

JOINT SCRUTINY COMMITTEE

6 JUNE 2016

Present: County Councillor Mitchell(Chairperson)
County Councillors Clark, Hill-John, Howells, Lomax, Murphy,
Sanders, Walker, White and Darren Williams

1 : CHAIRPERSON

The Committee appointed Councillor Mitchell as Chairperson.

2 : APOLOGIES FOR ABSENCE

No apologies for absence were received.

3 : DECLARATIONS OF INTEREST

No declarations of interest were received.

4 : PRE DECISION OF THE DRAFT CABINET REPORT TITLED
'INFRASTRUCTURE SERVICES ALTERNATIVE DELIVERY MODEL: NEXT
STEPS'

The Committee received a report providing an opportunity for Members to scrutinise the Infrastructure Services Full Business Case prior to the proposals being presented to Cabinet for approval on 16 June 2016. Members were recommended to focus the scrutiny on the outcomes of the Infrastructure Services Full Business Case analysis; the rationale behind the recommendations in the full business case; and the next steps and other future actions to be taken to deliver the In-House option.

The report set out the background to the Infrastructure Services Alternative Delivery Model project, which had sought to identify ways to transform some of the Council's key frontline services by implementing measures to improve service performance and deliver savings. A number of services delivery model options were evaluated and the results of the exercise formed the basis of the Infrastructure Services Final Business Case, which was appended to the report.

The Committee was advised that the project has produced some service improvement; for example, the development of a Neighbourhood Services approach and an increase in revenue from the Commercial Waste Service. Best practice approaches from across the United Kingdom were also explored.

The objectives of the Infrastructure Services Alternative Delivery Model project were to:

- reduce operating costs
- improve outcomes to address current performance weaknesses
- improve customer satisfaction, demand management and reduce failure demand, to more effectively address the increasing demand for services;
- develop effective partnership and collaborative working
- optimisation of income generation to support core funded services

A summary of the previous consideration of the project by the Cabinet was provided, along with details of the previous scrutiny of this matter.

Members were advised that stakeholder engagement was carried out with unions, staff and Cardiff residents and this was used to inform the evaluation of the service delivery models. A summary of the engagement activity and the feedback received was provided to the Committee.

The template used to evaluate that Outline Business Case was also used as the basis for the Full Business Case. This reflected the Office of Government Commerce best practice standard, as recommended by HM Treasury for use by public sector bodies when evaluating public sector proposals. The Full Business Case focused on the development of five-year service strategies for each service area in scope and an overarching strategy for the service as a whole. The impact of the two delivery models on these strategies was then considered.

The Committee was advised that the key theme identified during the evaluation process was the inconsistency of current management approaches to the delivery of related or inter-dependent services. It was suggested that the result of this approach is fragmentation with limited evidence to build synergies between similar services. The Full Business Case adopted a new approach of putting services into clusters to capitalise on opportunities for service improvement and income generation. The proposed new clusters were:

- Recycling Waste Management Services
- Total Facilities Management
- Fleet Services
- Neighbourhood Services
- Highways
- Design Services

Some services were able to start trading immediately, whilst others have the potential to become more commercial but will require intensive support to increase their capacity to generate income. In community facing services, such as street cleansing, the key issue related to the need to increase productivity and efficiency, and to bring about wider cultural changes.

There were also opportunities to collaborate with neighbouring authorities for all services within scope. It was considered that collaboration was more likely to happen following the establishment of a suitable partnership model. The opportunities for collaboration were set out in the Full Business Case. Members were asked to recognise that a collaborative model can take some time to become established and therefore, the benefits in the Full Business Case are profiled over five years.

The respective service strategies each considered trading opportunities, mainly in the areas of developing existing streams and identifying potential new markets. It was considered critical for all services within scope to become 'fit for purpose' and provide sustainable and efficient services in the long term, so that the ability to trade could be improved. In order to achieve this it was felt that the Council will need to:

- Complete a thorough review of budgets for the services in scope which ensures they are in alignment with future strategies to include clear income and cost analysis;
- Ensure that branding is created that optimises dual brand of being public sector and commercial;
- Develop a marketing strategy and website aligned with branding and business development strategy;
- Map out common customers across services both internal and external;
- Create a business development plan for each service and across the services in scope with differentiation between immediate opportunities and a longer-term strategy once services are fit to trade. A clearer understanding of target markets, sectors and customers' needs to be developed as well as sources of trading opportunities.
- Establish a pricing strategy which has clear commercial principles and ensures competitive pricing without subsidising the customer, ensuring that the Council demonstrates compliance with the State Aid principles and legislation;
- Increase the Council's commercial capacity;
- Consider the extent to which the Council should utilise the services in scope rather than promoting third party spend as long as value for money can be demonstrated and the specific services in scope are given sufficient time to become competitive.

The report provided the Committee with a summary of the financial analysis full business cases. Members were advised that the development of the FBC helped to define and instigate an agenda for change, whilst raising awareness of commercial opportunities. In-house services were challenged to engage to see how improvements could be made. There was also a growing understanding of the need to embrace commercial thinking and generate better understanding of cost control and investment in assets to support traded income.

The FBC report indicated that a Wholly Owned Company (WOC) could provide the Council with greater benefits over the full five year period, although those additional benefits are mainly delivered in years 3 to 5. The report also stated that the delivery of savings and additional income in 2016/17 and 2017/18 remain a key priority.

Furthermore, the establishment of a company governance structure, financial, ICT and operating arrangements will bear heavily on resources in the critical two-year period. This would in turn put at risk the delivery of the frontline changes needed to secure immediate savings.

The FBC report suggested that there is significant variance in the readiness of services to trade, with cost base analysis, ICT, staff training and marketing strategies in some services being inadequately developed. Areas requiring improvements were identified in the report, including, productivity, insufficient technology, and ineffective working and management practices. All services need to improve cost control, optimise existing and new income streams and minimise external spend.

The report stated that the debate between in-house and WOC is less significant than the implementation of a single consistent approach to improvement. Common requirements for success in either model are consistent.

The modified in-house approach will involve realigning in-scope infrastructure services into two complementary programmes, namely:

- Developing Cardiff's Commercial Services
- Transforming Neighbourhood Services

At the heart of this approach would be intensive, high impact service improvement interventions overseen by a proposed Commercialisation and Accelerated Improvement Board (C&AI Board) comprising relevant Directors and external representatives. The Board's mandate would be to drive commercialisation and productivity across the Council as a whole. The report summarised how the workstreams would be integral to the Council's wider Organisational Development arrangements and also ensure oversight and support at a strategic level to all commercial projects in the Council.

Members were advised that the key enablers required for the successful implementation of the ADM cut across a number of areas and would need to be progressed promptly in order to deliver improved financial and service delivery outcomes. These are:

- Implementation of Fleet Management Information Technology (FMIT) package for the Central Transport Service;
- Implementation of a new enterprise architecture including rostering, scheduling and mobile working technology to facilitate operational efficiencies and improve customer services;
- Development of a commercial brand together with a commercial website;
- Completion of review of the Fleet and Building Services Frameworks;
- Strong support for the introduction of apprenticeships and developing links with the NEETs agenda;
- Adoption of a 'One-Council' approach to asset management, investment, development and maintenance in respect of the Council's infrastructure assets;
- A comprehensive review of the budgets of all the services in scope to develop a thorough understanding of the essential expenditure and income for control of budgets to support the future delivery model;
- On-going effective engagement of the Trade Unions and employees regarding the operational improvements identified within the service and 'overarching' strategies;
- Support to explore collaboration opportunities with other council's and public bodies; and
- Appropriate internal and external resources to support the programme Timeline.

The report included the Year 1 headline timeline.

The Chairperson welcomed Councillor Graham Hinchey, Cabinet Member for Corporate Services and Performance and Councillor Bob Derbyshire, Cabinet Member for the Environment to the meeting. The Cabinet Members were invited to make brief statements on the Infrastructure ADM. Councillor Derbyshire accepted that it had taken a long time to arrive at a decision. Two options were evaluated and he was confident that, with the support of the unions, the Modified In-house Model was the right choice. Councillor Hinchey stated that by making further progress in areas such as the reduction of sickness, multi-skilling of staff and through the introduction of new technologies he was confident that the Modified In-house option

would prove to be successful. The unions had indicated their willingness to change and there had been positive engagement with staff.

The Chief Executive advised Members of the Committee that there was a strong case for change within the service area. During the ADM process analysis had demonstrated the need for a range of improvements around processes and technology. Finding a balance between improving services and delivering savings was important.

The Committee received a presentation on the Infrastructure Services ADM Full Business.

The Chairperson invited the Committee to comment, seek clarification or raised questions on the information received. Those comments are summarised as follows:

- Members considered that there should be an immediate focus on savings during t 2016/17. Officers stated that £63k of savings could be realised immediately, in addition to those savings identified in the budget. Further savings would be realised when new technologies are in place. The Chief Executive stated that it was accepted savings in Year 1 would be slow; savings would be accelerated in later years.
- The Cabinet Member for the Environment stated that it had taken 3 years to arrive at a decision due to the complexity of the issues involved. Cardiff did not wish to repeat mistakes made by other authorities. Analysis has demonstrated that some key areas are not suited to a WOC.
- In terms of external representation on the Commercialisation and Accelerated Improvement Board, officers advised that individuals who were aware of the issues and were familiar with the service have been identified.
- Members asked officers to identify what support the services area would receive from the Commercialisation Unit. Officers stated that the services would receive key contracts and a supplier framework. Improvements to the supplier framework were being sought, particularly in terms of how contracts are being managed.
- Members questioned what performance measures were in place that would allow an indication of the outcomes achieved. Officers advised that there were targeting actions plans in place which included performance management measures. Baseline customer information would be re-measured during the process. Staff surveys, customer feedback, P.I.s and income generated would all be used to measure performance. The C&AI Board will receive notification of the performance measures proposed.
- Members noted the analysis of the benefits from both ADM models. Members asked whether the benefits extended beyond the 5-year period featured in the report. Officers stated that any benefits beyond the 5-year period were dependent on collaboration with other bodies. The savings achieved would not be sustained for an indefinite period.

- Members considered that the estimate of trading opportunities of £307k seemed to be underestimated. Members asked for clarification for the basis of the calculation of this figure. Officers stated that the figure presented was cautious and had been challenged by stakeholders. It was accepted it may be possible to achieve more in terms of trading opportunities.
- A Member considered that the Modified In-House model was a short-term/medium term solution at best. Witnesses were asked whether the Modified In-House model could evolve into a Wholly Owned Company at some point in the future. The Cabinet Member for the Environment stated that any future decisions would be dependent on budgetary considerations and the success of the Modified In-House model. The Cabinet Member did not think it was appropriate to speculate on the future, but neither was it appropriate to rule out the WOC.
- The Committee noted that in 2014 the ADM process had projected anticipated savings of £13.4 million. Members asked the witnesses to comment on the shortfall in savings to be achieved as a result of the decision to move to the Modified In-House model. The Chief Executive stated that projections were notoriously difficult to make. The Cabinet Member for Corporate Services and Performance stated that the Council has an obligation to provide services for the City. The authority was being tasked with does more with less resource. However, the decision taken was not done so purely on finances; the final decision also reflected the Cabinet's desire to invest in and improve public services. The projections were speculative but were based on best practice principles.
- In terms of trading, Members were advised that in the short-term trading opportunities were identified in the commercial waste and fleet management areas. Officers stated that neighbouring authorities did not operate a commercial waste service so there were further commercial opportunities to be explored.
- Members asked the witnesses whether they were confident that there were sufficient skills within the Economic Development Directorate to oversee the commercialisation of these services. The Chief Executive acknowledged those concerns. Members were advised that the Economic Development Directorate had the largest commercial capacity within the authority. There was significant momentum behind the asset management approach within the directorate.
- The witnesses were asked to provide details of what measures were being planned in order enable managers to carry out the programme. Members were advised that skills existed within the existing services and it was necessary to pool those skills and strengthen capacity where necessary. It was important that that management retain a level of operational autonomy. Members were reminded that commercialisation was not just about profit, it was also necessary to reduce costs.
- Members considered that a key concern was whether the service would be able to win back school contracts. Members stated that services currently provided to schools were not always value for money. The Cabinet Member for Environment recognised that this issue was a concern. Schools were currently

paying for services when the authority could be providing them. It was anticipated that in future schools would be offered a cluster of services and more effective, competitive, pricing. Officers stated that colleagues in Education would like to offer schools a package of services and they were keen to hear what new offerings could be made. The challenge for the Modified In-House model was to retain and regain customers in that market.

- Members indicated that feedback from staff within the service area suggested that they would like to do more to tackle absenteeism but they were prevented from doing so. Members asked whether they would be prevented from doing so again. The Chief Executive stated that it was his responsibility to remove those barriers.
- The Committee considered that Members would have been more reassured if the 4-year business plan for the service had been presented at the meeting. The Chief Executive advised that Members were being asked to consider the Full Business Case decision. Once the FBC has been agreed it would be possible to move forward with the development of the business plan.
- Officers were asked to clarify what would happen if economic necessity meant that the Modified In-house model came into conflict with political priorities. The Cabinet Member for the Environment stated that he was positive that the MIH was the best way forward. He was determined to get to a position where the authority was not only employing its own staff, but taking on apprentices. The C&AI Board will be in control but Cabinet would be responsible for determining the constitution of the Board.
- Officers were asked to elaborate on how they thought the £1 million insourcing details in the FBC could be achieved. Officers stated that the £1 million figure was based on insourcing over a 5-year period and was predicated on the ability of Facilities Management teams to deliver services internally rather than using external spend. Furthermore, discussions with neighbouring authorities were ongoing and the final decision on the ADM model would help our neighbours see whether the model can work for them.
- Member raised concerns regarding the procurement of a Fleet Management IT system. Officers considered that this issue was a top priority. Officers had been tasked with finding the best system available and the proof that software against SAP to ensure that it was compliant.
- Members felt that robust accounting, with no hidden charges, such as cross-charging and recharging, was crucial. Officers stated that this was a challenge for colleagues in Finance. The service would adopt a business unit approach and would fit in with public sector accounting rules.

Trade Union Representations

Angie Shiels made a statement on behalf of all the Trade Unions. She thanked the Cabinet Member for the Environment for engaging with the Trade Unions. The Unions were 'delighted' that the Cabinet had agreed to retain an in-house service. The Unions considered that there was an urgent need to revisit outsourced contracts as many could be delivered in-house. Further, services were

currently working in silos and this not providing best value to the taxpayer. By creating a commercialised wing the Unions were hoping to keep services in house and protect jobs. The Unions welcomed the statements made by the Cabinet Member regarding apprenticeships and succession planning. Staff development and meaningful training for front line staff was also welcomed. Unions agreed that it was crucial that fleet management control was addressed. The delivery of new technology, including body cameras, was also highlighted as being of great importance.

Local Partnership Board Representations

Julie McEver addressed the Committee. Members received an overview of the role of the Local Partnership Board in providing external challenge and review throughout the ADM Delivery Model process. The draft FBC options were reviewed and challenged on due diligence, etc. Feedback was provided on a proposed way forward.

The Local Partnership Board supported the conclusion set out in the draft Cabinet report. The figures supporting the Modified In-house business case were robust and the case for the MIH option was clear. The LPB was also content that there was sufficient detail in the Cabinet report to allow Cabinet to make an informed decision.

The Chairperson offered the Cabinet Members an opportunity to comment on or respond to the statements made by the trade union representative and the Local Partnership views.

The Cabinet Member for the Environment acknowledged that the ADM decision-making process was lengthy, but it was crucial that the correct decision was ultimately made, as the frontline services within the scope of the project were key services to residents in the City. The Cabinet Member for the Environment thanked the Members of Scrutiny Committees for their input which has been used to formulate the solution. Thanks were also given to the Trade Unions for engaging in the process. The Cabinet Member was confident that the in-house solution was the right solution.

The Cabinet Member for Corporate Services and Performance stated that changes over the previous 12 months have given him the confidence to support the Modified In-House approach, for example, sickness rates improving, new contracts being secured. The Cabinet Member welcomed the robust discussions which are likely to take place during the next 12 months.

RESOLVED – That the Chairperson writes on behalf of the Committee to the Cabinet Members to convey the Committee's comments and observations.

The meeting terminated at 7.00 pm