provision.

62. **Ward Implications** – Environment, Property and Commercial Services are accessed by residents from all wards of the town and beyond, they are considered to be very important to residents, and contribute to a range of the Council's strategic outcomes.
63. **Consultation** – The options appraisal process was carried out in consultation with the Executive Member for Environment, and the Environment Scrutiny Panel. Staff and Trade Union consultation will be carried out at the next stage.
64. **Legal Implications** – The process will require both internal and external legal support to ensure the final recommendation for future service provision, including the use of the 'Teckal Exemption' is robust and defensible in the event of challenge.

## **SCRUTINY CONSULTATION**

65. The Environment Scrutiny Panel included the ADM for Environment, Property and Commercial Services in their work programme for 2014/2015.
66. The Assistant Director EPCS made two presentations to the panel in August and November to outline and update the panel on progress with the project, and explain the services in the project scope, the options to be considered for the future delivery of these services, and the process for the evaluation of those options.
67. Following the panel meeting on 10<sup>th</sup> November, the corporate ADM guidance and the options appraisal panel assessment pack was circulated to the scrutiny panel, in order that they could gain a fuller understanding of the options being considered for the future delivery of these services, along with the methodology for the evaluation of those options.
68. The Assistant Director attended a further scrutiny panel meeting on 1<sup>st</sup> December, where the recommended option and the draft Executive report were discussed in detail.
69. The final report of the scrutiny panel along with the service response will be presented to the Executive along with this report.
70. The Environment Scrutiny Panel also considered the impact of a potential ADM as part of their investigation into 'Maintenance of open spaces', and made the following observations within their final report:
  - The proposed Alternative Delivery Model (ADM) for Environment, Property and Commercial Services (EPCS) will potentially offer the opportunity to protect and even enhance future service provision in this area.
  - Given that next year further cuts in the budget are needed the panel is of the view that there is a need to be more strategic in the approach adopted. As referenced above the proposed ADM for Environment, Property and Commercial Services may well be the solution to achieving sustainable future service provision.
  - The Environment Scrutiny panel has previously looked at the issue of income generation and put forward the recommendation that "new trading opportunities are actively sought to maximise external income for Middlesbrough Council's Trading Services." At that time the panel considered that there was still an opportunity to explore trading activities in



some areas. Grounds maintenance was identified as an area worthy of exploration. The proposed ADM will provide an opportunity for increased flexibility in staff recruitment, which could be beneficial in securing short term contracts and generating additional income for the Council.

## **RECOMMENDATIONS**

71. That Executive approves for appropriate senior officers to enter into formal dialogue with Norse, carry out a due diligence exercise, and develop a detailed business case, to assess the viability of creating a JVC between Middlesbrough Council and Norse Commercial Services Ltd, for the future delivery of Environment, Property and Commercial Services.
72. That the Executive Member (EPCS) is given the authority to approve any future changes in the services to be included within the scope of a JVC that might be considered appropriate.

## **REASONS**

73. This will result in a further Executive report which will detail the final recommended scope of services to be delivered by the JVC, the level and standards to which those services would be delivered, the anticipated cost savings and other benefits to the Council.
74. Should the report recommend that a JVC is formed, it will also detail the timescale for mobilisation of the new service provision following the Executive decision to proceed.
75. This will ensure that the most effective model for future provision of EPCS is delivered for the Council, in order to support the principles of the Change Programme whilst delivering the required budget reductions, contributing to the Council's strategic outcomes and delivering the maximum levels of benefit for Middlesbrough.

## **BACKGROUND PAPERS**

76. The following background papers were used in the preparation of this report:

Options Appraisal Panel Assessment Pack – November 2014.  
Environment Scrutiny Panel Minutes - August and November 2014.  
Environment Scrutiny Panel – Final Report and Service Response

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## **Appendix 1**

### **Environment, Property and Commercial Services**

#### **Services to be considered for inclusion in a JVC**

Building Maintenance  
Building Cleaning & Caretaking  
Bus Station Management  
Security & CCTV  
Pest Control  
Bereavement Services  
Ayresome Industries

School Catering  
Tees Community Equipment Service

Waste Disposal Contract Management  
Environmental Education and Enforcement  
Dog Wardens  
Refuse Collection  
Green Waste Collection  
Kerbside Recycling  
Area Care (Grounds Maintenance & Street Cleaning)  
Parks Management & Maintenance  
Cemetery and Crematorium Maintenance  
Burials  
Highways Inspection  
Highways Maintenance  
Winter Maintenance  
Fleet Management  
Vehicle Maintenance

Strategic Property Management  
Commercial Property Management  
Valuations