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AGENDA

Committee	JOINT SCRUTINY COMMITTEE
Date and Time of Meeting	THURSDAY, 9 JULY 2015, 2.00 PM
Venue	COMMITTEE ROOM 4 - COUNTY HALL
Membership	Councillor Councillors Aubrey, Clark, Cowan, Chris Davis, Goodway, Howells, Hunt, Lomax, Love, Marshall, Mitchell, Murphy, Thomas and Darren Williams

Time approx.

1 Chairperson

To elect a Chairperson for the meeting.

2 Apologies for Absence

To receive apologies for absence.

3 Declarations of Interest

4 Outline of Process by Chair and Director of Governance & Legal Services

5 Pre decision scrutiny of the Cabinet report titled 'Infrastructure Services - Alternative Delivery Model' prior to it being considered at the Cabinet meeting on Thursday 16th July. (Pages 1 - 256)

2.05 pm

(Appendices 8 & 9 – To Follow)

(a) Cabinet Members may wish to make a collective statement on the 'Infrastructure Services – Alternative Delivery Model' proposals.

NOTE: Appendices 10 & 11 of this report are not for publication as they contain exempt information of the description in paragraphs 14 and 15 of Part 4 of Schedule 12A of the Local Government Act 1972'

To RESOLVE – if the public needs to be excluded from the

meeting for the remainder of agenda item 5 for consideration of exempt information of the description in paragraphs 14 and 15 of Part 4 of schedule 12A of the Local Government Act 1972'

At this point the Chair and Committee Members to review if it is appropriate for Appendices 10 & 11 of this report to be considered during the public part of the meeting.

If it is agreed by the Chair and Committee that the information can be used in the public section of the meeting then all Members of the public will be allowed to remain in the meeting. If it is agreed by the Chair and Committee that the information cannot be used in the public meeting then the public section of the meeting will close and members of the public will be asked to leave.

(b) An officer from the City Operations Directorate to deliver a short presentation on the draft 'Infrastructure Services & Alternative Delivery Model' proposals.

(c) Members' question & answer session.

5a Trade union views on potential alternative delivery models for Infrastructure Services provided by the Council. 2.50 pm

a) A representative from GMB will have the opportunity to comment on the proposals.

b) A representative from UCATT will have the opportunity to comment on the proposals.

c) A representative from UNITE will have the opportunity to comment on the he proposals.

d) A representative from UNISON will have the opportunity to comment on the proposals.

e) Members' question & answer session with trade union representatives.

5b Cabinet response to the Joint scrutiny task group report titled 'Infrastructure Business Model & Alternative Delivery Options' 3.20 pm

(a) Cabinet Members may wish to make a collective statement on the Cabinet response to the Joint task group report titled 'Infrastructure Business Model & Alternative Delivery Options'.

(b) An officer from the City Operations Directorate to deliver a short presentation on the Cabinet response to the joint task group report titled 'Infrastructure Business Model & Alternative Delivery Options'.

(c) Members' question & answer session with Cabinet Members and officers.

Marie Rosenthal
Director Governance and Legal Services
Date: Friday, 3 July 2015
Contact: Graham Porter x73401, ,

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**CITY & COUNTY OF CARDIFF
DINAS A SIR CAERDYDD**

**JOINT ENVIRONMENTAL AND POLICY REVIEW & PERFORMANCE
SCRUTINY COMMITTEE**

9 JULY 2015

**INFRASTRUCTURE SERVICES & ALTERNATIVE DELIVERY MODEL
PROPOSALS**

Please note that Appendices 11 and 12 attached to this report are not for publication as they contain exempt information of the description contained in Paragraphs 14 and 15 of Part 4 of Schedule 12A of the Local Government Act 1972.

Purpose of the Report & Scope of Scrutiny

1. To provide Members of the Environmental Scrutiny Committee and Policy Review & Performance Scrutiny Committee with the opportunity to scrutinise the 'Infrastructure Services & Alternative Delivery Model' proposals prior to them being presented to Cabinet for approval on 16 July 2015. In particular the scrutiny should focus on:
 - The Cabinet proposals on the future alternative delivery model to be used to deliver services within the scope of the Infrastructure Services project;
 - The process used to identify a preferred alternative delivery model option;
 - The Cabinet response to the joint scrutiny report titled 'Infrastructure Business Model & Alternative Delivery Options'.

Background

2. A report titled 'Infrastructure Services – Alternative Delivery Model' was presented at the Cabinet meeting on 20 November 2014. The purpose of the report was to:

- To update Cabinet on the work undertaken to date across the Council's Infrastructure Services to improve the efficiency and effectiveness of the services, and to evaluate the available alternative delivery models for this service group.
 - To enable Cabinet to agree which future service delivery models should be subject to full outline business case analysis with a view to determining the future delivery of the services.
3. A copy of the 'Infrastructure Services – Alternative Delivery Model' report from 20 November 2014 meeting has been attached to this report as **Appendix 1**.
 4. **Appendix 1** explains that on 15 May 2014 the Cabinet approved the report of the Chief Executive titled '*Establishing a Programme of Organisational Change for the City of Cardiff Council*'. This set out the Cabinet's view that for the Council to effectively address the significant fiscal and other challenges it immediately faces, the Council would need to fundamentally challenge the way that its services are delivered and consider a full range of service delivery models and providers.
 5. The report launched an Organisational Development Programme comprising five work-streams for the delivery of fundamental changes to address the challenges faced by the Council. The first of these work streams was Strategic Commissioning which comprised of a number of priority areas of work including the Infrastructure Services project.
 6. On 17 July 2014, the Cabinet considered and approved the 'Budget Strategy 2015/16 and Medium Term' report. The report highlighted the seriousness of the worsening financial position for the Council and that potential savings to meet the indicative budget gap of £45.5m for 2015/16 and £124m across the period of the Medium Term Financial Plan (2015/18) needed to be identified. In response to this Directorates across the Council were set challenging saving targets for the three year Medium Term Financial Period.
 7. The achievement of significant savings through the Organisational Development Programme from projects including Infrastructure Services are viewed as an

important factor in the Council's implementation of its Medium Term Financial Plan; a point which was highlighted by the Welsh Audit Office's Corporate Assessment report, published in September 2014.

8. **Appendix 1** noted the 'significant progress being made on the Neighbourhood Management Services approach'. It was felt that during the alternative delivery model review period it was essential that work was progressed in this area to help deliver savings and efficiencies.

9. The range of services proposed in **Appendix 1** for the new service delivery model were:

- Waste Collections;
- Street Cleansing;
- Education & Enforcement;
- Materials Recycling Facility;
- Waste Transfer Station;
- Household Waste Recycling Centres;
- Pest Control;
- Highway Operations;
- Drainage;
- Street Lighting;
- Highway Asset Management;
- Telematics;
- Infrastructure Design and Construction;
- Park Management;
- Parks Development (Strategy, Design and Land Management);
- Central Transport Services;
- Cleaning (non schools);
- Security and Portering;
- Projects, Design and Development.

10. At the time of publishing this report the services within the scope of the Infrastructure Services project were delivered by the Environment Directorate; Strategic Planning,

Highways, Traffic & Transport Directorate; Sport Leisure & Culture Directorate; Resources Directorate and Economic Development Directorate.

11. Following the May 2014 publication of the '*Establishing a Programme of Organisational Change for the City of Cardiff Council*' report all of the services were asked to complete a fundamental service review document for each of services within the scope of the Infrastructure Services project. These documents followed a corporately agreed format to ensure that a structured, consistent and transparent approach was taken to identifying the strengths, weaknesses, opportunities and threats facing the service. The reviews took account of the needs of customers and their demands on the service; staffing of the service; service delivery performance and financial performance.
12. From these reviews a statement of the strengths, weaknesses, opportunities, and threats (SWOT) relevant to the services was prepared. A summary from **Appendix 1** is set out below and identifies some of the strengths and weaknesses of the current operating model.
13. The strengths identified in the service reviews included:
 - The resources and facilities that are available to the Council for the delivery of services, for example, depot facilities at Lamby Way, Brindley Road and the new Central Transport Service facility at Coleridge Road;
 - Long term collaborative contracts in place/ being put in place for the treatment and disposal of residual and organic wastes;
 - Appropriately skilled front line and managerial/ professional resources with strong knowledge and skills relevant to the services that are currently being delivered;
 - Generally good levels of customer satisfaction for the services in scope based on 'Ask Cardiff' surveys.
14. The report identified a significant number of service delivery weaknesses, these included:
 - For the first six months of 2014/15 there has generally been an improving picture in terms of sickness across the scope of services and work is ongoing to continue to reduce these levels to below average sickness figures. To reduce costs and

improve service resilience and morale, work is ongoing to support better attendance levels in some areas;

- A high level of failure demand across some services, i.e. an unwanted demand on the service. For example, the percentage of calls to Connect to Cardiff in 2013/14 which were considered to be high failure demand can be reduced through revised systems of work and greater engagement with frontline teams to problems;
- solve and create a 'first time fix' environment;
- A lack of industry standard software and hardware to support processes, such as mobile working technology, which would facilitate better management of performance, information and allocation/ scheduling of work, reduce wasted time and back office processes;
- There is a need for significantly improved communication and sense of trust between the workforce, supervisors and managers in certain areas and across support services;
- Service delivery needs to be more firmly focused and concentrated on the requirements of the customer (internal and external), the users of the environment, facilities or vehicles and support services;
- Services need to be enabled to be commercial in daily activities to improve service performance management and income generation, this is also currently hampered by a lack of suitable systems for capturing appropriate data and business intelligence;
- Pay enhancements, which make working at night or at weekends more costly;
- The duplication of activities across services due to the existing silo approach of services within directorates for vested land management. A 'One Council' ethos is required;
- Reliability of performance of fleet and users' care of vehicles hampers the efficient delivery of front line services and there is a need to implement a robust vehicle and associated financial management system.

15. The potential impact of the external environment upon the services in scope is reflected in the opportunities and threats. The opportunities identified included:

- Further commercialisation of services to increase the amount of external income earned, for example, through: growing the Council's commercial waste business; undertaking street cleansing for private and other public sector clients; vehicle servicing; the delivery of more building management, cleaning and grounds maintenance services for schools and other organisations; and providing design services for other organisations;
- Expanding current services through in-sourcing of currently subcontracted work and civil engineering work carried out by other parts of the Council. The Council's capital and revenue expenditure on 'Highways Maintenance and Construction' and 'Civil Construction' in 2013/14 is estimated at approximately £18m;
- Collaboration and partnership development of services with adjacent local authorities, for example for: commercial waste, highway repair and winter maintenance, fleet management and any of the in-scope infrastructure design services (parks, construction and transport);
- Improving existing partnerships and developing new relationships with community enterprise groups and the third sector voluntary groups, for examples, reuse enterprises, the Probation Service, Litter Champions, and Parks Volunteer Groups;
- Implementation of an improved operating model with the objective of addressing some or all the areas of weakness identified and enabling the above opportunities to be secured, and commercially realised;
- Improving existing partnerships and developing new relationships Public/ Public/ Private Partnerships.

16. **Appendix 1** also mentions a number of external budget threats to ongoing service delivery in Cardiff, these included:

- The impact of further revenue budget and grant reductions (e.g. Sustainable Waste Grant, reduction of Local Government Borrowing Initiative funding for highways from Welsh Government);
- An increase in demand resulting from demographic growth;
- An increase in competition from external organisations;
- Legislative drivers and continual change, for example, in waste, water and drainage, general enforcement and transport.

17. The report quoted the staff levels and cost of running the services within scope of the alternative delivery model review in 2014/15 as:

- £54,812,000 – gross budget 2014/15
- £23,596,000 – net controllable budget 2014/15
- 1,343 – full time equivalent employees
- £6,000,000 - non-controllable costs
- £2,500,000 - central support costs.

Project Objectives

18. **Appendix 1** describes the key objective of the Infrastructure Services project as ‘to significantly reduce the operating costs for the services within scope whilst protecting front line service delivery as far it is possible to do so’. The report also states the following as project objectives:

- Improve outcomes to address current performance weaknesses;
- Improve customer satisfaction, demand management and reduced failure demand, to more effectively address the increasing demand for services;
- Develop effective partnership and collaborative working, where appropriate.

Alternative Delivery Models

19. **Appendix 1** identifies seven different alternative delivery models which the Council had been considering, these were:

- Modified in-house service delivery;
- Establishment of wholly owned arms length company;
- Public/Public Joint Venture;
- Public/Private Joint Venture;
- Social Enterprise (Co-operatives and Mutual);
- Collaboration (Shared Service Agreement);

- Outsourcing.
20. **Appendix 1** provides a brief description of each of the models. However, to take the process forward the Cabinet decided to undertake further detailed research on a shortlist of five options. These were to be considered as a part of the 'Outline Business Case'. The five shortlisted options were:
- Modified In-house;
 - Wholly Owned Arms Length Company;
 - Public/Public Joint Venture;
 - Public/Private Joint Venture;
 - Outsourcing.
21. At the meeting it was proposed that the five shortlisted models were put forward for business case analysis to identify which would best meet the project objectives in delivering the services in scope.
22. To support the process the Council published a Prior Information Notice (PIN) with a Memorandum of Information in the European Journal to ascertain market interest in the scope of services within the scope of the Infrastructure Services project. The notice made it clear that the Council was considering all options and that there was no indication that a procurement exercise would be undertaken. The PIN was published on 21 November 2014. This resulted in an open day on 8 December 2014 and a series of individual meetings with interested parties during the week commencing 15 December 2014. The findings from this exercise have contributed to the body of evidence used to determine Cabinet proposals for future service delivery for the scope of services within the scope of the Infrastructure Services project.

Stakeholder Engagement

23. **Appendix 1** explains that engagement with key stakeholders was identified as an important factor to the ultimate success of the project. The report listed the key stakeholders as:

- Elected Members;
- Trade Unions;
- Council employees;
- Cardiff residents;
- Private, third sector and other public organisations.

24. The approach to stakeholder engagement was explained in **Appendix 1**. The work to be undertaken included:

- Liaison with trade union representatives through the Trade Union Budget Forum;
- Regular staff progress briefings;
- Member updates via the Members newsletter;
- A resident view to be obtained through the 'Cardiff Debate' engagement and collaboration process;
- Ongoing engagement with the private, third sector and other public organisations.

25. In conclusion **Appendix 1** made five recommendations which were accepted. These were:

- To note the work undertaken to date on the Infrastructure Services project.
- To agree that the recommended short list of alternative delivery models stated below be subject to a) consultation with residents of Cardiff; b) a business case analysis with the intention of identifying preferred future service delivery model(s) for the scope of services (as may have been amended):
 - Modified In-house
 - Wholly Owned Arms Length Company
 - Public/Public Joint Venture
 - Public/Private Joint Venture, and;
 - Outsourcing.
- Approve the publication of a Prior Information Notice (PIN) with a Memorandum of Information in the European Journal to ascertain market interest in the scope

of services and models of recommendation 2 covered by the Infrastructure Services project.

- Note the work ongoing to test a more efficient in house model at neighbourhood level, and delegate authority to the Chief Executive, to allocate resources as required to maximise the effectiveness of the pilot.
- Receive a further report following completion of the business analysis which will set out the responses received to the consultation and the impact which those responses have had on the development of the business analysis and making a recommendation as to the preferred future service delivery model(s) to be adopted.

Previous Scrutiny

- **Cardiff Outdoors – Land Management & Commercial Opportunities**

26. During 2013/14 the Environmental Scrutiny Committee undertook a task & finish exercise titled 'Cardiff Outdoors – Land Management & Commercial Opportunities'. While looking into the Commercial Opportunities element the task group considered the use of local authority trading companies. In doing this the task group identified a company called Norse Commercial Services Ltd as an example of good practice in terms of commercial expertise in a local government environment. As a part of the fact finding exercise Members met with representatives from Norse Commercial Services to find out more about the Public / Public Joint Venture model operated by the company on behalf of Norfolk County Council. They also met with officers from Newport Council who had at the time had recently established a Public / Public Joint Venture with Norse Commercial Services Limited for the delivery of its property services.
27. As a consequence of this work the task group wrote two letters to the Cabinet Member for the Environment. The first letter dated 7 March 2014 was based on 'Cardiff Outdoors – Commercial Scope & Opportunities' while the second letter dated

2 July 2014 focused specifically on the 'Cardiff Outdoors – Newport Norse Briefing'. Copies of these letters are attached to this report as **Appendices 2 & 3** respectively. The Cabinet Member response to the 'Cardiff Outdoors – Newport Norse Briefing' is attached to this report as **Appendix 4**.

- **Infrastructure Business Model & Alternative Delivery Options - Policy Review & Performance Scrutiny Committee and Environmental Scrutiny Committee Briefings July 2014**

28. At a meeting on the 1 July 2014 the Policy Review & Performance Scrutiny Committee received an item titled 'Infrastructure Business Model & Alternative Delivery Options'. The Environmental Scrutiny Committee received the same item at a meeting on 8 July 2014. The papers for both meetings are attached as **Appendices 5 & 6**. The item provided Members with a briefing on the Infrastructure Services project and provided a summary of the range of alternative delivery models that could be used to deliver services potentially within the scope of the project. The report set out the following five phase approach for delivery of an alternative delivery model:

- Phase 1 – Service Review
- Phase 2 – Options Appraisal
- Phase 3 – Detailed Business Plan
- Phase 4 – Commence Implementation
- Phase 5 – Commence Delivery of Services.

29. During the item a series of potential benefits were listed for the implementation of an alternative delivery model, these were:

- Reduction in Council's base budget support for the services in scope;
- Efficiency improvements in the delivery of services;
- Improvement in quality of service delivery;
- Development of a strong commercial focus.

30. The report concluded by setting out the major risks facing the Infrastructure Services project, these were:

- Future service delivery model not implemented within required timescale;
- The 'wrong' future service delivery model is approved and implemented;
- Anticipated savings and other benefits are not realised;
- 'Mismatches' with other Council services and interfaces;
- Industrial relations issues;
- Cabinet does not support and approve Project;
- Member resistance to proposed future model for service delivery;
- Project spend exceeds approved budget;
- Service users' resistance to proposed future model for service delivery.

31. After the Environmental Scrutiny Committee meeting a letter was sent by the Chairperson of the Environmental Scrutiny Committee to the Cabinet Member for the Environment; this letter is attached as **Appendix 7**. The main comment within the letter was:

'The Committee understand and support the work currently being undertaken to develop alternative delivery models for a range of front line services in Cardiff. As the majority of services under consideration in the 'Infrastructure Business Model' fall within the terms of reference of the Environmental Scrutiny Committee the Members have agreed to undertake a joint scrutiny with the Policy Review & Performance Scrutiny Committee into the potential delivery options available to the Council. It is anticipated that the inquiry will start within a few weeks and look to support the work that you are currently undertaking to identify a suitable alternative delivery model for services in Cardiff. I will keep you updated on the progress of the inquiry'.

- **Joint Task & Finish Exercise – Policy Review & Performance Scrutiny Committee and Environmental Scrutiny Committee – 'Infrastructure Business Model & Alternative Delivery Options'**

32. The joint inquiry was undertaken in partnership with Policy Review & Performance Scrutiny Committee (PRAP), was started by Members on 1 September 2014. The aim of the inquiry was to review the range of available alternative delivery models that could be used by the Council to deliver a range of outdoor front line services. In doing so the inquiry focused on the potential range of services that could be delivered using alternative service delivery models and the range of operating models currently being considered by the City of Cardiff Council. When evaluating alternative delivery options and the potential services to be included in the model, the inquiry explored a number of key factors including:

- Service delivery;
- Financial impact;
- Staffing impact;
- Legal impact;
- Deliverability and potential risk;
- Identification of a suitable priority based selection criteria that could be used to identify the most appropriate operating model for delivery of front line services;
- Strengths and weaknesses of each alternative delivery model;
- Lessons learnt from other local authorities on the implementation of alternative delivery models.

33. A key part of the work of the task group has been to individually review how prepared each of the 14 services were to transfer across to a new Infrastructure Business Model. The first part of this evidence section looked at each of the individual services and provided:

- A brief description of the service;
- A summary of the volume of work involved;
- Details on the statutory requirements of the service;
- A summary of the financial and budgetary position;
- Comment on any systems and resources issues;
- A description of existing and potential future income opportunities;
- Detail on the current benchmarking and performance management of the service.

34. It also reviewed the SWOT analysis undertaken for each of the services. In doing this it summarised the results by theme. SWOT analyses were carried out for each of the 'Fundamental Service Review Documents' completed. The Members received evidence from over 100 witnesses, had 10 meetings and made three visits. The report made 27 recommendations including a recommendation that a Public / Public Joint Venture should be the main model adopted for Infrastructure Services.
35. A copy of the joint task group report titled 'Infrastructure Business Model & Alternative Delivery Options' is due to be attached to this report, subject to approval at the Policy Review & Performance Scrutiny Committee meeting on 7 July. The document is, therefore, marked on this document as **Appendix 8** 'to follow'.
36. The Cabinet response to the 'Infrastructure Business Model & Alternative Delivery Options' is also due to be received at this meeting and has been marked on this report as **Appendix 9** 'to follow', i.e. the Cabinet will not be in a position to issue a response until Appendix 9 is approved. It is anticipated that **Appendices 8 & 9** will be issued to Members shortly after the Policy Review & Performance Scrutiny Committee meeting on 7 July.
37. It should be noted that at the Environmental Scrutiny Committee meeting on 9 June 2015 the Committee were informed that the future proposed Gross Budget for running the services within the scope of the Infrastructure Services project was approximately £73 million. This is an increase in spend of £18 million when compared with the figure of £55 million provided to the task group. Following the meeting on 9 June the Chair of the Committee wrote to the Cabinet Member for the Environment asking for an explanation of the difference in costs for running the service.

Future Actions (as at 3 July 2015)

38. A joint task group draft report titled 'Infrastructure Business Model & Alternative Delivery Options' was received by the Environmental Scrutiny Committee at their meeting on 9 June 2015. After consideration the report was endorsed by the Environmental Scrutiny Committee and passed onto the Policy Review & Performance Scrutiny Committee without any alterations being required.

39. An item titled 'Infrastructure Business Model & Alternative Delivery Options' is due to be considered at the Policy Review & Performance Scrutiny Committee meeting on 7 July 2015. This will provide Members of the Policy Review & Performance Scrutiny Committee with the opportunity to comment on and suggest alterations to the joint task group draft report titled 'Infrastructure Business Model & Alternative Delivery Options'. It is anticipated that, subject to any potential changes, the report will be approved and, therefore, finalised at the meeting.
40. Once finalised the joint task group report titled 'Infrastructure Business Model & Alternative Delivery Options' will be sent to the Cabinet for their consideration. It is anticipated that a Cabinet response to the report will be presented to Members of the Environmental Scrutiny Committee and Policy Review & Performance Scrutiny Committee at this meeting. As previously mentioned this will be attached to this report as **Appendix 9** 'to follow'.
41. The Policy Review & Performance Scrutiny Committee is due to receive an item titled 'Alternative Delivery Models: Evaluation Methodology' at its meeting on 7 July 2015. This item aims to provide Members with information for on the Council's emerging methodology for evaluating Alternative Delivery Models. The Policy Review & Performance Scrutiny Committee cover report states that:

'Various Council directorates are currently developing proposals for alternative delivery of Council services, to meet the financial and service pressures facing the organisation. A growing range of options is available to meet the specific needs of a service to deliver more for less, and to benefit from the unique advantages that can be delivered by that option. These options include modifying the existing in-house service, developing Council-owned trading companies, entering into joint ventures with other public bodies, and outsourcing to the private sector.'

It is considered important that decisions on the recommended model of delivery for a Council service are taken in an appropriate, consistent and evidence-led manner, to ensure their optimal efficiency and sustainability. Officers within the Council's Commissioning and Procurement Team have therefore been working with colleagues to develop an Evaluation Methodology that will guide practice and ensure accountability for recommended decisions, many of which will be reported

through the Programme for Organisational Development. The Methodology has been independently assessed by Local Partnerships as being 'appropriate and robust' and is currently being piloted within Infrastructure Services before a scheduled roll out across the Council'.

42. Members should note that this evaluation methodology (referred to in the Joint task group report titled 'Infrastructure Business Model & Alternative Delivery Options' as the 'evaluation matrix') will be applied during the assessment of the Outline Business Case for the Infrastructure Services project. It is anticipated that it will help guide the process to identify the preferred operating model.
43. Following the meeting on 9 July 2015 the Chair of the Policy Review & Performance Scrutiny Committee will write to the Cabinet setting out the comments and observations made during the meeting on:
 - The Cabinet proposals on the future alternative delivery model to be used to deliver services within the scope of the Infrastructure Services project;
 - The process used to identify a preferred alternative delivery model option;
 - The Cabinet response to the joint scrutiny report titled 'Infrastructure Business Model & Alternative Delivery Options'.
44. The Cabinet proposals contained within the report titled 'Infrastructure Services – Alternative Delivery Model' are due to be considered at the Cabinet meeting on 16 July 2015. It is anticipated that the report will identify an alternative delivery model as the preferred option for the Council. The report will also set out a series of actions and timeline for the implementation of the preferred option. The papers for the Cabinet meeting due to be held on 16 July 2015 will be published on 10 July 2015.
45. To allow proper scrutiny of this item the Cabinet report titled 'Infrastructure Services – Alternative Delivery Model' has been included with these papers as **Appendix 10**. This document has been provided to Members on 'yellow papers' as it contains information which is categorised as exempt within the Local Government Act 1972. This means that, at this point in time, **Appendix 10** will be excluded from any public sections of the meeting. The Chair of the Committee will at the start of the meeting

have the opportunity to review this position and decide, with agreement of the Committee, if it is appropriate to allow this information to be publically considered at the meeting.

46. Similarly a paper titled 'Infrastructure Services Alternative Delivery Models: Outline Business Case, July 2015' has been added to this report as **Appendix 11**. Due to the same exemption noted in paragraph 45, a copy of this document will be provided to Members on 'yellow papers'. This means that, at this point in time, **Appendix 11** will be excluded from any public sections of the meeting. The Chair of the Committee will at the start of the meeting have the opportunity to review this position and decide, with agreement of the Committee, if it is appropriate to allow this information to be publically considered at the meeting.

Way Forward

47. The Leader; Cabinet Member for Corporate Services & Performance; Cabinet Member for the Environment; and Cabinet Member for Transport, Planning & Sustainability have been invited to take part in the meeting. At the meeting Members will have the opportunity to question the Cabinet Members and supporting officers on the proposals. Members will also have the opportunity to consider the views of the different trade unions and ask them any questions which they feel are appropriate.

Legal Implications

48. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on

behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

49. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATION

The Committees are recommended to:

- i. Note the contents of the attached reports;
- ii. Consider whether they wish to make any comments to the Cabinet to take into consideration when it receives the Infrastructure Services – Alternative Delivery Model report.

Marie Rosenthal

Director of Governance & Legal Services

3 July 2015

- **Appendix 1** – Cabinet report 'Infrastructure Services – Alternative Delivery Model' - 20 November 2014.
- **Appendix 2** – Cardiff Outdoors Task & Finish Letter – 'Cardiff Outdoors – Commercial Scope & Opportunities' – 7 March 2014.

- **Appendix 3** – Cardiff Outdoors Task & Finish Letter – ‘Cardiff Outdoors – Newport Norse Briefing’ – 2 July 2014.
- **Appendix 4** – Cabinet Response to ‘Cardiff Outdoors Task & Finish Letter - Cardiff Outdoors – Newport Norse Briefing’ – 2 July 2014.
- **Appendix 5** – Policy Review & Performance Scrutiny Committee – Committee papers for item titled ‘Infrastructure Business Model & Alternative Delivery Options’ – 1 July 2014.
- **Appendix 6** – Environmental Scrutiny Committee – Committee papers for item titled ‘Infrastructure Business Model & Alternative Delivery Options’ – 8 July 2014.
- **Appendix 7** – Environmental Scrutiny Committee – Letter to Cabinet Member for the Environment following meeting on the 8 July 2014.
- **Appendix 8** - Joint task group report titled ‘Infrastructure Business Model & Alternative Delivery Options’ – July 2015 – **‘to follow’**.
- **Appendix 9** - Cabinet response to the ‘Infrastructure Business Model & Alternative Delivery Options’ – July 2015 – **‘to follow’**.
- **Appendix 10** - Cabinet report titled ‘Infrastructure Services – Alternative Delivery Model’ – July 2015.
- **Appendix 11** - ‘Infrastructure Services Alternative Delivery Models: Outline Business Case’ - July 2015.

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CABINET MEETING: 20 NOVEMBER 2014

**INFRASTRUCTURE SERVICES - ALTERNATIVE DELIVERY
MODEL**

REPORT OF DIRECTOR ENVIRONMENT AGENDA ITEM: 11

PORTFOLIO: ENVIRONMENT (COUNCILLOR BOB DERBYSHIRE)

Reason for this Report

1. To update Cabinet on the work undertaken to date across the infrastructure services to improve the efficiency and effectiveness of the services, and to evaluate the available alternative delivery models for this service group.
2. To enable Cabinet to agree which future service delivery models should be subject to full outline business case analysis with a view to determining the future delivery of the services.

Background

3. On 15 May 2014, Cabinet approved the report of the Chief Executive entitled '*Establishing a Programme of Organisational Change for the City of Cardiff Council*'.
4. The report set out the Cabinet's view that for the Council to effectively address the significant fiscal and other challenges it immediately faces, the Council will need to fundamentally challenge the way that its services are currently delivered and consider a full range of service delivery models and providers.
5. The report launched an Organisational Development Programme comprising five work-streams for the delivery of fundamental changes to address the challenges faced by the Council. The first of these work-streams is Strategic Commissioning which comprises a number of priority areas of work including the Infrastructure Services Alternative Delivery Model project.
6. On 17 July 2014, the Cabinet considered and approved the 'Budget Strategy 2015/16 and Medium Term' report. The report highlighted the seriousness of the worsening financial position for the Council and that potential savings to meet the indicative budget gap of £45.5m for 2015/16 and £124m across the period of the Medium Term Financial Plan (2015/18) needed to be identified. In response, Directorates across

the Council have been set challenging saving targets for the 3 year Medium Term Financial Period.

7. The achievement of significant savings through the Organisational Development programme from projects including Infrastructure Services will be an important factor in the Council's implementation of its Medium Term Financial Plan, a point underlined by the Welsh Audit Office's Corporate Assessment published in September 2014.
8. Alongside this analysis of alternative delivery methods for Infrastructure Services, significant progress is also being made on the Neighbourhood Management Services approach. This is a cross-directorate initiative, building upon the work commenced under the Cardiff Outdoors project, with the objective of delivering both cost efficiencies and an improvement in customer satisfaction. This initiative is described in more detail within the main body of this report, and supports the modifications to the in house service provision, which are necessary in any case.

Infrastructure Services currently in scope

The services within scope of the Infrastructure Services project are listed in the table 1 below:

Table 1 Directorates and services in scope for Infrastructure Services

Directorate	Divisions
ENVIRONMENT	Waste Collections, Street Cleansing, Education & Enforcement, Materials Recycling Facility, Waste Transfer Station, Household Waste Recycling Centres, Pest control
STRATEGIC PLANNING, TRANSPORT AND HIGHWAYS	Highway Operations, Drainage, Street Lighting, Highway Asset Management, Telematics, Infrastructure Design and Construction
SPORT LEISURE AND CULTURE	Park Management, Parks Development (Strategy Design and Land Management)
RESOURCES	Central Transport Services, Cleaning (non schools), Security and Portering
ECONOMIC DEVELOPMENT	Projects Design and Development

Infrastructure Services – The Case for Change

9. In line with the Chief Executive's May 2015 report presenting the Organisational Development Programme, a Service Review has been completed for each service in scope of the project listed in Table 1. This

review followed a corporately agreed format to ensure a structured, consistent and transparent approach was taken to identifying the strengths, weaknesses, opportunities and threats facing the service, taking account of the needs of customers and their demands on the service, staffing of the service; service delivery performance, and financial performance.

10. From these reviews a statement of the strengths, weaknesses, opportunities, and threats (SWOT) relevant to the services is being prepared. This is summarised below and articulates a compelling case for significant change to the current operating models in place.

11. The strengths identified by the Service Reviews include:

- The resources and facilities that are available to the Council for the delivery of services, for example, depot facilities at Lamby Way, Brindley Road and the new Central Transport Service facility at Coleridge Road;
- Long term collaborative contracts in place/ being put in place for the treatment and disposal residual and organic wastes;
- Appropriately skilled front line and managerial/ professional resources with strong knowledge and skills relevant to the Services that are currently being delivered; and
- Generally good levels of Customer Satisfaction for the services in scope based on 'Ask Cardiff' surveys.

12. However, a significant number of service delivery weaknesses were also identified. The significant issues identified include:

- For the first six months of 14/15 there has generally been an improving picture in terms of sickness across the scope of services and work is ongoing to continue to reduce these levels to below average sickness figures. To reduce costs and improve service resilience and morale, work is ongoing to support better attendance levels in some areas;
- A high level of failure demand across some services i.e. an unwanted demand on the service. For example, the percentage of calls to Connect to Cardiff in 2013/14 which were considered to be high failure demand can be reduced through revised systems of work and greater engagement with frontline teams to problems solve and create a first time fix environment;
- A lack of industry standard software and hardware to support processes, such as mobile working technology, which would facilitate better management of performance, information and allocation/ scheduling of work, reduce wasted time and back office processes;
- There is a need for significantly improved communication and sense of trust between the workforce, supervisors and managers in certain areas and across support services;
- A better focus of Service Delivery needs to be more concentrated on the requirements of the customer (internal and external), the

users of the environment, facilities or vehicles and support services;

- Services need to be enabled to be commercial in daily activities to improve service performance management and income generation, this is also currently hampered by a lack of suitable systems for capturing appropriate data and business intelligence;
- Pay enhancements, which make working at night or at weekends more costly;
- The duplication of activities across services due to the existing silo approach of services within directorates for vested land management. A 'One Council' ethos is required; and
- Reliability of performance of fleet and users care of vehicles hampers the efficient delivery of front line services and there is a need to implement a robust vehicle and associated financial management system.

13. The potential impact of the external environment upon the services in scope is reflected in the opportunities and threats. The opportunities identified included:

- Further commercialisation of services to increase the amount of external income earned, for example, through: growing the Council's commercial waste business; undertaking street cleansing for private and other public sector clients; vehicle servicing; the delivery of more building management, cleaning and grounds maintenance services for schools and other organisations, and providing design services for other organisations;
- Expanding current services through in-sourcing of currently sub-contracted work and civil engineering work carried out by other parts of the Council. The Council's capital and revenue expenditure on 'Highways Maintenance and Construction' and 'Civils Construction' in 2013/14 is estimated at approximately £18m;
- Collaboration and partnership development of services with adjacent local authorities, for example for: commercial waste, highway repair and winter maintenance, fleet management and any of the in-scope infrastructure design services (parks, construction and transport);
- Improving existing partnerships and developing new relationships with community enterprise groups and the third sector voluntary groups, for examples, reuse enterprises, the Probation Service, Litter Champions, and Parks Volunteer Groups;
- Implementation of an improved operating model with the objective of addressing some or all the areas of weakness identified and enabling the above opportunities to be secured, and commercially realised.
- Improving existing partnerships and developing new relationships Public/ Public/ Private partnerships.

14. In respect of external threats, the priority issues identified are budget related, that is, the impact of further revenue budget and grant (e.g. Sustainable Waste Grant, reduction of LGBI funding for highways from

Welsh Government), increase in demand resulting from demographic growth and an increase in competition from external organisations, legislative drivers and continual change for example in: waste, water and drainage, general enforcement and transport.

Financial Situation

15. In terms of service scale, the table below presents the number of Full Time Equivalent (FTE) posts, and both the gross and net controllable expenditure budgets for 2014/15.
16. For the Services in scope, there are also significant 2014/15 budgets for non-controllable costs, which include insurance, energy and NNDR, and Central Support costs of approximately £6m and £2.5m respectively. Non-controllable costs are subject to a detailed efficiency review, for example with regard to energy efficiency targets, whilst providers of Central Support Services have their own savings targets. A number of Central Support costs are also fixed in the short term, for example some ICT and accommodation costs, and consequently there will not be a direct correlation between changes in the direct costs of the budgets in scope and their associated central support costs.

Service	No. of FTE'S	Net	
		Gross Budget 14/15 (£'000's)	Controllable Budget 14/15 (£'000's)
Waste Collection Services	234	12,364	3,936
Street Cleansing	187	6,320	5,815
Waste Education and Enforcement	48	1,758	1,049
Materials Recycling Facility	51	2,080	214
Waste Transfer Station	12	557	557
Household Waste Recycling Centre's	18	940	442
Pest Control	9	306	5
Total Environment Directorate	558	24,325	12,018
Highways Operations	22	2,678	1,786
Drainage Services	10	800	438
Street Lighting	9	783	734
Highways Asset Management	27	1,465	621
Highways Maintenance Management	26	1,495	1,292
Telematics	23	2,366	2,046
Infrastructue Design and Construction	25	1,038	67
Total Strategic Planning, Highways & Transport	142	10,625	6,850
Parks Management	157	6,651	4,594
Parks Development (Strategy Design and Land Management)	19	952	321
Total Sport Leisure and Culture	176	7,603	4,915
Central Transport Service	40	7,837	172
Cleaning (Non-schools)	312	1,637	9
Security and Portering	73	774	1
Total Resources	425	10,248	182
Projects Design and Development	42	2,011	5
Total Economic Development	42	2,011	5
TOTAL	1,343	54,812	23,596

Note: The non-controllable costs and Central Support costs for the services in scope are approximately £6m and £2.5m respectively

17. It should be noted that consideration is currently also being given to the 'hard' Facilities Management Services (i.e. Building Maintenance for schools and council assets but excluding housing) being added to the scope of services for this project. The gross and net expenditure controllable budgets for these services for 2014/15 are approximately £10.15m and (£104,000) respectively taking into account the income received. The number of Full Time Equivalents (FTE) employed by the Service is 51.
18. It should also be noted that the Pest Control Service is currently also included within the scope of services being proposed for the regionalisation of Regulatory Services across Cardiff, the Vale of Glamorgan and Bridgend, which is not yet fixed in its entirety, its main focus being on Consumer Protection, Public Protection and Licensing. The detailed design of the Regional Regulatory Services and the Infrastructure Service Alternative Delivery Model business case will run in parallel and a best fit decision (within their respective governance structures) made in respect of Pest Control services, before February 2015.
19. In addition, within the Parks service, there is already a mixed economy of provision, with a number of functions delivered through community partnerships and commercial contract as well as in-house. However, the full service review of the Parks service is identifying a number of opportunities for further detailed investigation. These include services such as Landscape Design, Arboriculture and Nursery, which the service is keen to explore. Caution will have to be exercised so that the right solutions are found for these and other services that provide financial savings whilst enhancing or maintaining quality provision. Hence, sensitivity will be required regarding the extent to which elements of the Parks service are included within any wider alternative delivery model.

Infrastructure Services – Project Objectives

20. In view of the Council's critical financial situation and the challenging MTFP saving targets faced by all of the Directorates within scope, a key objective of the Infrastructure Services project is to significantly reduce the operating costs for the services within scope whilst protecting front line service delivery as far it is possible to do so. The other project objectives, in accordance with the Chief Executive's May 2015 Cabinet Report, are to:
 - Improve outcomes to address current performance weaknesses;
 - Improve customer satisfaction, demand management and reduced failure demand, to more effectively address the increasing demand for services, and
 - Develop effective partnership and collaborative working, where appropriate.
21. To facilitate the achievement of these objectives, a priority issue for the Infrastructure Services Project is the consideration and appraisal of

alternative delivery models for the services in scope. This is discussed in more detail later in the report, and examples of Councils that have adopted these as part of their transformation process are given in Appendix 1.

22. It is important to note that the Council is fully committed to strengthening working relations with the Trade Unions to deliver its transformation programme. In doing so, the Council will continue to build upon the partnership with the Trade Unions to deliver its transformation programme in consideration of the challenging times ahead. This will be of particular benefit in delivering the changes required to the Services within scope of this project, including those covered by the Neighbourhood Management Services initiative which is explained in more detail later in the report.

Alternative Delivery Model Options

23. In order to secure a sustainable future for the delivery of the infrastructure services, seven alternative delivery models (ADMs) have been researched and appraised with the objective of identifying the most suitable future delivery model for addressing the significant fiscal challenges currently faced by the Council and the issues identified through the service reviews.
24. The models listed below have been subject to an initial review with the objective of recommending to Cabinet a shorter list of options at this reporting stage which would then be subject to a detailed options appraisal to identify the preferred operating methodology going forward:
 - Modified in-house service delivery
 - Establishment of wholly owned arms length company
 - Public/Public Joint Venture
 - Public/Private Joint Venture
 - Social Enterprise (Co-operatives and mutuals)
 - Collaboration (Shared Service Agreement)
 - Outsourcing
25. Further information regarding these models is provided below.

Modified In-house Service Delivery

26. The current climate of rapid and large budget savings required from the services in scope of Infrastructure Services would require the existing in-house service to undergo a radical change of operation and support services. This change would range from joining some services together and increasing the skills base and training of staff to create flexibility of the workforce at all levels. Coupled with support required from a strong leadership to enable managers to address issues of service redesign, policy changes, working patterns and a strong management commitment to building capacity to deliver an extensive change programme. The programme will also require the necessary investment in removing waste from processes through applying lean methodologies to allow systems

such as mobile scheduling technologies and other tools to enable frontline teams to be enabled and responsible for activities directly and good decision making.

27. SMART Performance measures that are meaningful to customers and teams need to be developed and applied to services. These measures need to be easily presentable and timely in production, so that management can make properly informed decisions. The services would need to focus on being unashamedly business like with all commercial opportunities exploited in full to optimise external income and only competitive, cost effective internal trading applied. Zero based budgeting and overhead recharging reviews would also need to be undertaken to ensure stronger competitiveness with the private sector.
28. Therefore for a modified in house model to be fully successful, significant change would need to be made to the roles and organisation of resources; with a programme of cultural change being implemented to ensure a step change in the quality of service delivery and commercial performance is attained. Issues identified in the Service Reviews would also need to be addressed. For instance, encouraging staff to think of income generation and getting these ideas into workable propositions. It may also be necessary to secure additional organisation change and commercial acumen skills sets to ensure certainty in delivery of the required scale of changes.
29. The change process would have to be implemented in accordance with a programme designed to achieve the required level of performance improvement and satisfy the critical budget timescales faced by the Council. In view of the scale of internal changes required, full implementation would probably be rolled out over a phased period with early changes starting within six months and full benefits within six to twenty four months, dependent upon the speed of support and leadership to implement those changes
30. In terms of trading and income provision it should be noted that opportunities for additional trading are not without limit. In this context it should be borne in mind that an Authority has to rely on statutory powers to trade in an activity and it cannot rely on the general power under section 95 Local Government Act 2003 without establishing a corporate vehicle.
31. In order to assess the scale of opportunity that exists whilst retaining the services in house, work to identify possible areas for service improvement and efficiency gains was independently evaluated by the Innovation Network of the Improvement and Efficiency Social Network (IESE). IESE is a not-for-profit social enterprise owned, led and governed by councils that helps public bodies throughout the UK deliver improved services at lower cost.
32. In undertaking its work, IESE representatives have visited Cardiff, met with Managers, Team Leaders and some front line staff. They have also been on site to see 'first hand' how some key operations are undertaken.

The work by IESE is ongoing, but initial feedback from IESE on key issues identified have been provided and noted, highlighting potential efficiency opportunities.

33. The work of the Neighbourhood Management Services approach will assess operational options of closer working of frontline services for land management i.e. those involved with parks maintenance, housing land maintenance, street cleansing, environmental and parking enforcement. It will test how these ideas can be taken forward together with other opportunities. It should be noted that many of the issues and opportunities for improvement are those provided by the Council teams and a number of opportunities are all ready in train, for example the delivery of the revised waste strategy to meet recycling targets and allotment services moving towards community based organisations; some others are already in an implementation phase within the services.
34. Due to time limitations the review has not been in-depth to date and much more detailed business case assessment for an Improved In House model is required for all other services within the scope of Infrastructure Services. Clearly, detailed engagement with staff at all levels and their TU representatives to fully appraise all performance and efficiency opportunities would be undertaken. The additional information that the IESE analysis has brought to date, is to highlight where there are further areas to consider for in-house improvement across the infrastructure services.
35. As part of the process of securing the efficiencies available through a modified in house option, work is ongoing to utilise the lean methodology to establish a new approach for Cardiff South West Neighbourhood Management Area which comprises the wards of Riverside, Canton, Caerau and Ely. The objectives of this work are to provide an improved land and street scene service, whilst delivering cost efficiencies and improved customer satisfaction; maintaining resilience to service performance during significant budget cuts. This will be achieved as a result of service delivery becoming more responsive to the needs of the community and allowing staff to have more autonomy in addressing these needs. Details regarding resource analysis, planning and implementation are currently being prepared by the Project Team with Value Stream Analysis events and rapid improvement events with frontline operational teams being held. It is intended that this work will provide important input in to the development of the Modified In-house Delivery Model for the business case analysis stage of this project, which will determine the preferred future delivery model.
36. Crucially, the work on Modified In House Delivery needs to be progressed with all haste in order to provide a robust in-house model against which to evaluate the business cases for other delivery models, and to enable the Council to address the immediate financial and performance challenges that it faces.
37. Work on the in house model is currently being progressed via the lean methodology, however, work will also be required to evaluate how best

an in house service for all areas in scope could compete with other delivery models where, for example, different policies and practices might apply, together with flexibilities, such as opportunities for trading.

Establishment of wholly owned arms length company

38. Section 95 of the Local Government Act 2003 provides powers to a local authority to transfer in-house services to a trading company where the local authority is the majority shareholder. The main effect of this is to enable Council's to trade with the private sector in respect of function related activities for a profit and enter into commercial contracts. The profits then go back to the Council through dividends or rebates on service charges.
39. The trading company has an independent board and management structure but is accountable to the Council through both a contractual arrangement and a Council governance arrangement.
40. It is important to note that whilst the creation of a local authority company does not itself give rise to procurement implications, the arrangements entered into with the company are prima facie caught by the procurement rules. However, if the local authority company satisfies the provisions of the "Teckal exemption", then the local authority may 'passport' work to the company without following a formal procurement process.
41. For the company to benefit from the "Teckal exemption", the following criteria must be satisfied:
 - a) the trading company must be wholly owned by the local authority, and there can be no private ownership or interest in the company;
 - b) the local authority exercises a control which is similar to that which it exercises over its own departments, and
 - c) the trading activity of the company must not exceed 20% of the turnover of the company, that is, 80% or more of the activity of the company must be for its public sector owners.
42. The Council's staff would transfer to the new company through the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) meaning that their existing Terms and Conditions would be protected. However, as with the models to be discussed later in this report, the non-contractual elements of employment under the wholly owned company model would be structured towards improving organisation performance and service delivery.
43. 'Teckal' companies set up by Council's have benefited from a greater autonomy allowing the adoption of a 'sharper' performance management culture and the implementation of more dynamic governance arrangements more suited to commercial activities. The close relationship between the company and the Council would allow service delivery requirements to be adjusted annually and set out in the company's business plan which it's Board, which would include Council representatives (whose role as Directors requires them to act in the

interests of the company), would approve. This mechanism would enable the company to more easily deliver further budget reductions if required to do so by the Council. As previously stated, any operating surpluses would be returned to the Council as a dividend (which would be subject to tax) or service charge rebates. The commercial risks in respect of any losses etc would be borne by the Council. Based on discussions with other Councils, these arrangements would typically take 9 -12 months to establish. However, a transitional bedding-in period would be required (approximately 12 months) before significant improvements would start to be achieved. The cost of set up, based on discussions with recently established similar organisations, could be in the region of £250,000.

Public/ Public Joint Venture

44. Under this model, the Council would form a joint venture with another public organisation to deliver services. Entering into a Joint Venture (JV) with a suitable partner would enable the Council to access and share external expertise with the objective of addressing its budget challenges and the issues identified through the service review process.
45. The Company would have an independent board (comprising representatives from the Council and JV partner) and be accountable to the Council and JV partner through contractual and company governance arrangements. Staff would be transferred to the JV under TUPE. Public/Public Joint Ventures can also use 'Teckal' rules to deliver public services to citizens within the Council's areas subject to the 'Teckal' criteria being satisfied. The Council, as one of the public partners, can then 'passport' its services to the JV company for delivery. The JV companies also undertake trading activities with the objective of providing a 'dividend' or profit share back to the JV partners.
46. Typically, under a JV arrangement a joint Board is established with both partners having Board Members; and suitable arrangements for profit share based on the risk and investment borne by each party. The Council's ability to vary the budget provided to the JV on an annual basis would be built into the service agreement. As the Council would be a partner to the company and not the whole owner, its control over the company and ability to 'flex' its requirements would be less than if it was a wholly owned the company.

Public/Private Joint Venture

47. Under this model, the Council would form a JV with a private sector organisation to deliver services. Entering into a JV with a suitable partner would enable the Council to access and share external expertise with the objective of addressing its budget challenges and the issues identified through the service review process.
48. The Company would have an independent board (comprising representatives from the Council and JV partner) and be accountable to the Council and JV partner through contractual and Company

governance arrangements. There would also be a suitable level of profit share based on the risk and investment borne by each party. Staff would be transferred to the JV under TUPE or secondment arrangements (if required).

49. Unlike the public sector JV referred to above where the 'Teckal' exemption is deemed to apply, a formal procurement process would need to be undertaken prior to establishing a private JV partnership. Assuming the competitive dialogue procurement process is followed, the procurement is likely to take 18 – 24 months and be relatively expensive (up to £500,000) with the Council being responsible for these costs. However the tender process could be utilised to procure a suitable partner and award a contract for works to be undertaken as part of the same process.
50. The Council's ability to vary the budget provided to the JV on an annual basis would be built into the services agreement. As the Council would be a partner to the company and not the whole owner, its control over the company and ability to 'flex' its requirements would be less than if it wholly owned the company.

Social enterprises (e.g. co-operatives and mutuals)

51. The Government's definition of a social enterprise is: "*a business or service with primarily social objectives whose surpluses are principally reinvested for that purpose in the community, rather than being driven by the need to maximise profit for shareholders and owners*" (DTI 2002).
52. The key characteristics of a social enterprise are that:
 - a) They trade, i.e. sell, goods and/or services and any profit or 'surplus' made as a result of their trading activities is either ploughed back into the business or distributed to the community they serve;
 - b) They have a clear social purpose. This may include job creation, or the provision of local facilities e.g. a nursery, community shop, or social care for the elderly, and
 - c) They are owned and managed by either their employees and/or customers.
53. A social enterprise can be a Community Interest Company, a Company Limited by Guarantee, a Company Limited by shares, a Mutual or Industrial and Provident Society, Charitable Incorporated Organisation or Trust.
54. Like any organisation which needs to trade to survive independently, social enterprises need to be competitive in the open market to win contracts. Any benefits and/or operating surpluses achieved would be retained by the company and not passed back to the Council.

55. Under this model, the Council would set up a separate company which would typically be owned and managed by its employees and/or customers and have a clear social purpose. Staff would be transferred under TUPE from the Council to the new company. Such organisations do not comply with the Teckal exemption criteria and therefore have to compete against other organisations to deliver Council services through a formal procurement process.
56. As with any model involving an external entity (whether a wholly owned company or otherwise), the Council would have less direct control over the day to day delivery of its services compared with the in-house model although it would still be seen by the relevant stakeholders as being directly responsible for service delivery.
57. Research undertaken as part of this project has not identified any significant social enterprise models previously established by Councils to deliver the scope of services covered by this project. It is understood that Sunderland Council is currently in the process of developing a mutual approach to deliver its Place based and Place shaping services (Place based services would include some of those that are in scope of this project). However it is understood that this will take the Council at least 18 months to establish, with a large proportion of this time being taken up with procurement activities to secure a suitable investment partner to support the establishment and development of a mutual. In a recent conversation with a Sunderland Council Senior Officer, it was understood that the Council was still in the initial stages of developing its mutual model, and is still somewhat off implementation.

Collaboration (Shared Service Agreement)

58. Local authorities have a wide range of powers to collaborate and share services. The models used can vary greatly but tend to be one of the following (APSE, 2012):
 - Informal – e.g. the sharing of information, staff, or assets between local authorities;
 - Administrative – two or more local authorities working together to effect joined up service delivery, for example, through a Joint Committee or Service Level Agreement;
 - Contractual – establishing a formal contract between two or more authorities to either jointly deliver services or deliver services to each other, and
 - Corporate – providing services through a company set up by the authorities or providing services through a Joint Board.
59. The type of collaboration arrangements adopted would determine the future arrangements for staff employment. For example, if Cardiff Council became the lead authority in any collaborative arrangement, the implementation of TUPE arrangements may not be required for its staff (although it may do for the other Council(s) concerned). However, if Cardiff Council was not the lead authority, its staff would transfer to the lead organisation under TUPE.

60. Services would be delivered in accordance with the specification agreed between the collaborating authorities. Similarly, the Council's level of control over service delivery and the ability to achieve initial savings and subsequent budget adjustments would depend upon the arrangements agreed between the collaborating authorities. The timescales for the establishment and implementation of effective collaborative arrangements are typically long (several years) because of the Corporate processes that each Council needs to follow to achieve the requisite approvals to proceed.
61. Over the past few years, the Council has been progressing a collaboration project in conjunction with the Vale of Glamorgan and Bridgend Borough Councils regarding the delivery of regulatory services. As stated earlier, a report on the proposed arrangements was considered as part of the October 2014 Full Council when Cardiff approved joining the collaboration.
62. Separately as part of this project, officers have met with officers of both the Vale of Glamorgan and Newport Council's to explore opportunities for collaborative working, either directly or through a different model, for the delivery of services within the scope of this project. It is anticipated that further discussions would be held with neighbouring authorities regarding opportunities for collaborative working as this project progresses beyond the business case stage.

Outsourcing

63. Outsourcing would involve the Council contracting the delivery of the services to another (usually private) organisation whilst retaining overall ownership and ultimate responsibility for the delivery of the services. Staff would transfer to the contracted organisation in accordance with TUPE. The contracted organisation would deliver services to the Council in accordance with appropriate specifications identified within a commercial contract. A formal procurement process would need to be undertaken prior to awarding a contract. If the competitive dialogue procurement process was followed, the procurement could take 12 – 18 months (but shorter if using restricted or open procedure which may be applicable for simple competition on delivery of specified services) and be relatively expensive with the Council being responsible for these costs.
64. Similarly to the Social Enterprise model, it would have less ability to 'flex' its requirements, including the budget provision for the delivery of services, on an ongoing basis (though it would still be able to insert relevant provisions to adjust budgets into a service agreement similar to the sort of arrangements now often used in Public/Public JVs and Public/Private JVs). The Council would also have no direct control over the day to day delivery of its services (other than through the monitoring of the contract) although it would still be seen by the relevant stakeholders as being directly responsible for service delivery.

65. Any benefits and/or operating surpluses achieved would normally be retained by the company and not passed back to the Council (though arrangements for sharing of excess profits can be built into contracts).

Financial Opportunities

66. According to the CBI Report (2012: 'Open Access. Delivering Quality and Value in Public Services', "*On average, 11% savings were possible when a service was opened up to new providers and there was a range of savings between 10-20% depending on the service in question. The range in savings shown in this research is consistent with previous research on the performance of independent providers.*" In respect of waste management, the report also makes a conservative estimate of 15% savings from productivity and efficiency improvements which can be delivered by an independent provider.
67. Under models such as the revised in house model, wholly owned company Joint Venture or Public/ Public Joint Venture company it would typically be responsible for the JV set up costs and accept the commercial risk in respect of savings targets not being met. Based on discussions such wholly owned companies, JV's and outsourcing typically take between 6 – 24 months to establish. It is understood that savings in the region of 10 – 20% can typically be achieved over the first 3 years with opportunities for income growth of around 5% per annum after a bedding period.

Summary of Models Considered

68. Officers have undertaken research into merits of these alternative delivery models in respect of the critical challenges now faced by the Council and the issues identified through the Service Reviews. This work has included a review of the above models adopted by some other Councils in respect of the services in scope, where it has been possible to do so. The research has included meetings with representatives from a wide range of organisations across the whole spectrum of delivery models.
69. A high level comparison of these models is being undertaken, and from the research to date, efficiency savings of between 10-20% have been achieved across the range of models for the services in scope. What then needs to be weighed up is the certainty of achieving these efficiencies and further savings and how long they may take to realise, the chance to generate income and where genuine cuts still have to be made in order to balance the budgets for the medium term financial strategy.

Options Proposed for Business Case Analysis

70. To identify the most appropriate service delivery model for the services in scope, it will be necessary to undertake an appropriately detailed business case analysis of the options being considered. This will be a resource intensive process and hence to ensure that the required level of

detail is considered by the analysis, it is important that available resources are focused only on those models that could realistically deliver against the challenges faced by the Council.

71. The future model adopted for the delivery of the services in scope must be able to deliver certainty in the face of the critical challenges for the Council and the individual services. The most critical challenge, as identified at the start of this report, is the rapidly reducing revenue budget over the three year Medium Term Financial Plan period, 2015 to 2018. Hence, with this period commencing in April 2015, it is important that the model is both implemented and thereafter delivering against its objectives in the shortest possible period and with an acceptable risk profile. It is also important for the Council to maintain an ability to amend its budget provision for the delivery of the services, so that it can respond to further budget challenges, and that front line service delivery and corresponding jobs are protected as far as it is possible to do so.
72. Based on the analysis work undertaken to date, there are concerns regarding whether some of the above mentioned models could realistically deliver against the challenges faced. As stated above, a key consideration is the time required for the chosen model to be implemented and thereafter deliver against its objectives. With reference to the Cardiff Council's both previous and ongoing collaboration work with other nearby Council's (e.g. Project Gwyrdd, Regulatory Services collaboration project), it is believed that the timescale for a Shared Services collaborative model to be effectively delivering means Cardiff Council's critical challenges would not be met. However, this does not mean that other collaboration opportunities will not be explored in respect of whichever model is ultimately adopted as the preferred option. This means that it is believed that the adoption of Shared Services type of collaboration, on its own, at the current time, will not give certainty to Cardiff Council in addressing its critical challenges.
73. As stated earlier in the report, research undertaken as part of this project has not identified any significant social enterprise models previously established by Councils to deliver the scope of services covered by this project (although Sunderland understood to be currently in the process of developing a mutual approach to deliver similar services). Taking into account that: a track record for the successful operation of this type of model for the services in scope has not been identified; that newly set-up social enterprises can find it difficult to be competitive and win contracts, thereby putting the future of such organisations at risk, and also the likely 18 months or so set up time, it is believed that the risk in adopting a social enterprise model to address the critical challenges faced by the Council would be too high for the services in scope at the current time. However, such a model may be appropriate for the delivery of other Council services, subject to appropriate business analyses being undertaken.
74. At this current stage of the project, based on the research undertaken to date, it is believed that the remaining models listed below all have the

potential to achieve the project objectives in respect of the services in scope

- Modified In-house,
- Wholly Owned Arms Length Company,
- Public/Public Joint Venture,
- Public/Private Joint Venture and;
- Outsourcing

75. It is therefore proposed that these five models be subject to a business case analysis to identify which would best meet the project objectives in delivering the services in scope.
76. To assist with the business case analysis, it is proposed to publish a Prior Information Notice (PIN) with a Memorandum of Information in the European Journal to ascertain market interest in the scope of service covered by the Infrastructure Services project. The notice will make it clear that the Council is considering all options and that there is no indication that a procurement exercise will be undertaken.
77. On 21st November, the PIN will be forwarded to the European Journal for publication. The PIN will invite interested organisations to an Information Open Day on 8th December 2014 and also offer individual meetings with Council Officers during the week commencing 15th December. It is intended that the business case analysis then be concluded early in 2015, and allowing for the appropriate Scrutiny procedures, a report recommending the preferred way forward be considered by Cabinet in Spring 2015.
78. In the meantime, urgent attention is being given to modifying the current in house service delivery. This work will inform the business case analysis which will be reported to Cabinet as stated in the paragraph above.
79. It is important that appropriate resources are made available to undertake the required business case analysis to facilitate a recommendation on the preferred model being made to Cabinet as reported above. This is being addressed through the Investment Review Board.

Stakeholder Engagement

80. The engagement of key stakeholders has been identified as an important factor in the ultimate success of the project. The key stakeholders on this project include Members, Unions, staff and Cardiff residents.
81. Consultation with the Unions commenced at the end of May, shortly after Cabinet approved the Chief Executives Organisation Development report, through the Trade Union Budget Forum. At the same meeting forum, a progress up date was provided at the end of July. Further high level meetings have been held ahead of this report being considered by Cabinet.

82. As this project progresses stakeholder, including the staff potentially affected will be ongoing.
83. To ensure Members are aware of the project and its progress, it is proposed to provide regular updates through the Members newsletter. The first article was included in the Members July newsletter.
84. Clearly, going forward, the view of Cardiff residents needs to be considered in respect of how services are considered. It is intended that the view of residents regarding the use of alternative delivery models to provide services be sought through the 'Cardiff Debate' engagement and collaboration process. Private, third sector and other public organisations will also be included within this ongoing engagement process.

Scrutiny

85. Ahead of the establishment of the Infrastructure Services project, the Environmental Scrutiny Committee commenced a task and finish exercise entitled 'Cardiff Outdoors – Land Management and Commercial Opportunities'. As part of the Commercial Opportunities element, the Task and Finish Team considered the use of local authority trading companies. Scrutiny Research identified a company called Norse Commercial Services Ltd as an example of good practice. Following a meeting with Norse representatives and also Officers from Newport Council, with whom Norse have now concluded a Joint Venture Agreement for the delivery of its property services, the Environmental Scrutiny Committee produced a letter setting out 27 key findings and 14 recommendations. A copy of the letter is attached at Appendix 2.
86. As the services included within the Cardiff Outdoors project are now mostly included within the Infrastructure Services project, the Committee's findings are directly relevant to this project, particularly as the Public/Public Joint Venture alternative delivery model is recommended by this report as one of the short list of options which should be subject to a detailed business analysis. A response to the letter has therefore been prepared and is attached as Appendix 2. In summary, 11 of the recommendations made by the Committee are accepted with the remaining 3 being partly accepted.
87. The Council's Scrutiny function is going to assess the project as it progresses. As the majority of the services under consideration of the project fall within the remit of the Environmental Scrutiny Committee, the Members have agreed to undertake a joint Scrutiny with the Policy Review and Performance Scrutiny Committee into the potential delivery options for the Council. Initial presentations on the scope and objectives of the project were given to the two Committees at the start of July. A letter from the Chair of the Environmental Scrutiny Committee dated 21st July 2014 which sets out the proposed joint scrutiny arrangements (as well as seeking a response on two other specific service delivery

matters) is attached at Appendix 3 together with the Cabinet Member for the Environment's response.

88. The joint scrutiny work is now ongoing. In the lead up to the finalisation of this report, the Committees reviewed the project work completed to date and the recommendations made in respect of the short list of alternative delivery options identified for a detailed options appraisal. Scrutiny is expected to report on its findings, which will include comments on the proposed options evaluation criteria, in November 2014.

Local Member Consultation

89. Members views regarding the use of alternative delivery models within the scope of the Infrastructure Services project will be sought through the 'Cardiff Debate' process referred to earlier in this report.

Reasons for Recommendations

90. To enable the most appropriate future service delivery model for the services in scope to be determined and thereafter implemented.

Legal Implications

91. The proposed business case analysis will review the ability of each of the short listed options to deliver the services to meet the Council's objectives. That business case analysis will be included in a subsequent Cabinet report alongside legal implications relating to that business case in order that the Cabinet will be able to make a properly informed decision on the appropriate service delivery option.
92. In order to undertake appropriate consultation it is important that it takes place when the proposals are at a formative stage. Hence the recommendations include a proposal to consult on the options being shortlisted for the business case analysis.
93. The Council must have due regard to the responses to the consultation in developing the proposals and in terms of making any decision on the proposals. Accordingly the recommendations make it clear that the consultation responses should be reported to the Cabinet meeting at which the business case is considered.
94. The business case analysis will also need to review the scope and packaging of the services to ensure maximisation of the value for money and minimisation of risks to the Council.

Financial Implications

95. This report provides an update on the work being undertaken by the Infrastructure Services Project within the Organisational Development programme and outlines the "gateway" process to identify the alternative delivery options that will be the subject of more detailed Business Case analysis. The results of this more detailed analysis, including the financial

implications, will be included in subsequent Cabinet reports. Given the scale of the services included within the scope of this project the choice of the most appropriate service delivery model will be a significant factor in the achievement of the Council's organisational development priorities. A further consideration in the choice of the alternative delivery option will be the ability of that model to meet the financial targets of the services in scope identified in the Medium Term Financial Plan.

96. In considering the financial implications of the alternative delivery options a holistic, corporate approach that considers the impact across the council will be required. As well as the direct costs of providing the services in scope this will also capture, for example, the impact on central support and implementation costs.

Human Resources Implications

97. There are HR implications for each of the models identified as recommended to be taken forward to the next stage. Those models for which TUPE would apply have been identified within the main body of the report. The Council is still very keen to consider the modified in-house model, however in order for this to be realistic to take forward in the current budgetary constraints there will need to be consideration regarding not only changes in working practices but also changes to terms and conditions which would make this option viable in relation to the other models being proposed. Full details of the HR implications for the recommended model (and those not recommended) will be included in the subsequent report for Cabinet consideration following the business case analysis of the short list of options.

RECOMMENDATIONS

Cabinet is recommended to:

1. Note the work undertaken to date on the Infrastructure Services project;
2. Agree that the recommended short list of alternative delivery models stated below be subject to:
 - a) consultation with residents of Cardiff;
 - b) a business case analysis with the intention of identifying preferred future service delivery model(s) for the scope of services (as may have been amended) :
 - Modified In-house,
 - Wholly Owned Arms Length Company,
 - Public/Public Joint Venture,
 - Public/Private Joint Venture, and;
 - Outsourcing
3. Approve the publication of a Prior Information Notice (PIN) with a Memorandum of Information in the European Journal to ascertain market

interest in the scope of services and models of recommendation 2 covered by the Infrastructure Services project;

4. Note the work ongoing to test a more efficient in house model at neighbourhood level, and delegate authority to the Chief Executive, to allocate resources as required to maximise the effectiveness of the pilot; and
5. Receive a further report following completion of the business analysis which will set out the responses received to the consultation and the impact which those responses have had on the development of the business analysis and making a recommendation as to the preferred future service delivery model(s) to be adopted.

JANE FORSHAW

Director

14 November 2014

The following appendices are attached:

- Appendix 1 - Examples of Council's that have adopted the Alternative Delivery Models covered by this Report
- Appendix 2 – Letter from Environmental Scrutiny Committee containing Recommendations on Cardiff Outdoors – Land Management and Commercial Opportunities and Cabinet Response
- Appendix 3 – Environmental Scrutiny Committee's letter dated 21st July and Cabinet Member for Environment's response dated 8 August 2014

The following Background Papers have been taken into account:

Cabinet Paper 15 May 2014 – Establishing a Programme of Organisational Change for the City of Cardiff Council

Cabinet Paper 17 July 2014 – Budget Strategy 2015/16 and the Medium Term

Welsh Audit Office – Annual Improvement Report including the Corporate Assessment 2014 (Document Reference 367A2014)

Welsh Local Government Association. Peer Review Report. September 2013

Shared Services and Collaborative Working in a Welsh Context: Applying Theory to Practice. APSE (March 2012)

Examples of Council's that have adopted the Alternative Delivery Models covered by this Report

Modified in House

- Oxford City Council – improvements were made to made to delivery of front line environmental services which resulted in a successful in-house bid and service delivery being retained in-house rather than externalised;
- Barnsley Council – achieved savings by restructuring teams, redesigning and reducing services for Environment and Highways.
- Havant Borough Council – improvements were made to the delivery of waste collection, parks and enforcement services saving approximately £400,000 in 2011/12 (12%).

Wholly Owned Arms Length Company

- Cheshire East Council – set up Ansa Environmental Services Ltd to delivers its waste, cleansing, parks and fleet management services (target savings of 10% over the first 5 years);
- Cheltenham and Cotswold District Councils – set up Ubico Ltd to deliver their waste, cleansing, grounds maintenance and fleet management/maintenance operations (savings of approximately 10% achieved since its establishment in 2012);
- Cornwall Council – set up Cormac Ltd to deliver its highways, highway design/maintenance; property services, cleaning and caretaking; fleet management/maintenance and quarry services (savings c7%+ per annum).

Public/Public Joint Venture

Norse Commercial Services (part of the Norse Group, which is wholly owned by Norfolk County Council) is an example of a public organisation that has entered into joint ventures with over 20 other Councils. Examples of Council's it has formed joint ventures with include:

- Newport Borough Council
- Devon County Council
- Barnsley County Council

Social Enterprises (Mutuals and Co-operatives)

An example of a Council that has established a social enterprise to deliver services includes Greenwich Council which transferred its leisure centres and their management to GLL, a newly formed social enterprise in 1993 to allow the Council to meet public spending cuts.

Public/Private Joint Venture

- Capita Ltd working with the London Borough of Barnet to deliver its highways management, planning and development, regeneration and environmental health and trading standards services;
- Kier working with the London Borough of Harlow to deliver Building Repair and Maintenance programme as well as environment service, and
- Amey working with Liverpool City Council to deliver its: highways repair and maintenance; street lighting repair and maintenance; environmental services; refuse and recycling; grounds maintenance and capital investment works.

Collaboration (Shared Service Agreement)

- Central Wales Infrastructure Collaboration – Powys and Ceredigion Council's are collaborating in the areas of property services, engineering strategy, transport services, waste services and engineering operations through a Joint Committee;
- Project Gwyrdd – a five-authority Joint Committee waste partnership between Cardiff, Caerphilly, Monmouthshire, Newport and Vale of Glamorgan Council's;
- The Dorset Waste Partnership – comprises the seven principal councils of Dorset working together under a legally binding intra-authority agreement to deliver in-house waste collection, treatment, disposal and cleansing service, and
- The East Kent Joint Waste Partnership – comprises the thirteen principal councils of Kent working together through a legal agreement to deliver waste collection, treatment, disposal and cleansing service.

Outsourcing

- Bridgend Council – Kier Ltd deliver its waste and cleansing services;
- Epping Forest District Council – Biffa Ltd recently won a 10 year recycling, refuse and street cleansing contract
- Sheffield Council – Veolia Ltd deliver its refuse collection and household waste recycling centre services;
- Oxfordshire County Council – in 2012, Carillion was awarded a 10-year contract to Carillion for the provision of property and facilities management services worth up to £500 million to Carillion. The reported savings to the Council are £550,000 per annum;
- Wiltshire County Council – in 2013, Balfour Beatty was awarded a £150m five year contract to undertake the Councils highway maintenance, grass cutting, grounds maintenance, litter collection and street lighting as well as dealing with winter weather, drainage and bridges

Ref: RDB/PM/BD/02.07.2014

2nd July 2014

Councillor Bob Derbyshire,
Cabinet Member for the Environment,
County Hall,
Atlantic Wharf,
Cardiff,
CF10 4UW.



Dear Councillor Derbyshire,

Cardiff Outdoors – Newport Norse Briefing

As you will be aware the Environmental Scrutiny Committee are currently running a task and finish exercise titled 'Cardiff Outdoors – Land Management & Commercial Opportunities'. The inquiry cannot look at all aspects of the Cardiff Outdoors project; therefore, they have chosen a number of important themes on which to focus. These are set out in the bullet points below:

- Vegetation Management;
- Sustainable Land Management & Biodiversity;
- Sponsorship;
- Commercial Scope & Opportunities;
- Grant Management.

As a part of the Commercial Opportunities section the group considered the use of local authority trading companies. Scrutiny Research identified a company called Norse Commercial Services Ltd as an example of good practice. As a result a representative was invited to a meeting on the 10th December 2013 to brief Members on how Norse Commercial Services Ltd operates. During the meeting the group was told that a joint venture local authority trading company was being developed between Newport City Council and Norse Commercial Services Ltd to manage Newport City Council's property services. After the meeting Members stated that they would be interested in meeting with a representative from Newport City Council to find out how they had found the process. On the 14th April 2014

Nathan Wiltshire, a Programme Manager for Newport City Council attended a task group meeting to brief Members on the Newport Norse joint venture. The key findings and resulting recommendations from this meeting are set out below. They are based on the assumption that the Council will explore in detail the option of delivering outdoor services through some type of alternative delivery model:

- **Newport City Council – Norse Joint Venture**

Key Finding 1 - Newport Council's Property Services are currently managed internally through three teams employing 235 staff. The respective teams are Estate Management; Property Maintenance and Facilities Management. It is anticipated that all staff bar one will transfer across to a new joint venture local authority trading company on the 16th June 2014.

Key Finding 2 - Newport City Council took the opportunity to rationalise these services into a joint venture local authority trading company so that Newport City Council will effectively have one team managing property services in the city. It was also pointed out that the Norse model is very flexible in that other services or local authorities can be added to the joint venture at any time. This allows local authorities the opportunity of 'dipping their toes in the water' instead of placing a much wider range of services in the model without knowing if the joint venture will succeed.

Recommendation 1

Newport City Council has elected to take a phased approach to entering into a joint venture with Norse Commercial Services Ltd. They have decided to initially place a range of property services into the joint venture so they are able to gauge the success of the scheme across a relatively small part of the Council. Should this approach work then it will be possible to move additional Council services into the joint venture. Members felt that such a prudent approach was sensible and would suggest that the Council follows a similar path if they adopt a joint venture model.

Key Finding 3 - The revenue budget for property services in Newport has reduced in recent years; from a gross expenditure of £9 million to £6 million between 2009/10 & 2012/13. The capital budget has also reduced; from almost £60 million to approximately £12 million in the last four years. The situation was made worse by a Wales Audit Office report which highlighted poor performance in the service and a loss of income from school maintenance work. These were the main factors behind the decision to create a joint venture local authority trading company for Newport City Council's property services.

Key Finding 4 - Newport City Council decided to explore alternative models for change and identified four potential options, these were:

- **Option 1** Change the existing service and continue to provide internally;
- **Option 2** Outsource the service to the Private Sector;
- **Option 3** Collaborate with a neighbouring Authority;
- **Option 4** Establish a Joint Venture delivery mechanism through the Public Sector.

The preferred solution was Option 4, with Norse Commercial Services Ltd being identified as the only realistic partner in the joint venture market; the only real alternative to this was to contract with private sector providers.

Recommendation 2

If the Council decides to go down the route of implementing one of a range of alternative delivery models then it should undertake a detailed options appraisal of the available alternative delivery models. This would feature a shortlist of preferred options which should be put out for consultation; Members feel that Scrutiny should be an important consultee this the process.

Key Finding 5 – Norse Commercial Services Ltd has a group turnover of £270 million and approximately 10,000 employees. It has traded since 1988 which means it has an established trading history. They have experience in

delivering a wide range of services including property and facility management services.

Key Finding 6 - Newport City Council market tested the private sector to benchmark costs of alternative delivery models. While not ideal it did provide a general feel of the costs which could be involved – it was recognised that contracting with the private sector could have saved more, however, there were other important considerations to factor in, for example, employee wages and benefits.

Recommendation 3

The options appraisal should include the benchmarking of costs for delivering services through a range of alternative delivery models. This would ensure that, as far as it can, the Council understands the full cost implications of service delivery.

Key Finding 7 - Due diligence visits were undertaken as a part of the process. This involved a visit to Devon Norse and Leeds Norse; these were selected on the basis that they were examples of where Norse joint venture companies had experienced difficulties. Norse has 28 joint venture companies across the UK.

Recommendation 4

During any detailed options appraisal the Council should undertake a number of due diligence visits to look at various alternative delivery models which could be used provide a range of outdoor services in Cardiff. Such visits should include meeting key stakeholders including board members, staff and trade union representatives. Following such visits a report should be written highlighting the benefits, disadvantages and lessons learnt. Lessons learnt from each project should be fed into a project lessons learnt register.

Key Finding 8 - The Leeds Norse joint venture had been structured on a fee basis, i.e. where the joint venture company is billed a set amount per specific job. Newport Council were very uncomfortable with this approach as miscalculation could result in excessively high billing or a reduction in overall service delivery. Newport Council approached the process by providing a detailed service specification and negotiating with Norse Commercial Services Ltd on the price. Members were told that Leeds Norse did encounter billing issues as a result of their approach.

Recommendation 5

When Newport City Council undertook due diligence into other Norse joint ventures they identified that Leeds had struggled with delivering services to budget because of the billing approach that was set out in their specification; this meant that they were charged per individual event rather than for delivery of the overall service. Members felt that Cardiff should take a similar approach if they decide to deliver outdoor services through an alternative delivery model, i.e. agree a price for the whole service at the outset.

Key Finding 9 – Members were told that the problems at Devon Norse were mainly caused by poor communication, i.e. from the start key stakeholders misunderstood their roles. Once the communication issue was resolved the scheme worked well.

Key Finding 10 - Newport City Council consulted with the Trade Unions from the outset. The preferred option of the union was to keep all services in-house; however, they acknowledged that a joint venture local authority trading company was the best of the other options.

Recommendation 6

Involving trade union representatives from the outset is essential. The clearer all parties are on proposals and the alternatives the better. Poor communication (for example, between commissioners and those delivering

the service) would seem to be one of the major reasons why implementing alternative delivery models is slow or ultimately fails.

Key Finding 11 – The task group was told that to date only one Norse joint venture contract has not been renewed; this was Stockport Norse where the local authority needed to achieve more savings and so were forced to transfer all works across to the private sector.

Key Finding 12 - Early dialogue on the project started in July 2012 and lasted approximately 3 months. Visits and due diligence ran from October to December 2012, while development of the business case took approximately 9 months, i.e. January 2013 to September 2013. The officer commented that with hindsight this was the one area where the project could have been quicker. The scrutiny process ran between October 2013 to December 2013. The Cabinet decision making process ran between January and March 2014 with mobilisation and transfer being planned for the 16th June 2014.

Recommendation 7

If the Council decides to implement an alternative delivery model for the provision of outdoor services then as a part of the planning phase it should determine how the performance of the new vehicle is scrutinised and monitored. This should be agreed well in advance of the commencement of any contract. In the event of poor performance being identified a process must be put in place to remedy any difficulties; should such difficulties persist then the Council needs to have an exit mechanism to end the contract.

Key Finding 13 - Members were told that the quality of the work required was devised through the service specification. The importance of creating a very detailed service specification was stressed as this forms a part of the binding contract and clearly defines the standards expected by the authority.

Recommendation 8

The officer from Newport City Council stressed the importance of creating a very detailed service specification of the services to be delivered through an alternative delivery model. He explained that this should be created at the earliest opportunity so that all parties are clear as to exactly what will be expected of the alternative delivery model. This creates certainty and could prevent the Council from negotiating a poor deal with any potential partners. Therefore, Members recommend that if the Council wishes to deliver outdoor services through an alternative delivery model then it should at the earliest possible opportunity prioritise the creation of a very detailed service specification. Any specification created for outdoor services should be made available to scrutiny as a priority.

Key Finding 14 - While all staff directly involved with property management were transferred across to Newport Norse the same did not apply for those indirectly associated via corporate services. Corporate savings equivalent to 6% of gross expenditure were required, this was approximately £360,000.

Recommendation 9

When considering the impact of alternative delivery models on the Council as a whole the provision of corporate services supporting the services provided should be considered, for example, legal, accounting and human resource services. When Newport City Council created a joint venture company with Norse Commercial Services Ltd all staff directly involved with delivering services were transferred across to the new company using TUPE regulations, however, as Norse Commercial Services Ltd has an in house corporate support services Newport City Council had to reduce the number of staff working within corporate services. The inquiry recommends that this is a factor which is taken into consideration when taking a decision.

Key Finding 15 - Members were told that unions and staff were not keen on the two tier workforce model, i.e. transferred staff keeping existing terms and conditions while new employees received Newport Norse terms and conditions. They were able to maintain a living wage for the 235 transferred employees; however, this could not be achieved for the staff competing in the private market.

Key Finding 16 – One of the key factors behind the creation of Newport Norse was the ability of the new company to trade commercially in the private market without existing local authority restrictions. This means that Newport Norse can generate income which in turn will provide a dividend for Newport City Council. Without the ability to generate additional income the creation of a local authority trading company would be far less attractive.

Key Finding 17 - Norse Commercial Services Ltd will own 80% of the joint venture company and Newport City Council will own 20%. The joint venture company will be called Newport Norse. Any profits made will be split equally between Newport Council and Norse Commercial Services Ltd.

Key Finding 18 - Newport Norse will be managed by an 'Operational Liaison Board' which will consist of at least three representatives from Norse and two from Newport City Council. There will be five directors on the board; two from Newport City Council and three from the Norse Group. It was noted that the board is a key driver in creating a successful local authority trading company. Selection of an appropriate board (and shadow board prior to the launch of the company) is vital and as such it should contain representatives with relevant experience.

Recommendation 10

It was identified that a key element of successfully creating a joint venture company or newly formed local authority trading company was creating an effective and well managed board; during the implementation phase a shadow board was equally important. The individuals on both of these boards should be carefully selected to ensure that they have the required experience and

knowledge. If required the Council should look to appoint an individual with suitable background in the field to support the board and new company.

Key Finding 19 - Teckal Exemption – as both parties are local authorities or linked to local authorities the Teckal Exemption will apply, i.e. this takes the agreement out of the scope of European (OJEU) procurement rules to ensure that the services are not lost to third parties. This makes the transfer of all services across to the new company a formality. Case law dictates that for the teckal exemption to apply at least eighty percent of the joint ventures activities are delivered directly to the controlling authorities.

Key Finding 20 - Basic terms and conditions for Newport City Council staff being transferred across to Newport Norse will be preserved, i.e. salaries, pension provision and annual leave will remain. Norse tend to impose their standard policies on the new companies, however, these are open to negotiation. Flexi time, for example, is applied differently when compared against most local authorities; it is determined based on the needs of the business and not the individual.

Key Finding 21 - Staff & TU Feedback – Members were told that Newport staff and unions acknowledge the need for service delivery change. They also welcomed the dismissal of the private sector outsource option; however, the favoured option is to retain all services in-house. They also felt that collaboration should be considered and that job losses should be kept to a minimum. They felt that maintaining staff salaries and other employee benefits was important.

Key Finding 22 - There is now a perception that job security in Newport Norse is better than if the service had remained in-house. Unison in Newport has apparently asked if other staff / services could be moved into a joint venture company to help protect jobs.

Key Finding 23 – Newport City Council perceive the main benefits of a setting up Newport Norse to be cost savings, improved services, long-term stability and security, new investment, the ability to trade commercially,

employee protection, no fixed fee per individual job, having one team to manage property services and a maintained public sector ethos.

Key Finding 24 – Newport City Council perceive the main disadvantages of a setting up Newport Norse to be:

- It's a long term agreement, i.e. they are tied in for 10 years;
- They will maintain a redundancy risk share for a set number of years which Newport City Council will have to underwrite, i.e. they will be liable for some or all of the redundancy costs which could happened in the future;
- Newport City Council will have reduced operational control over property services;
- The creation of Newport Norse will require a reduction in the Commercial Services budget as related accountants, human resources officers, etc.. will not transfer across;
- Service continuity during implementation – it could be very difficult to maintain staff morale and motivation during the implementation and handover process.

Key Finding 25 – There had been a detailed consultation exercise which has involved staff, Trade Unions and Councillors; for example, employment information has been provided to all staff involved by Newport City Council Human Resources. Norse Commercial Services Ltd has also confirmed transfer details in writing; staff have been given the option of staff having one to one meetings on the matter and a series of operational mobilisation meetings has taken place.

Recommendation 11

Detailed consultation would be required in advance of a decision being taken to transfer to an alternative delivery model. This should include as many stakeholders as possible and highlight the benefits and disadvantages of all options under consideration.

Key Finding 26 – Newport City Council has estimated that Newport Norse will produce a saving of 5% over the next five years. Staff from Newport viewed this as a conservative estimate.

Key Finding 27 - Shares in Newport Norse cannot be traded, i.e. shares in the company cannot be sold. This also prevents it being directly transferred into an employee co-operative.

Recommendation 12

As implementing alternative delivery models is often linked to budget savings then it is important that they are delivered in a timely manner. If the Council decides to create such a vehicle to provide outdoor services then it should create a detailed delivery plan which sets out defined timescales. The failure to deliver on time would add to the financial pressures currently placed on the Council. Care should also be taken to ensure that any business plans put forward are robust and have realistic and achievable income targets.

Recommendation 13

If the Council decides to move outdoor services to a new alternative delivery model then it should create a service continuation plan; this would ensure that disruption to services is minimised during transition.

Recommendation 14

If the Council decides that it is going to deliver outdoor services through an alternative delivery model then it should first establish a list of priorities that would determine which option is adopted, for example, financial savings, continuation of service delivery, preservation of staff jobs and employment related benefits. These should be the high level driver for the project.

I would be grateful if you would consider and respond to the comments, key findings and recommendations made in this letter. Should you require clarification or have any questions about any of this letter do not hesitate to contact me.

Regards,

A handwritten signature in black ink that reads "P. D. Mitchell". The signature is written in a cursive, slightly slanted style.

Councillor Paul Mitchell
Chairperson Environmental Scrutiny Committee

Cc to:

Jane Forshaw, Director for the Environment
Tara King, Assistant Director for the Environment
David Lowe, Waste Operations Manager
Paul Keeping – Operational Manager, Scrutiny Services
Joanne Watkins – Cabinet Office Manager
Members of the Environmental Scrutiny Committee

Response to Environmental Scrutiny's Cardiff Outdoors Recommendations (2 July 2014)

R1 Newport City Council has elected to take a phased approach to entering into a joint venture with Norse Commercial Services Ltd. They have decided to initially place a range of property services into the joint venture so they are able to gauge the success of the scheme across a relatively small part of the Council. Should this approach work then it will be possible to move additional Council services into the joint venture. Members felt that such a prudent approach was sensible and would suggest that the Council follows a similar path if they adopt a joint venture model.

Response: this recommendation is partly accepted

In accordance with the Chief Executives 'Organisational Development' report approved by Cabinet in May 2014, the Infrastructure Services project has been established. The primary purpose of the project is to identify the most suitable future delivery vehicle for the provision of the services in scope whilst reducing operating costs, improving service delivery and developing income opportunities. It is currently intended that a single approach be adopted for the scope of services identified with However, if the recommendation was to establish a joint venture model for this scope of services similarly to that done by Newport, the model would allow other services to be added at a later date if deemed appropriate.

R2 If the Council decides to go down the route of implementing one of a range of alternative delivery models then it should undertake a detailed options appraisal of the available alternative delivery models. This would feature a shortlist of preferred options which should be put out for consultation; Members feel that Scrutiny should be an important consultee in this the process.

Response: this recommendation is partly accepted

It is intended that an appraisal of alternative delivery models be undertaken to identify a short list of potentially suitable models which will then be subject to a detailed appraisal. It is intended that Cabinet's approval of the proposed short list be sought with key stakeholders, including Scrutiny, being consulted ahead of the relevant Cabinet meeting.

R3 The options appraisal should include the benchmarking of costs for delivering services

through a range of alternative delivery models. This would ensure that, as far as it can, the Council understands the full cost implications of service delivery.

Response: this recommendation is partly accepted

It is confirmed that benchmarking will be undertaken as part of the detailed appraisal of the short list of options.

R4 *During any detailed options appraisal the Council should undertake a number of due diligence visits to look at various alternative delivery models which could be used provide a range of outdoor services in Cardiff. Such visits should include meeting key stakeholders including board members, staff and trade union representatives. Following such visits a report should be written highlighting the benefits, disadvantages and lessons learnt. Lessons learnt from each project should be fed into a project lessons learnt register.*

Response: this recommendation is accepted

It is intended that a number of due diligence visits be undertaken and that a record of each visit be made as recommended.

R5 *When Newport City Council undertook due diligence into other Norse joint ventures they identified that Leeds had struggled with delivering services to budget because of the billing approach that was set out in their specification; this meant that they were charged per individual event rather than for delivery of the overall service. Members felt that Cardiff should take a similar approach if they decide to deliver outdoor services through an alternative delivery model, i.e. agree a price for the whole service at the outset.*

Response: this recommendation is accepted

It is agreed that a detailed specification of services to be provided would be required ahead of any future alternative delivery model being implemented.

R6 *Involving trade union representatives from the outset is essential. The clearer all parties are on proposals and the alternatives the better. Poor communication (for example, between commissioners and those delivering the service)*

would seem to be one of the major reasons why implementing alternative delivery models is slow or ultimately fails.

Response: this recommendation is accepted

It is agreed that key stakeholders, including the Unions, should be engaged at an early stage. It is confirmed that the Union Branch Secretaries were appraised regarding the Infrastructure Services Project in May/early June. Updates have since been provided. Initial staff briefings have also been undertaken. It is intended that both Unions and Staff be regularly updated as the project progresses.

***R7** If the Council decides to implement an alternative delivery model for the provision of outdoor services then as a part of the planning phase it should determine how the performance of the new vehicle is scrutinised and monitored. This should be agreed well in advance of the commencement of any contract. In the event of poor performance being identified a process must be put in place to remedy any difficulties; should such difficulties persist then the Council needs to have an exit mechanism to end the contract.*

Response: this recommendation is accepted

It is agreed that a service delivery specification , monitoring arrangements and mechanisms for corrective action be incorporated in to the Service Level Agreement/Contract for any Alternative Delivery Model implemented. Such information will be subject to legal services review before incorporation. Research will also be undertaken to determine what provisions other Council's have made when implementing such models.

***R8** The officer from Newport City Council stressed the importance of creating a very detailed service specification of the services to be delivered through an alternative delivery model. He explained that this should be created at the earliest opportunity so that all parties are clear as to exactly what will be expected of the alternative delivery model. This creates certainty and could prevent the Council from negotiating a poor deal with any potential partners. Therefore, Members recommend that if the Council wishes to deliver outdoor services through an alternative delivery model then it should at the earliest possible opportunity prioritise the creation of a very detailed service specification. Any specification created for outdoor services should be made available to scrutiny as a priority.*

Response: this recommendation is accepted

As stated above, the Service Level Agreement/Contract for any Alternative Delivery Model implemented will include a detailed specification for service delivery. This will be made available to scrutiny prior to any future delivery arrangements being formally finalised.

***R9** When considering the impact of alternative delivery models on the Council as a whole the provision of corporate services supporting the services provided should be considered, for example, legal, accounting and human resource services. When Newport City Council created a joint venture company with Norse Commercial Services Ltd all staff directly involved with delivering services were transferred across to the new company using TUPE regulations, however, as Norse Commercial Services Ltd has an in house corporate support services Newport City Council had to reduce the number of staff working within corporate services. The inquiry recommends that this is a factor which is taken into consideration when taking a decision.*

Response: this recommendation is accepted

It is intended that the impact of any alternative service delivery models upon corporate services, in addition to the services directly in scope of the project, be considered at the detailed options appraisal stage. Again, cognizance of the experiences of other Council's when considering alternative delivery models will be taken into account.

***R10** It was identified that a key element of successfully creating a joint venture company or newly formed local authority trading company was creating an effective and well managed board; during the implementation phase a shadow board was equally important. The individuals on both of these boards should be carefully selected to ensure that they have the required experience and knowledge. If required the Council should look to appoint an individual with suitable background in the field to support the board and new company.*

Response: this recommendation is accepted

It is agreed that an effective and well managed board, as well as the establishment of a shadow board at an early stage, are important success factors in the operation of a joint venture or wholly owned trading company. If either of these models are identified as the preferred way forward for the Infrastructure Services project, such arrangements will be put in place.

R11 *Detailed consultation would be required in advance of a decision being taken to transfer to an alternative delivery model. This should include as many stakeholders as possible and highlight the benefits and disadvantages of all options under consideration.*

Response: this recommendation is accepted

It is accepted that key stakeholders need to be involved throughout any project which involves consideration of alternative delivery models being implemented. In respect of the Infrastructure Services project, engagement of the Unions and Staff has already been commenced through appropriate briefings and an article was included in the Members newsletter for July. Additionally, Cardiff citizens will be consulted regarding the Infrastructure Services Project as part of the 'Choices for Cardiff' budget consultation process.

R12 *As implementing alternative delivery models is often linked to budget savings then it is important that they are delivered in a timely manner. If the Council decides to create such a vehicle to provide outdoor services then it should create a detailed delivery plan which sets out defined timescales. The failure to deliver on time would add to the financial pressures currently placed on the Council. Care should also be taken to ensure that any business plans put forward are robust and have realistic and achievable income targets.*

Response: this recommendation is accepted

The implementation of any alternative service delivery arrangements will be subject to robust project management in accordance with the Council's project quality assurance procedures. The objective will be to deliver the new model within budget, on time, and in accordance with the agreed objectives. It is intended that an appropriate business plan identifying realistic and achievable income targets be prepared and that this be subject to appropriate monitoring and review.

R13 *If the Council decides to move outdoor services to a new alternative delivery model then it should create a service continuation plan; this would ensure that disruption to services is minimised during transition.*

Response: this recommendation is accepted

Business continuity will be an important consideration in the implementation of any alternative service delivery model. Appropriate arrangements will need to be identified and documented in respect of each service affected by the future delivery arrangements being implemented. The experience of other Council's

that have gone through similar transitional arrangements will be taken into account in this process.

***R14** If the Council decides that it is going to deliver outdoor services through an alternative delivery model then it should first establish a list of priorities that would determine which option is adopted, for example, financial savings, continuation of service delivery, preservation of staff jobs and employment related benefits. These should be the high level driver for the project.*

Response: this recommendation is accepted

In respect of Infrastructure Services, a list of project objectives will be identified together with a list of corresponding criteria against which the objectives can be measured at the options appraisal stage. Scrutiny's input into the development of an appraisal matrix will be sought ahead of the options analysis being concluded.

Ref: RDB/PM/BD/08.07.14

21st July 2014

Councillor Bob Derbyshire,
Cabinet Member for the Environment,
County Hall,
Atlantic Wharf,
Cardiff,
CF10 4UW.



Dear Councillor Derbyshire,

Environmental Scrutiny Committee – 8th July 2014

On behalf of the Environmental Scrutiny Committee I would like to thank you and the officers for attending the Committee meeting on Tuesday 8th July 2014. As you are aware the meeting considered an item titled 'Infrastructure Business Model & Alternative Delivery Options'. The comments and observations made by Members following this item are set out in this letter.

Infrastructure Business Model & Alternative Delivery Options

A Member asked if any progress had been made in reducing the cost per tonne of processing recycled materials at the Materials Reclamation Facility. He was told that the Environment Directorate had managed to reduce costs from £45 per tonne to £28 per tonne; this had been achieved through a series of initiatives including a change to the shift patterns. The Committee were impressed by this reduction in costs and have asked that a detailed breakdown of the achieved savings is provided in response to this letter.

The Committee understand and support the work currently being undertaken to develop alternative delivery models for a range of front line services in Cardiff. As the majority of services under consideration in the 'Infrastructure Business Model' fall within the terms of reference of the Environmental Scrutiny Committee the Members have agreed to undertake a joint scrutiny with the Policy Review & Performance Scrutiny Committee into the potential delivery options available to the Council. It is anticipated that the inquiry will start within a few weeks and look to support the work that you are currently

undertaking to identify a suitable alternative delivery model for services in Cardiff. I will keep you updated on the progress of the inquiry.

Street Cleansing in Student Areas

During the way forward Members discussed the topic of street cleansing in Cardiff's student areas. They felt that it would be worth giving these areas a deep clean in advance of the September fresher week; the idea being that the new students would demonstrate a greater appreciation for their environment which in turn would result in less litter and waste being deposited in the area. Members felt that over a period of a year an early deep clean could result in savings as less cleansing would be required. The Committee would, therefore, ask that you implement a deep clean in the main student areas in advance of them returning to Cardiff in September. Once the deep clean is completed then a photographic record should be made and provided to the University and Student Union; this could then be circulated to students in the welcome pack to act as a reminder of how clean student areas can look.

I would be grateful if you would consider the above comments and provide a response to the requests made in this letter.

Regards,



Councillor Paul Mitchell
Chairperson Environmental Scrutiny Committee

Cc to:

Jane Forshaw, Director for the Environment
Tara King, Assistant Director for the Environment
David Lowe, Waste Operations Manager
Paul Keeping, Operational Manager, Scrutiny Services
Joanne Watkins, Cabinet Office Manager
Members of the Environmental Scrutiny Committee

**CABINET SUPPORT OFFICE
SWYDDFA CYMORTH Y CABINET**

My Ref: CM28229
Your Ref: RDB/PM/BD/08.07.14
Date: 8th August 2014

Councillor Paul Mitchell
Cardiff Council
County Hall
Atlantic Wharf
Butetown
Cardiff
CF10 4UW

Dear Paul

Environmental Scrutiny Committee 8 July 2014

Thank you for your letter dated 21 July 2014 which was in response to the 'Infrastructure Services' item presented by myself and Officers at Environmental Scrutiny on 8 July 2014.

In respect of the comments and observations made by Members, I respond as follows.

MRF Processing Costs

MRF Processing costs have reduced from £55 per tonne to £35 per tonne following the introduction of the changes resulting from the Rapid Improvement Event (Lean Management exercise). The new shift pattern working commenced Monday 23 June 2014.

Infrastructure Business Model & Alternative Delivery Options

I am pleased that both the Environmental and Policy Review and Performance Scrutiny Committee's will assist with this project and both myself and Officers look forward to supporting the Committees' work where requested.

Street Cleansing In Student Areas

I confirm that Officers are arranging for additional cleansing work to be undertaken in the 'student areas' over the forthcoming weeks. As suggested, before and after photographs will be taken and shared with the University and Students Union.

Yours sincerely

**Councillor / Y Cynghorydd Bob Derbyshire
Cabinet Member Environment
Aelod Cabinet Dros Yr Amgylchedd**

PLEASE REPLY TO: Cabinet Support Office, Room 518, County Hall, Atlantic Wharf,
Cardiff CF10 4UW
Tel (029 2066111) Fax (029) 20872691

Ref: RDB/PM/AG/07.03.2014

7th March 2014

Councillor Ashley Govier,
Cabinet Member for the Environment,
County Hall,
Atlantic Wharf,
Cardiff,
CF10 4UW.



Dear Councillor Govier,

Cardiff Outdoors – Commercial Scope & Opportunities

As you will be aware the Environmental Scrutiny Committee are currently running a task and finish exercise titled 'Cardiff Outdoors – Land Management & Commercial Opportunities. The inquiry cannot look at all aspects of the Cardiff Outdoors project; therefore, they have chosen a number of important themes on which to focus. These are set out in the bullet points below:

- Vegetation Management
- Sustainable Land Management & Biodiversity
- Sponsorship & Advertising
- Commercial Scope & Opportunities
- Grant Management

This letter sets out the comments and observations of the Members on the inquiry in relation to Commercial Scope & Opportunities relevant to outdoor services in Cardiff. When considering commercial scope and opportunities the inquiry received evidence on the following:

- Service Accountancy - Current income levels and the key policies which determine what can be done to increase income
- Legal Services - Legal scope for commercial activity undertaken by Cardiff Council

- Scrutiny Research Team – Current practice amongst comparator authorities and wider best practice in relation to commercial opportunities for delivery of outdoor services
- Summary of a recent KPMG report on alternative delivery models which could be used to deliver outdoor services
- Norse Commercial Services Ltd - Use of local authority trading companies and the services provided by Norse Commercial Services Ltd
- Sport, Leisure & Culture Directorate – Development of a Business & Partnership Team

On behalf of the Committee I would like to thank all of the witnesses who attended the meeting. Members found their input into the task & finish process very useful. After the meetings Members considered the evidence presented and made a number of comments, key findings and recommendations. The key findings and recommendations for Commercial Opportunities are set out below:

- **Legal & Financial Advice**

Key Finding 1 – A variety of legislation and financial restrictions place clear boundaries on the work that the Council can undertake in terms of developing its commercial opportunities. The Council employs legal and financial professionals who are able to provide clear guidance in terms of the scope and practicality of what can be commercially achieved. This professional advice should be used to support the commercial development process.

Recommendation 1

When developing commercial opportunity ideas officers and Members should focus on establishing the basis of a business model. Once an idea is sufficiently developed it should be sent to professional officers in Legal Services and Service Accountancy for evaluation and comment. Officers and Members without the appropriate legal and financial training should not

attempt to second guess the financial and legal implications, instead they should be proactive in pushing new ideas forward based on their individual area of expertise.

- **Local Authority Trading Companies**

Key Finding 2 – Member opinion on the use of Local Authority Trading Companies was divided. All Members could see the benefit of being able to compete commercially with the private sector, however, some felt that there was a risk of the Council potentially losing direct control over how services are delivered. Some Members were also concerned about the impact that such a vehicle would have on employee terms and conditions. The task & finish group were assured by Norse Commercial Services Ltd that a joint venture company established with them would transfer all staff in line with TUPE regulations; this would ensure the preservation of staff terms and conditions. However, employees engaged on commercial contracts would be employed on Norse Commercial Services Ltd standard terms and conditions. Some Members felt uncomfortable at the prospect of the Council profiting from commercial contracts where staff were receiving lower employee benefits than those enjoyed by the former and current Council staff.

Key Finding 3 – Some Members felt that if the Council was going to use a local authority trading company then it should set one up itself; this would provide total control over the vehicle, enable the Council to compete commercially with the private sector and enjoy a greater return in terms of dividends which could be reinvested directly back into services within Cardiff. Others felt that running a local authority trading company through a joint venture with a company like Norse Commercial Services Ltd was a far quicker, cheaper and more sensible idea. For example, little or no start up capital would be required, dividends could be returned to the Council almost immediately, the Council would inherit a three year trading history which is ordinarily required to bid for third party contracts and they would acquire good commercial practice from the partner in terms of areas like writing commercial bids.

Key Finding 4 – Most examples of commercial opportunity best practice identified by the Scrutiny Research Team involved the creation and use of local authority trading companies.

Key Finding 5 - Local authority trading companies provide local authorities with an avenue to compete on a level playing field with private sector companies, for example, they can openly bid for other private sector work which as a local authority they are restricted from doing.

Key Finding 6 – None of the comparator local authorities considered by the Scrutiny Research Team ran local authority trading companies for outdoor services; they all managed services in-house. Four of the eight authorities made no commercial income from third parties while the others generated very little. This is in contrast to the best practice local authorities who have created local authority trading companies that can compete commercially with the private sector, for example, Norse Commercial Services Ltd who are owned by Norfolk County Council had a group turnover of £80 million during 2012/13.

Key Finding 7 – Creating a new trading vehicle takes time, money and considerable effort to develop. KPMG identify three phases to creating a successful new local authority trading vehicle or ‘spin out’, these are developing the model and system in house, transferring to an incubator scheme and setting free into a commercial environment to compete on its own merits. A representative from Norse Commercial Services Ltd estimated that the set up cost for a new local authority trading company could be as much as £5 million along with several years of hard work.

Key Finding 8 – The incubator stage is an important part in the development of a local authority trading company. The stage provides the necessary support for the vehicle to develop and focuses on five vitally important areas, these are:

- Establishing boundaries;
- Establishing financial history;

- Establishing the commercial model;
- Establishing infrastructure requirements;
- Refining commissioning skills.

Key Finding 9 – There are a wide variety of new company trading models which all have their own individual benefits, for example, joint ventures, government owned and employee owned. These can be placed into a wide range of trading vehicles, for example, equity joint venture, local authority trading companies, co-operatives and community interest companies. Establishing the correct model for a local authority is a considerable challenge.

Key Finding 10 – Norse Commercial Services Ltd attended a meeting on the 10th December 2013. Members were briefed on the use of local authority trading companies and the services provided by Norse Commercial Services Ltd. Private equity holdings are not permitted within Norse Commercial Services Ltd. The company was established in 1988 by Norfolk County Council who still own 100% of the group shares. They run approximately twenty two joint venture local authority trading schemes across the United Kingdom and have an annual turnover of £80 million. They provide the start up costs of creating a new joint venture and look for a 10 year contract with each participating authority for the agreed services. Profit or dividends raised by the venture are split equally between both parties, i.e. 50% & 50%. Dividends are announced and paid in advance for each financial year. Due to accounting practice the advance dividend payment does not attract corporation tax. Norse Commercial Services Ltd provide a wide range of predominantly blue collar services.

Key Finding 11 – Norse Commercial Services Ltd maintain that all staff transferred across from a local authority to a new joint venture local authority trading company will maintain their local authority terms and conditions.

Key Finding 12 – Norse Commercial Services Ltd are in the process of negotiating a contract with Newport City Council for the provision of property services. The proposal is due to be considered at the Newport City Council

Cabinet meeting on the 13th January 2014. A joint venture local authority trading company in Newport could potentially impact on the success of a new Cardiff local authority trading company. Norse Commercial Services Ltd has created individual joint venture trading companies with more than one local authority partner. Larger joint venture local authority companies are often able to achieve operational economies of scale.

Recommendation 2

Due to the current financial pressures a change in the way in which we deliver outdoor services in Cardiff has to take place; doing nothing or simply “salami slicing” existing services will not prevent the erosion of outdoor service provision. As a consequence all practical models should be investigated, including the use of local authority trading companies in Cardiff. The variety of local authority trading company models available and how they can be applied divided Member opinion, for example, some felt that creating and building a Cardiff local authority trading company was the best way forward; some wanted services to remain in-house while others believed that the most sensible and practical way forward was to enter into a joint venture with an established local authority trading company partner. The eventual consensus within the task & finish group was that given the current financial projections it seems inevitable that the use of joint venture companies needs to be explored, therefore, the Council urgently needs to debate the available options. We recommend that the Council undertakes a review into the possible options and publishes the findings before deciding on one course of action regarding the use of local authority trading companies. As local authority trading companies can be applied to a range of services wider than those considered under the terms of Cardiff Outdoors the review should look at how they could be applied across all of the Council. In undertaking the review the Members on the inquiry would urge the Council to consider how many local authority trading companies would be appropriate across the Council’s range of services. It should also look at creating its own model, the joint venture approach and consider what other neighbouring authorities are doing and the potential impact that this could have on Cardiff, for example,

Newport City Council. It is hoped that such a review could form the basis of a Council wide policy on the use of local authority trading companies.

▪ **Sport Leisure & Culture – Business & Partnership Team**

Key Finding 13 – The Sport, Leisure & Culture Directorate has recently established a “Business & Partnership Team” which will operate within the Directorate on a twelve month basis. It comprises of four officers from within the Directorate who have commercial experience. They will remain within their substantive posts during the trial period and focus on the work of the “Business & Partnership Team” two days a week. They will work together to explore and implement income generation schemes. Initially they will focus on “easy wins” and consider a range of projects that merit further investigation. Proposals will be presented to the Directorate Management Team to implement or investigate further. To date they have identified a number of ideas including developing “Active Cardiff” merchandise for sale at leisure centres and creating a motor home venue in Cardiff. The “Business Partnership Team” has been encouraged to think creatively, to be innovative and entrepreneurial and adopt the approach of “planned experimentation”.

Key Finding 14 – Members felt that the implementation of such a team on a trial basis was a good idea. They commented that being proactive in terms of new ideas was a good thing which should be supported. They endorse the idea and hope that it will succeed; however, they did make the following suggestions:

- That if possible the “Business Partnership Team” should co-opt a representative from outside the Sport, Leisure & Culture Directorate. They felt that when developing new ideas a fresh pair of eyes was often very useful.
- The profile of the “Business Partnership Team” should be promoted across the Sport, Leisure & Culture Directorate to ensure that all staff are able to feed new ideas and suggestions into process, for example, it should

become a regular feature at all staff meetings and in Directorate newsletters. Where possible staff that make good suggestions which generate income should be rewarded.

- A mechanism should be put in place to measure the success of the “Business & Partnership Team”, for example, placing an income value on schemes launched from the team.
- Other Directorates should monitor the progress made by the “Business & Partnership Team” over the next six months. If it is successful then other Directorates should look to replicate the model.

Recommendation 3

Members felt that the implementation of the “Business & Partnership Team” by the Sport, Leisure & Culture Directorate was a good idea. They felt that being proactive to produce new ideas was a positive thing which should be supported. To strengthen the performance of the team they recommend that:

- The “Business Partnership Team” should co-opt a representative from outside the Directorate; this would add a fresh set of eyes to the process.
- The profile of the “Business Partnership Team” should be promoted across the Directorate to ensure that all staff are able to feed new ideas and suggestions into process, for example, by becoming a regular feature at staff meetings. Rewards should be given for good ideas.
- A mechanism should be put in place to measure the success of the “Business & Partnership Team”.
- Other Directorates should monitor the progress made by the “Business & Partnership Team” over the next six months and if it is successful then they should look to replicate the model.

I would be grateful if you would consider and respond to the comments, key findings and recommendations made in this letter. Should you require clarification or have any questions about any of this letter do not hesitate to contact me.

Regards,

A handwritten signature in black ink that reads "P. D. Mitchell". The signature is written in a cursive, slightly slanted style with a prominent underline under the name "Mitchell".

Councillor Paul Mitchell
Chairperson Environmental Scrutiny Committee

Cc to:

Jane Forshaw - Director for the Environment
Chris Hespe - Director for Sport, Leisure & Culture
Tara King - Assistant Director for the Environment
Paul Keeping – Operational Manager, Scrutiny Services
Joanne Watkins – Cabinet Office Manager
Members of the Environmental Scrutiny Committee

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Ref: RDB/PM/BD/02.07.2014

2nd July 2014

Councillor Bob Derbyshire,
Cabinet Member for the Environment,
County Hall,
Atlantic Wharf,
Cardiff,
CF10 4UW.



Dear Councillor Derbyshire,

Cardiff Outdoors – Newport Norse Briefing

As you will be aware the Environmental Scrutiny Committee are currently running a task and finish exercise titled 'Cardiff Outdoors – Land Management & Commercial Opportunities'. The inquiry cannot look at all aspects of the Cardiff Outdoors project; therefore, they have chosen a number of important themes on which to focus. These are set out in the bullet points below:

- Vegetation Management;
- Sustainable Land Management & Biodiversity;
- Sponsorship;
- Commercial Scope & Opportunities;
- Grant Management.

As a part of the Commercial Opportunities section the group considered the use of local authority trading companies. Scrutiny Research identified a company called Norse Commercial Services Ltd as an example of good practice. As a result a representative was invited to a meeting on the 10th December 2013 to brief Members on how Norse Commercial Services Ltd operates. During the meeting the group was told that a joint venture local authority trading company was being developed between Newport City Council and Norse Commercial Services Ltd to manage Newport City Council's property services. After the meeting Members stated that they would be interested in meeting with a representative from Newport City Council to find out how they had found the process. On the 14th April 2014

Nathan Wiltshire, a Programme Manager for Newport City Council attended a task group meeting to brief Members on the Newport Norse joint venture. The key findings and resulting recommendations from this meeting are set out below. They are based on the assumption that the Council will explore in detail the option of delivering outdoor services through some type of alternative delivery model:

- **Newport City Council – Norse Joint Venture**

Key Finding 1 - Newport Council's Property Services are currently managed internally through three teams employing 235 staff. The respective teams are Estate Management; Property Maintenance and Facilities Management. It is anticipated that all staff bar one will transfer across to a new joint venture local authority trading company on the 16th June 2014.

Key Finding 2 - Newport City Council took the opportunity to rationalise these services into a joint venture local authority trading company so that Newport City Council will effectively have one team managing property services in the city. It was also pointed out that the Norse model is very flexible in that other services or local authorities can be added to the joint venture at any time. This allows local authorities the opportunity of 'dipping their toes in the water' instead of placing a much wider range of services in the model without knowing if the joint venture will succeed.

Recommendation 1

Newport City Council has elected to take a phased approach to entering into a joint venture with Norse Commercial Services Ltd. They have decided to initially place a range of property services into the joint venture so they are able to gauge the success of the scheme across a relatively small part of the Council. Should this approach work then it will be possible to move additional Council services into the joint venture. Members felt that such a prudent approach was sensible and would suggest that the Council follows a similar path if they adopt a joint venture model.

Key Finding 3 - The revenue budget for property services in Newport has reduced in recent years; from a gross expenditure of £9 million to £6 million between 2009/10 & 2012/13. The capital budget has also reduced; from almost £60 million to approximately £12 million in the last four years. The situation was made worse by a Wales Audit Office report which highlighted poor performance in the service and a loss of income from school maintenance work. These were the main factors behind the decision to create a joint venture local authority trading company for Newport City Council's property services.

Key Finding 4 - Newport City Council decided to explore alternative models for change and identified four potential options, these were:

- **Option 1** Change the existing service and continue to provide internally;
- **Option 2** Outsource the service to the Private Sector;
- **Option 3** Collaborate with a neighbouring Authority;
- **Option 4** Establish a Joint Venture delivery mechanism through the Public Sector.

The preferred solution was Option 4, with Norse Commercial Services Ltd being identified as the only realistic partner in the joint venture market; the only real alternative to this was to contract with private sector providers.

Recommendation 2

If the Council decides to go down the route of implementing one of a range of alternative delivery models then it should undertake a detailed options appraisal of the available alternative delivery models. This would feature a shortlist of preferred options which should be put out for consultation; Members feel that Scrutiny should be an important consultee this the process.

Key Finding 5 – Norse Commercial Services Ltd has a group turnover of £270 million and approximately 10,000 employees. It has traded since 1988 which means it has an established trading history. They have experience in

delivering a wide range of services including property and facility management services.

Key Finding 6 - Newport City Council market tested the private sector to benchmark costs of alternative delivery models. While not ideal it did provide a general feel of the costs which could be involved – it was recognised that contracting with the private sector could have saved more, however, there were other important considerations to factor in, for example, employee wages and benefits.

Recommendation 3

The options appraisal should include the benchmarking of costs for delivering services through a range of alternative delivery models. This would ensure that, as far as it can, the Council understands the full cost implications of service delivery.

Key Finding 7 - Due diligence visits were undertaken as a part of the process. This involved a visit to Devon Norse and Leeds Norse; these were selected on the basis that they were examples of where Norse joint venture companies had experienced difficulties. Norse has 28 joint venture companies across the UK.

Recommendation 4

During any detailed options appraisal the Council should undertake a number of due diligence visits to look at various alternative delivery models which could be used provide a range of outdoor services in Cardiff. Such visits should include meeting key stakeholders including board members, staff and trade union representatives. Following such visits a report should be written highlighting the benefits, disadvantages and lessons learnt. Lessons learnt from each project should be fed into a project lessons learnt register.

Key Finding 8 - The Leeds Norse joint venture had been structured on a fee basis, i.e. where the joint venture company is billed a set amount per specific job. Newport Council were very uncomfortable with this approach as miscalculation could result in excessively high billing or a reduction in overall service delivery. Newport Council approached the process by providing a detailed service specification and negotiating with Norse Commercial Services Ltd on the price. Members were told that Leeds Norse did encounter billing issues as a result of their approach.

Recommendation 5

When Newport City Council undertook due diligence into other Norse joint ventures they identified that Leeds had struggled with delivering services to budget because of the billing approach that was set out in their specification; this meant that they were charged per individual event rather than for delivery of the overall service. Members felt that Cardiff should take a similar approach if they decide to deliver outdoor services through an alternative delivery model, i.e. agree a price for the whole service at the outset.

Key Finding 9 – Members were told that the problems at Devon Norse were mainly caused by poor communication, i.e. from the start key stakeholders misunderstood their roles. Once the communication issue was resolved the scheme worked well.

Key Finding 10 - Newport City Council consulted with the Trade Unions from the outset. The preferred option of the union was to keep all services in-house; however, they acknowledged that a joint venture local authority trading company was the best of the other options.

Recommendation 6

Involving trade union representatives from the outset is essential. The clearer all parties are on proposals and the alternatives the better. Poor communication (for example, between commissioners and those delivering

the service) would seem to be one of the major reasons why implementing alternative delivery models is slow or ultimately fails.

Key Finding 11 – The task group was told that to date only one Norse joint venture contract has not been renewed; this was Stockport Norse where the local authority needed to achieve more savings and so were forced to transfer all works across to the private sector.

Key Finding 12 - Early dialogue on the project started in July 2012 and lasted approximately 3 months. Visits and due diligence ran from October to December 2012, while development of the business case took approximately 9 months, i.e. January 2013 to September 2013. The officer commented that with hindsight this was the one area where the project could have been quicker. The scrutiny process ran between October 2013 to December 2013. The Cabinet decision making process ran between January and March 2014 with mobilisation and transfer being planned for the 16th June 2014.

Recommendation 7

If the Council decides to implement an alternative delivery model for the provision of outdoor services then as a part of the planning phase it should determine how the performance of the new vehicle is scrutinised and monitored. This should be agreed well in advance of the commencement of any contract. In the event of poor performance being identified a process must be put in place to remedy any difficulties; should such difficulties persist then the Council needs to have an exit mechanism to end the contract.

Key Finding 13 - Members were told that the quality of the work required was devised through the service specification. The importance of creating a very detailed service specification was stressed as this forms a part of the binding contract and clearly defines the standards expected by the authority.

Recommendation 8

The officer from Newport City Council stressed the importance of creating a very detailed service specification of the services to be delivered through an alternative delivery model. He explained that this should be created at the earliest opportunity so that all parties are clear as to exactly what will be expected of the alternative delivery model. This creates certainty and could prevent the Council from negotiating a poor deal with any potential partners. Therefore, Members recommend that if the Council wishes to deliver outdoor services through an alternative delivery model then it should at the earliest possible opportunity prioritise the creation of a very detailed service specification. Any specification created for outdoor services should be made available to scrutiny as a priority.

Key Finding 14 - While all staff directly involved with property management were transferred across to Newport Norse the same did not apply for those indirectly associated via corporate services. Corporate savings equivalent to 6% of gross expenditure were required, this was approximately £360,000.

Recommendation 9

When considering the impact of alternative delivery models on the Council as a whole the provision of corporate services supporting the services provided should be considered, for example, legal, accounting and human resource services. When Newport City Council created a joint venture company with Norse Commercial Services Ltd all staff directly involved with delivering services were transferred across to the new company using TUPE regulations, however, as Norse Commercial Services Ltd has an in house corporate support services Newport City Council had to reduce the number of staff working within corporate services. The inquiry recommends that this is a factor which is taken into consideration when taking a decision.

Key Finding 15 - Members were told that unions and staff were not keen on the two tier workforce model, i.e. transferred staff keeping existing terms and conditions while new employees received Newport Norse terms and conditions. They were able to maintain a living wage for the 235 transferred employees; however, this could not be achieved for the staff competing in the private market.

Key Finding 16 – One of the key factors behind the creation of Newport Norse was the ability of the new company to trade commercially in the private market without existing local authority restrictions. This means that Newport Norse can generate income which in turn will provide a dividend for Newport City Council. Without the ability to generate additional income the creation of a local authority trading company would be far less attractive.

Key Finding 17 - Norse Commercial Services Ltd will own 80% of the joint venture company and Newport City Council will own 20%. The joint venture company will be called Newport Norse. Any profits made will be split equally between Newport Council and Norse Commercial Services Ltd.

Key Finding 18 - Newport Norse will be managed by an 'Operational Liaison Board' which will consist of at least three representatives from Norse and two from Newport City Council. There will be five directors on the board; two from Newport City Council and three from the Norse Group. It was noted that the board is a key driver in creating a successful local authority trading company. Selection of an appropriate board (and shadow board prior to the launch of the company) is vital and as such it should contain representatives with relevant experience.

Recommendation 10

It was identified that a key element of successfully creating a joint venture company or newly formed local authority trading company was creating an effective and well managed board; during the implementation phase a shadow board was equally important. The individuals on both of these boards should be carefully selected to ensure that they have the required experience and

knowledge. If required the Council should look to appoint an individual with suitable background in the field to support the board and new company.

Key Finding 19 - Teckal Exemption – as both parties are local authorities or linked to local authorities the Teckal Exemption will apply, i.e. this takes the agreement out of the scope of European (OJEU) procurement rules to ensure that the services are not lost to third parties. This makes the transfer of all services across to the new company a formality. Case law dictates that for the teckal exemption to apply at least eighty percent of the joint ventures activities are delivered directly to the controlling authorities.

Key Finding 20 - Basic terms and conditions for Newport City Council staff being transferred across to Newport Norse will be preserved, i.e. salaries, pension provision and annual leave will remain. Norse tend to impose their standard policies on the new companies, however, these are open to negotiation. Flexi time, for example, is applied differently when compared against most local authorities; it is determined based on the needs of the business and not the individual.

Key Finding 21 - Staff & TU Feedback – Members were told that Newport staff and unions acknowledge the need for service delivery change. They also welcomed the dismissal of the private sector outsource option; however, the favoured option is to retain all services in-house. They also felt that collaboration should be considered and that job losses should be kept to a minimum. They felt that maintaining staff salaries and other employee benefits was important.

Key Finding 22 - There is now a perception that job security in Newport Norse is better than if the service had remained in-house. Unison in Newport has apparently asked if other staff / services could be moved into a joint venture company to help protect jobs.

Key Finding 23 – Newport City Council perceive the main benefits of a setting up Newport Norse to be cost savings, improved services, long-term stability and security, new investment, the ability to trade commercially,

employee protection, no fixed fee per individual job, having one team to manage property services and a maintained public sector ethos.

Key Finding 24 – Newport City Council perceive the main disadvantages of a setting up Newport Norse to be:

- It's a long term agreement, i.e. they are tied in for 10 years;
- They will maintain a redundancy risk share for a set number of years which Newport City Council will have to underwrite, i.e. they will be liable for some or all of the redundancy costs which could happened in the future;
- Newport City Council will have reduced operational control over property services;
- The creation of Newport Norse will require a reduction in the Commercial Services budget as related accountants, human resources officers, etc.. will not transfer across;
- Service continuity during implementation – it could be very difficult to maintain staff morale and motivation during the implementation and handover process.

Key Finding 25 – There had been a detailed consultation exercise which has involved staff, Trade Unions and Councillors; for example, employment information has been provided to all staff involved by Newport City Council Human Resources. Norse Commercial Services Ltd has also confirmed transfer details in writing; staff have been given the option of staff having one to one meetings on the matter and a series of operational mobilisation meetings has taken place.

Recommendation 11

Detailed consultation would be required in advance of a decision being taken to transfer to an alternative delivery model. This should include as many stakeholders as possible and highlight the benefits and disadvantages of all options under consideration.

Key Finding 26 – Newport City Council has estimated that Newport Norse will produce a saving of 5% over the next five years. Staff from Newport viewed this as a conservative estimate.

Recommendation 12

It was identified that a key element of successfully creating a joint venture company or newly formed local authority trading company was creating an effective and well managed board; during the implementation phase a shadow board was equally important. The individuals on both of these boards should be carefully selected to ensure that they have the required experience and knowledge. If required the Council should look to appoint an individual with suitable background in the field to support the board and new company.

Key Finding 27 - Shares in Newport Norse cannot be traded, i.e. shares in the company cannot be sold. This also prevents it being directly transferred into an employee co-operative.

Recommendation 13

As implementing alternative delivery models is often linked to budget savings then it is important that they are delivered in a timely manner. If the Council decides to create such a vehicle to provide outdoor services then it should create a detailed delivery plan which sets out defined timescales. The failure to deliver on time would add to the financial pressures currently placed on the Council. Care should also be taken to ensure that any business plans put forward are robust and have realistic and achievable income targets.

Recommendation 14

If the Council decides to move outdoor services to a new alternative delivery model then it should create a service continuation plan; this would ensure that

disruption to services is minimised during transition.

Recommendation 15

If the Council decides that it is going to deliver outdoor services through an alternative delivery model then it should first establish a list of priorities that would determine which option is adopted, for example, financial savings, continuation of service delivery, preservation of staff jobs and employment related benefits. These should be the high level driver for the project.

I would be grateful if you would consider and respond to the comments, key findings and recommendations made in this letter. Should you require clarification or have any questions about any of this letter do not hesitate to contact me.

Regards,



Councillor Paul Mitchell
Chairperson Environmental Scrutiny Committee

Cc to:

Jane Forshaw, Director for the Environment
Tara King, Assistant Director for the Environment
David Lowe, Waste Operations Manager
Paul Keeping – Operational Manager, Scrutiny Services
Joanne Watkins – Cabinet Office Manager
Members of the Environmental Scrutiny Committee

Response to Environmental Scrutiny's Cardiff Outdoors Recommendations (2 July 2014)

R1 Newport City Council has elected to take a phased approach to entering into a joint venture with Norse Commercial Services Ltd. They have decided to initially place a range of property services into the joint venture so they are able to gauge the success of the scheme across a relatively small part of the Council. Should this approach work then it will be possible to move additional Council services into the joint venture. Members felt that such a prudent approach was sensible and would suggest that the Council follows a similar path if they adopt a joint venture model.

Response: this recommendation is partly accepted

In accordance with the Chief Executives 'Organisational Development' report approved by Cabinet in May 2014, the Infrastructure Services project has been established. The primary purpose of the project is to identify the most suitable future delivery vehicle for the provision of the services in scope whilst reducing operating costs, improving service delivery and developing income opportunities. It is currently intended that a single approach be adopted for the scope of services identified with However, if the recommendation was to establish a joint venture model for this scope of services similarly to that done by Newport, the model would allow other services to be added at a later date if deemed appropriate.

R2 If the Council decides to go down the route of implementing one of a range of alternative delivery models then it should undertake a detailed options appraisal of the available alternative delivery models. This would feature a shortlist of preferred options which should be put out for consultation; Members feel that Scrutiny should be an important consultee in this the process.

Response: this recommendation is partly accepted

It is intended that an appraisal of alternative delivery models be undertaken to identify a short list of potentially suitable models which will then be subject to a detailed appraisal. It is intended that Cabinet's approval of the proposed short list be sought with key stakeholders, including Scrutiny, being consulted ahead of the relevant Cabinet meeting.

R3 The options appraisal should include the benchmarking of costs for delivering services

through a range of alternative delivery models. This would ensure that, as far as it can, the Council understands the full cost implications of service delivery.

Response: this recommendation is partly accepted

It is confirmed that benchmarking will be undertaken as part of the detailed appraisal of the short list of options.

R4 *During any detailed options appraisal the Council should undertake a number of due diligence visits to look at various alternative delivery models which could be used provide a range of outdoor services in Cardiff. Such visits should include meeting key stakeholders including board members, staff and trade union representatives. Following such visits a report should be written highlighting the benefits, disadvantages and lessons learnt. Lessons learnt from each project should be fed into a project lessons learnt register.*

Response: this recommendation is accepted

It is intended that a number of due diligence visits be undertaken and that a record of each visit be made as recommended.

R5 *When Newport City Council undertook due diligence into other Norse joint ventures they identified that Leeds had struggled with delivering services to budget because of the billing approach that was set out in their specification; this meant that they were charged per individual event rather than for delivery of the overall service. Members felt that Cardiff should take a similar approach if they decide to deliver outdoor services through an alternative delivery model, i.e. agree a price for the whole service at the outset.*

Response: this recommendation is accepted

It is agreed that a detailed specification of services to be provided would be required ahead of any future alternative delivery model being implemented.

R6 *Involving trade union representatives from the outset is essential. The clearer all parties are on proposals and the alternatives the better. Poor communication (for example, between commissioners and those delivering the service)*

would seem to be one of the major reasons why implementing alternative delivery models is slow or ultimately fails.

Response: this recommendation is accepted

It is agreed that key stakeholders, including the Unions, should be engaged at an early stage. It is confirmed that the Union Branch Secretaries were appraised regarding the Infrastructure Services Project in May/early June. Updates have since been provided. Initial staff briefings have also been undertaken. It is intended that both Unions and Staff be regularly updated as the project progresses.

R7 *If the Council decides to implement an alternative delivery model for the provision of outdoor services then as a part of the planning phase it should determine how the performance of the new vehicle is scrutinised and monitored. This should be agreed well in advance of the commencement of any contract. In the event of poor performance being identified a process must be put in place to remedy any difficulties; should such difficulties persist then the Council needs to have an exit mechanism to end the contract.*

Response: this recommendation is accepted

It is agreed that a service delivery specification , monitoring arrangements and mechanisms for corrective action be incorporated in to the Service Level Agreement/Contract for any Alternative Delivery Model implemented. Such information will be subject to legal services review before incorporation. Research will also be undertaken to determine what provisions other Council's have made when implementing such models.

R8 *The officer from Newport City Council stressed the importance of creating a very detailed service specification of the services to be delivered through an alternative delivery model. He explained that this should be created at the earliest opportunity so that all parties are clear as to exactly what will be expected of the alternative delivery model. This creates certainty and could prevent the Council from negotiating a poor deal with any potential partners. Therefore, Members recommend that if the Council wishes to deliver outdoor services through an alternative delivery model then it should at the earliest possible opportunity prioritise the creation of a very detailed service specification. Any specification created for outdoor services should be made available to scrutiny as a priority.*

Response: this recommendation is accepted

As stated above, the Service Level Agreement/Contract for any Alternative Delivery Model implemented will include a detailed specification for service delivery. This will be made available to scrutiny prior to any future delivery arrangements being formally finalised.

***R9** When considering the impact of alternative delivery models on the Council as a whole the provision of corporate services supporting the services provided should be considered, for example, legal, accounting and human resource services. When Newport City Council created a joint venture company with Norse Commercial Services Ltd all staff directly involved with delivering services were transferred across to the new company using TUPE regulations, however, as Norse Commercial Services Ltd has an in house corporate support services Newport City Council had to reduce the number of staff working within corporate services. The inquiry recommends that this is a factor which is taken into consideration when taking a decision.*

Response: this recommendation is accepted

It is intended that the impact of any alternative service delivery models upon corporate services, in addition to the services directly in scope of the project, be considered at the detailed options appraisal stage. Again, cognizance of the experiences of other Council's when considering alternative delivery models will be taken into account.

***R10** It was identified that a key element of successfully creating a joint venture company or newly formed local authority trading company was creating an effective and well managed board; during the implementation phase a shadow board was equally important. The individuals on both of these boards should be carefully selected to ensure that they have the required experience and knowledge. If required the Council should look to appoint an individual with suitable background in the field to support the board and new company.*

Response: this recommendation is accepted

It is agreed that an effective and well managed board, as well as the establishment of a shadow board at an early stage, are important success factors in the operation of a joint venture or wholly owned trading company. If either of these models are identified as the preferred way forward for the Infrastructure Services project, such arrangements will be put in place.

R11 *Detailed consultation would be required in advance of a decision being taken to transfer to an alternative delivery model. This should include as many stakeholders as possible and highlight the benefits and disadvantages of all options under consideration.*

Response: this recommendation is accepted

It is accepted that key stakeholders need to be involved throughout any project which involves consideration of alternative delivery models being implemented. In respect of the Infrastructure Services project, engagement of the Unions and Staff has already been commenced through appropriate briefings and an article was included in the Members newsletter for July. Additionally, Cardiff citizens will be consulted regarding the Infrastructure Services Project as part of the 'Choices for Cardiff' budget consultation process.

R12 *As implementing alternative delivery models is often linked to budget savings then it is important that they are delivered in a timely manner. If the Council decides to create such a vehicle to provide outdoor services then it should create a detailed delivery plan which sets out defined timescales. The failure to deliver on time would add to the financial pressures currently placed on the Council. Care should also be taken to ensure that any business plans put forward are robust and have realistic and achievable income targets.*

Response: this recommendation is accepted

The implementation of any alternative service delivery arrangements will be subject to robust project management in accordance with the Council's project quality assurance procedures. The objective will be to deliver the new model within budget, on time, and in accordance with the agreed objectives. It is intended that an appropriate business plan identifying realistic and achievable income targets be prepared and that this be subject to appropriate monitoring and review.

R13 *If the Council decides to move outdoor services to a new alternative delivery model then it should create a service continuation plan; this would ensure that disruption to services is minimised during transition.*

Response: this recommendation is accepted

Business continuity will be an important consideration in the implementation of any alternative service delivery model. Appropriate arrangements will need to be identified and documented in respect of each service affected by the future delivery arrangements being implemented. The experience of other Council's

that have gone through similar transitional arrangements will be taken into account in this process.

***R14** If the Council decides that it is going to deliver outdoor services through an alternative delivery model then it should first establish a list of priorities that would determine which option is adopted, for example, financial savings, continuation of service delivery, preservation of staff jobs and employment related benefits. These should be the high level driver for the project.*

Response: this recommendation is accepted

In respect of Infrastructure Services, a list of project objectives will be identified together with a list of corresponding criteria against which the objectives can be measured at the options appraisal stage. Scrutiny's input into the development of an appraisal matrix will be sought ahead of the options analysis being concluded.

INFRASTRUCTURE BUSINESS MODEL & ALTERNATIVE DELIVERY OPTIONS

Reason for the Report

1. To provide Members with a briefing on the 'Infrastructure Business Model' project and the of range of alternative delivery models that could be used to deliver services potentially within the scope of the project, with a view to agreeing to participating in a joint Inquiry led by the Environmental Scrutiny Committee to consider these issues in more depth.

Background

2. This Committee has previously been briefed on the Council's three-year programme of Organisational Change, which was approved by the Cabinet on 15 May 2014. The Organisational Development Programme includes five strands of linked activity implemented to deliver a fundamentally reshaped service delivery landscape. One of these is the 'Strategic Commissioning Programme', which comprises four project workstreams including the 'Infrastructure Business Model'.
3. The services likely to be within the scope of the 'Infrastructure Business Model' at the start of the project include Waste Collections; Street Cleansing; Waste Education and Enforcement; Pest Control; Highways Maintenance and Asset Management; Infrastructure Design; Telematics; Parks Operations and Design; Central Transport Services; and Soft Facilities Management (cleaning and security services). The services in scope may change as the project progresses. These services sit under the terms of reference of the Environmental Scrutiny Committee, apart from Facilities Management and Central Transport Services which fall under this Committee's terms of reference. The Committee was briefed in January 2014 regarding proposals to

develop a business case for Central Transport Services to become a Trading Company.¹

4. In developing the 'Infrastructure Business Model' the Council is aiming to identify and implement the most appropriate delivery models(s) for the identified range of services. If successful, the project will deliver an operating model, closely aligned to Cardiff Council's new commissioning role, which delivers efficiency savings in conjunction with measured improvements in service delivery.

Range of Potential Alternative Delivery Models

5. The Project will consider a number of Alternative Delivery Models for the scope of services. These may include:
 - Modified in-house service delivery;
 - Establishment of wholly owned arms length company;
 - Joint Venture;
 - Co-operatives and Mutuals;
 - Collaboration;
 - Outsourcing.

It is intended that a short list of possible alternative delivery options be identified and that these be subject to a detailed analysis to identify the best way forward.

Key Stakeholders & Consultation

6. As the potential range of services within the 'Infrastructure Business Model' impacts on a wide range of stakeholders the need for thorough consultation is essential. It is anticipated that the key stakeholders involved with the project consultation will include the Cabinet; Councillors; Trade Unions; Scrutiny Committees; the Senior Management Team; the Project Team; Corporate Support Services; Staff delivering services within the scope of the project; the Vale of Glamorgan Council; other adjoining local Councils and the Welsh Government.

¹ Papers can be found on the Council's website at: https://formerly.cardiff.gov.uk/objview.asp?object_id=27852

Anticipated Project Phases

7. A project of this scale has to involve a very detailed level of planning. To help support this work the project will be split into five distinct project phases, these are:

- **Phase 1 – Service Reviews** - This will include a number of key tasks, these will include:
 - Undertaking a separate analysis of the services within the scope of the project;
 - Consolidating the service analyses to produce a report setting out findings, conclusions and action plan;
 - Inviting challenge from stakeholders (e.g. Peer Challenge Board, Scrutiny, Unions),
 - Submitting a report to Cabinet with recommendations for next steps including proposed short list of alternative delivery options **to be subjected to a detailed appraisal.**

- **Phase 2 – Options Appraisal** – This phase of the project will include a range of tasks including:
 - The completion of a detailed options appraisal and identification of the preferred option;
 - Inviting challenge from stakeholders as above;
 - Submitting a report to Cabinet which will identify a preferred option.

- **Phase 3 – Detailed Business Plan** - This phase of the project will include a range of tasks including:
 - Completion of a detailed business plan for preferred option;
 - Inviting challenge from stakeholders as above;
 - A report to Cabinet based on the business plan for the preferred option.

- **Phase 4 – Commence Implementation** – This is the phase where the Council will begin to deliver the implementation of the approved future delivery model.

- **Phase 5 – Commence Delivery of Services** - This is the phase where the Council will begin to deliver services using the newly implemented alternative delivery model.
8. An intended overall project timescale will be based on the need to satisfy one of the main intended benefits of the project, that is, Council savings for the period 2015/16 onwards. However, feasibility of any programme target will be dependent upon the type of future delivery model which is approved at the end of Phase 2. Implementation timescales will be a key consideration in the appraisal of the alternative delivery models considered during Phase 2.

Potential Benefits

9. Initial scoping of the project has identified a number of potential benefits for the Council, these include:
- Reduction in the Council’s base budget support for the services in scope;
 - Efficiency improvements in the delivery of services;
 - Improvement in quality of service delivery;
 - Development of a strong commercial focus.
13. The performance indicators and other factors that will be used to assess the project success will be identified within the business plan which will be prepared as part of the project.

Potential Risks

14. Initial scoping has identified a number of key risks associated with the project, these include:
- Future service delivery model not implemented within required timescale;
 - The ‘wrong’ future service delivery model is approved and implemented;
 - Anticipated savings and other benefits are not realised;
 - ‘Mismatches’ with other Council services and interfaces;
 - Industrial relations issues;
 - Member resistance to proposed future model for service delivery;
 - Project spend exceeds approved budget.

Issues

15. The meeting will provide the Committee with the opportunity to scrutinise and comment on the 'Infrastructure Business Model' proposals. They can also discuss the options for future scrutiny of the project, including the scope and structure of any inquiry work to be undertaken with the Environmental Scrutiny Committee.

Way Forward

16. Councillor Bob Derbyshire, Cabinet Member for the Environment and Councillor Graham Hinchey, Cabinet Member for Corporate Services and Performance have been invited to attend the meeting and may wish to make a statement. David Lowe, Waste Operations Manager and Lesley Ironfield, Operational Manager for Facilities Management have been invited to attend to deliver a presentation on the project proposals and to answer Members' questions.

Legal Implications

17. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

18. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATIONS

The Committee is recommended to:

- Consider the information in the report, appendices and provided at the meeting;
- Decide whether they would like to make any comments to the Cabinet;
- Decide the way forward for future scrutiny of the issues discussed.

MARIE ROSENTHAL

County Clerk and Monitoring Officer

25 June 2014

INFRASTRUCTURE BUSINESS MODEL & ALTERNATIVE DELIVERY OPTIONS

Purpose of Report

1. To provide Members with a briefing on the 'Infrastructure Business Model' project and consider a range of alternative delivery models that could be used to deliver services potentially within the scope of the project.

Background

2. On the 15th May 2014 the Cabinet considered a report titled 'Establishing a programme of organisational change for the City of Cardiff Council'. The report set out details around the challenges being faced including the rapid fiscal consolidation; an increase in demand on services; the need for continuous improvement; accelerating Cardiff's development as a European Capital City and reorganising local government as proposed by the 'Williams Commission'.
3. It also confirmed the Cabinet view that the organisation needs to shift from a top down, silo based approach for service delivery (which is considered inflexible, impersonal, inefficient and difficult to understand from the perspective of the citizen). It proposed that the Council adopted a strategic commissioning approach where the need for a service is assessed and an evaluation of how best to deliver the service is undertaken; this includes the option to review a wide range of alternative delivery models.
4. An Organisational Development Programme has been proposed which includes five strands of linked activity implemented to deliver a fundamentally reshaped service delivery landscape; one of which is the 'Strategic Commissioning Programme'. The 'Strategic Commissioning Programme' includes four project work streams; the one that relates to this report is titled 'Infrastructure Business Model'.

5. The services within scope of the 'Infrastructure Business Model' include Waste Collections; Street Cleansing; Waste Education and Enforcement; Pest Control; Highways Maintenance and Asset Management; Infrastructure Design; Telematics; Parks Operations and Design; Central Transport Services and Soft Facilities Management (cleaning and security services).
6. In developing the 'Infrastructure Business Model' the Council is aiming to identify and implement the most appropriate delivery models(s) for the identified range of services. If successful, the project will deliver an operating model, closely aligned to the Council's new commissioning role, which delivers efficiency savings in conjunction with measured improvements in service delivery.

Range of Potential Alternative Delivery Models

7. The Project will consider a number of Alternative Delivery Models (ADM's) for the scope of services. These may include:
 - Modified in-house service delivery;
 - Establishment of wholly owned arms length company (WOC);
 - Joint Venture;
 - Co-operatives and Mutuals;
 - Collaboration;
 - Outsourcing.

It is intended that a short list of possible Alternative Delivery Options be identified and that these be subject to a detailed analysis to identify the best way forward.

Key Stakeholders & Consultation

8. As the potential range of services within the 'Infrastructure Business Model' impacts on a wide range of stakeholders the need for thorough consultation is essential. It is anticipated that the key stakeholders involved with the project consultation will include the Cabinet; Councillors; Trade Unions; Scrutiny Committees, the Senior Management Team; the Project Team; Corporate Support Services; Staff delivering services within the scope of the project; the Vale of Glamorgan; other adjoining local Council's and the Welsh Government.

Anticipated Project Phases

9. A project of this scale has to involve a very detailed level of planning. To help support this work the project will be split into five distinct project phases, these are:

- **Phase 1 – Service Reviews** - This will include a number of key tasks, these will include:
 - Undertaking a separate analysis of the services within the scope of the project;
 - Consolidating the service analyses to produce a report setting out findings, conclusions and action plan;
 - Inviting challenge from Stakeholders (e.g. Peer Challenge Board, Scrutiny, Unions);
 - Submitting a report to Cabinet with recommendations for next steps including proposed short list of alternative delivery options to be subjected to a detailed appraisal.

- **Phase 2 – Options Appraisal** – This phase of the project will include a range of tasks including:
 - The completion of a detailed options appraisal and identification of the preferred option;
 - Inviting challenge from Stakeholders (e.g. Peer Challenge Board, Scrutiny and Unions);
 - Submitting a report to Cabinet which will identify a preferred option.

- **Phase 3 – Detailed Business Plan** - This phase of the project will include a range of tasks including:
 - Completion of a detailed business plan for preferred option;
 - Inviting challenge from Stakeholders (e.g. Peer Challenge Board, Scrutiny and Unions);
 - A report to Cabinet based on the business plan for the preferred option.

- **Phase 4 – Commence Implementation** – This is the phase where the Council will begin to deliver the implementation of the approved future delivery model.

- **Phase 5 – Commence Delivery of Services** - This is the phase where the Council will begin to deliver services using the newly implemented alternative delivery model.
10. An intended overall project timescale will be based on the need to satisfy one of the main intended benefits of the project, that is, Council savings for the period 2015/16 onwards. However, feasibility of any programme target be dependent upon the type of future delivery model which is approved at the end of Phase 2. Implementation timescales will be a key consideration in the appraisal of the alternative delivery models considered during Phase 2.

Potential Benefits

11. Initial scoping of the project has identified a number of potential benefits for the Council, these include:
- Reduction in Council's base budget support for the services in scope;
 - Efficiency improvements in the delivery of services;
 - Improvement in quality of service delivery;
 - Development of a strong commercial focus.
13. The performance indicators and other factors that will be used to assess the project success will be identified within the business plan which will be prepared as part of the project.

Potential Risks

14. Initial scoping has identified a number of key risks associated with the project, these include:
- Future service delivery model not implemented within required timescale;
 - The 'wrong' future service delivery model is approved and implemented;
 - Anticipated savings and other benefits are not realised;
 - 'Mismatches' with other Council services and interfaces;
 - Industrial relations issues;
 - Member resistance to proposed future model for service delivery;

- Project spend exceeds approved budget;

Issues

15. Councillor Bob Derbyshire, Cabinet Member for the Environment, Councillor Ramesh Patel, Cabinet Member for Transport, Planning & Sustainability and officers from the Environment Directorate have been invited to attend to deliver a presentation on the project proposals and to answer Members' questions.

Way Forward

16. The meeting will provide the Environmental Scrutiny Committee with the opportunity to scrutinise and comment on the 'Infrastructure Business Model' proposals. They can also discuss the options for future scrutiny of the project, including the scope and structure of any work to be undertaken.

Legal Implications

17. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

18. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of

the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATIONS

The Committee is recommended to:

- Consider the information in the report, appendices and provided at the meeting;
- Decide whether they would like to make any comments to the Cabinet;
- Decide the way forward for any future scrutiny of the issues discussed.

MARIE ROSENTHAL

County Clerk and Monitoring Officer
2nd July 2014

Ref: RDB/PM/BD/08.07.14

21st July 2014

Councillor Bob Derbyshire,
Cabinet Member for the Environment,
County Hall,
Atlantic Wharf,
Cardiff,
CF10 4UW.



Dear Councillor Derbyshire,

Environmental Scrutiny Committee – 8th July 2014

On behalf of the Environmental Scrutiny Committee I would like to thank you and the officers for attending the Committee meeting on Tuesday 8th July 2014. As you are aware the meeting considered an item titled 'Infrastructure Business Model & Alternative Delivery Options'. The comments and observations made by Members following this item are set out in this letter.

Infrastructure Business Model & Alternative Delivery Options

A Member asked if any progress had been made in reducing the cost per tonne of processing recycled materials at the Materials Reclamation Facility. He was told that the Environment Directorate had managed to reduce costs from £45 per tonne to £28 per tonne; this had been achieved through a series of initiatives including a change to the shift patterns. The Committee were impressed by this reduction in costs and have asked that a detailed breakdown of the achieved savings is provided in response to this letter.

The Committee understand and support the work currently being undertaken to develop alternative delivery models for a range of front line services in Cardiff. As the majority of services under consideration in the 'Infrastructure Business Model' fall within the terms of reference of the Environmental Scrutiny Committee the Members have agreed to undertake a joint scrutiny with the Policy Review & Performance Scrutiny Committee into the potential delivery options available to the Council. It is anticipated that the inquiry will start within a few weeks and look to support the work that you are currently

undertaking to identify a suitable alternative delivery model for services in Cardiff. I will keep you updated on the progress of the inquiry.

Street Cleansing in Student Areas

During the way forward Members discussed the topic of street cleansing in Cardiff's student areas. They felt that it would be worth giving these areas a deep clean in advance of the September fresher week; the idea being that the new students would demonstrate a greater appreciation for their environment which in turn would result in less litter and waste being deposited in the area. Members felt that over a period of a year an early deep clean could result in savings as less cleansing would be required. The Committee would, therefore, ask that you implement a deep clean in the main student areas in advance of them returning to Cardiff in September. Once the deep clean is completed then a photographic record should be made and provided to the University and Student Union; this could then be circulated to students in the welcome pack to act as a reminder of how clean student areas can look.

I would be grateful if you would consider the above comments and provide a response to the requests made in this letter.

Regards,

A handwritten signature in black ink that reads "P. D. Mitchell". The signature is written in a cursive, slightly slanted style.

Councillor Paul Mitchell
Chairperson Environmental Scrutiny Committee

Cc to:

Jane Forshaw, Director for the Environment
Tara King, Assistant Director for the Environment
David Lowe, Waste Operations Manager
Paul Keeping, Operational Manager, Scrutiny Services
Joanne Watkins, Cabinet Office Manager
Members of the Environmental Scrutiny Committee

Response to Environmental and Policy Review and Performance Scrutiny Committee's Task and Finish Group Report Recommendations

Recommendation 1 – Required Speed of Change

The Council needs to save a total of £123 million by the end of the 2017/18 financial year. From this total the Infrastructure Business Model needs to provide an indicative amount of approximately £4.3 million by the end of 2017/18.

The urgency of meeting the required savings cannot be overstated; therefore, Members recommend that quick and decisive action must be taken to ensure that an outcome for the project is achieved by the end of the 2015/16 financial year. By outcome they mean that the preferred model is identified and that the option is put in place to ensure that savings are capable of being delivered from the start of the 2016/17 financial year at the latest.

Delays create cost and uncertainty which are two things that the Council cannot afford in this financially challenging period. The process will require clear objectives, concise management of change and focussed leadership

Response – this recommendation is accepted

The Cabinet recognises the importance of putting in place the necessary arrangements to achieve savings in 2016/17 and beyond at the earliest opportunity. It is believed that the implementation of the preferred alternative delivery model identified for the Infrastructure Services ADM project, that is a Wholly Owned Company subject to the completion of a Full Business Case analysis with the Modified In-house model as the base comparator, will enable this cost saving objective to be achieved. Appropriate details are set out in the Outline Business Case. Relevant factors will be subject to a more detailed analysis as part of the Full Business Case work over the forthcoming months.

Recommendation 2 – Implementation of Systems & Technology

Whatever the alternative delivery option chosen by the Council, the new model has to introduce new technology and systems to improve efficiency and working practice, for example, fleet management systems, mobile scheduling systems and customer management systems.

All of the best performing providers from across the range of alternative delivery models invest in established third party systems and technology as they improve working practice, improve efficiency and make financial reporting and performance monitoring much quicker and easier. Once the new systems are implemented management needs to ensure that the new technology is properly used.

If the Council decides not to work with a third party partner who has immediate access to the required systems and technology then it needs to allocate funding and

a sufficient timescale to implement the new systems and technology; this should factor in procurement timescales and implementation period. If the Council is serious about delivering commercially competitive services then it cannot afford to rely on primitive spreadsheets and slow financial reporting procedures.

Given the urgency and short timescales 'bespoke systems' must be avoided completely as they are expensive and difficult to amend quickly and accurately. They will consume officer time collating errors and reports for the supplier with no guarantee of success.

Response – this recommendation is accepted.

The importance of introducing new technology and systems to improve efficiency and working practice is recognised. Initial cost estimates for appropriate systems have been made and included within the high level financial modelling work undertaken as part of the as part of the Outline Business Case. These are currently being firmed up and delivery of the new systems will commence at the earliest opportunity. It is intended that 'off-the-shelf' systems be used wherever possible and appropriate but it is recognised that work will be required to ensure effective integration with both existing and other new systems

Recommendation 3 – Multi-Skilling & Training

Whatever the alternative delivery option chosen by the Council, the new model needs to focus on the development of multi skilling and training for staff. All of the best performing providers from across the range of alternative delivery models studied made the development of multi skilling and training a central part of their operation and ethos. Effective implementation of multi skilling that is supported by work related training increases efficiency, raises productivity and boosts job satisfaction. In particular the selected model should focus on:

- Implementing wider multi skilling duties across all services where it can be applied and where appropriate.*
- Ensuring that an effective training programme is put in place to support multi skilling and personal development. If the Council doesn't decide to work with a third party partner that is able to immediately able to implement established training schemes then it should ensure that sufficient financial resources are put in place to introduce best practice industry standard training schemes.*
- The cost of the Council having to implement industry standard training schemes has to be built into the options appraisal for in house modification and wholly owned arms-length company.*
- When implementing the multi skilling approach the Council should review the practice of 'job & finish' against other industry working arrangements. For example, some of the best performing providers used 'team & finish' and other flexible working approaches to increase efficiency, productivity and reduce costs.*

- *A proportion of the income and savings achieved from multi skilling and improved training should be reinvested back into the service in the form of additional training, new systems & technology and capital resource. This will represent an investment in staff to help ensure continuous improvement and efficiency within the service.*
- *The new service should look to increase the use of apprenticeships and graduate placements whenever possible; appropriate training should be used to support these placements. Apprenticeships and graduate placements are used by all of the best performing alternative delivery option providers to develop the service and ensure long term continuity of skills and service.*
- *The Neighbourhood Services Trial which the Council has recently implemented is in the process of developing multi tasking within an area based working approach. The Council needs to continue with this work right up until the point where the new alternative delivery model is put in place. The efficiencies generated should produce savings in the interim period and ensure that any Council services are in a better position to transfer to the new alternative delivery option.*

Response – this recommendation is partly accepted.

The multi-skilling of staff where appropriate and the implementation of a training plan will be key objectives of the proposed new company as well as reviewing current operating practices and amending these as required. Particular requirements will be identified within the Full Business Case analysis. The preparation of training plans will build upon on the good practice which is already ongoing in some areas of the Council, for example, the Waste Collections Service. In particular, it is intended to introduce apprenticeship training into the various front line teams which will build upon the good work that has been ongoing in Parks for many years. It is also pleasing to note the Task and Finish Group's recognition of the progress made under the Neighbourhood Services pilot. This project commenced in the South-West neighbourhood area of the city and was recently expanded to cover other wards in the West including Cardiff West and Cardiff City and South Neighbourhood Management areas. It is confirmed that this neighbourhood approach will continue, and be further expanded across the remaining parts of the city, over the forthcoming months ahead of the proposed new company taking on responsibility for day to day management of the initiative.

The distribution of any surplus arising from the operation of the proposed company would have to be agreed with the Council as sole owner.

Recommendation 4 – Income Generation & Commercialisation

Whatever the alternative delivery option chosen by the Council, the new model needs to focus on increased income generation and commercialisation. All of the best performing providers from across the range of alternative delivery models were focused on achieving these objectives. A commonly expressed theme was that the ability to generate external income demonstrated that the service was competitive within the market. It also provided important additional funding to support the service

and other functions provided by the Council. In particular Members felt that any new model should:

- *Follow a three step approach to generating income. This means that:*
 - 1) *The new model should start by making the service efficient and competitive;*
 - 2) *Once the service is competitive it should look to insource externally contracted out work;*
 - 3) *After the contracted out work has been brought back in house the service should look to bring in new external business.*
- *The service needs to be realistic in terms of initial income generation expectations. A planned and structured approach should be adopted which would involve the creation of a detailed business plan for each of the services. The business plans should be followed during the year and reviewed at least annually (earlier if necessary). The business plans should include a clearly defined target market for new business; a strategy for approaching prospective customers; income / new business targets and a summary of resources allocated for generating new business.*
- *Once the new service is competitive it should employ a sales person to help generate new business for the Council. The service should also consider employing marketing expertise in the short term to help define and establish a trading brand. The sales person should be contracted to work to an agreed annual sales target.*
- *If the Council decides not to work with a third party partner that has established income generation and commercialisation experience then it should allocate funding to ensure sufficient expertise is brought into the new service. The cost of the Council introducing income generation and commercialisation experience needs to be built into the options appraisal for in house modification and wholly owned arms-length company.*
- *To successfully generate new business and external income the Council needs to become less risk adverse. This means that Legal, Financial and other Corporate Support Services need to be more creative and flexible in their outlook when evaluating opportunities.*
- *The Council brand and logo should remain a key part of any trading arrangement set up as a result of the Infrastructure Business Model project. Many of the providers stressed during conversation that the Council is a locally trusted brand and that the service needs to be built around this reputation.*
- *The vast majority of income generated by services within the scope of the Infrastructure Business Model is internal. The new model needs to shift focus away from only relying on internal income and ensure all staff from senior managers to frontline staff become more professionally and commercially aware of external income possibilities. All staff essentially will be selling the service at every opportunity.*

Response – this recommendation is accepted.

It is agreed that key objectives for the new model should include the adoption of a more commercial approach and increasing external income. The three stepped approach is also agreed in principle although it should be noted that some services in scope are already competitive and successful in securing external work. For example, it is estimated that the Council's Commercial Waste Collections Service currently delivers c.30% of the Cardiff commercial waste services. It should also be noted that in terms of all of the services in scope, c11% of the 2015/16 c.£72.8m budgeted turnover comprises external income.

The OBC high level financial analysis includes both (i) a prudent approach to income generation, with a delay and a gradual build-up in third party income and (ii) for the Wholly Owned Company provision for the recurring costs of a commercially focused Director and Business Development roles. Building on from the OBC the key next steps on the project will include the preparation of a Business Plan for the first 3 years of operation with 5 year projections. This will include a realistic external income growth plan which will take into account current/expected future capabilities and also opportunities in the market place with appropriate analysis work being undertaken to assist with the latter mentioned work. Both the governance of the proposed company, and the associated organisational structure, will be designed to ensure that opportunities for commercial growth can be maximised whilst also ensuring that the associated risks are appropriately managed and controlled. It is envisaged that the 'design' will include a 'Commercial Director' (or similar) role to drive through further commercialisation of all services. It is believed that the 'risk adverse' issue referred to by the Task and Finish Group report is determined more by the Council's constitution rather than the approach of individual Services which is a factor that can be addressed through appropriate, yet robust, wholly owned company governance.

The importance of the Cardiff brand and logo is recognised and it is intended that the new company build upon and further enhance this reputation, whilst also taking into account the experiences of other similar organisations, for example, Cormac Contracting Ltd (wholly owned company set up by Cornwall County Council) and Ansa Environmental Services Ltd (wholly owned company set up by Cheshire East County Council). Branding is recognised as a key factor to engendering a new ownership identity for staff and stimulating their innovation and assurance of greater accountability, which the relevant staff would be fully engaged in developing.

Recommendation 5 – Performance Management

Whatever the alternative delivery option chosen by the Council, the new model has to ensure that clear performance management and benchmarking is available for all parts of the service and that this information is readily available at short notice. Strong performance management and individual accountability is a common factor across the best performing providers from the range of alternative delivery options. In particular Members felt that any new model should:

- *Ensure that the contract specifications for each service include clearly defined performance objectives based on the important aspects of service delivery.*

- *Ensure that the services are benchmarked against the best performing companies or organisations within their sector. Developing a competitive service means competing against the best providers within the market and the benchmarking should reflect this fact.*
- *As a minimum services should benchmark themselves against APSE, the main UK core cities and the 22 current Welsh local authorities. The Council should attempt to provide a high quality consistent approach for the benchmarking of services.*
- *Specific quarterly performance reports should be available for all of the services within the new alternative delivery model. The reports should be available for review at any established Performance Management Boards, Cabinet, Scrutiny Committees and any other relevant Council group. Whenever problems are identified with the service an action plan should be put into place to resolve the matter.*
- *Ensure that the services within the scope of the Infrastructure Business Model all have adequate systems and technology which allow them to quickly and easily provide the required information to populate the performance reports. If the required information isn't quickly available it makes managing the service very difficult. Whenever possible, robust 'off the shelf' systems should be employed.*

Response – this recommendation is accepted.

Robust performance management, which includes appropriate measures, will be a key success factor in the day to day management of the new company. It should be noted that many of the services within scope already undertake benchmarking with APSE, and other Councils within Wales and also the wider UK. The proposed governance arrangements and the Authority's Service Requirements will include regular reporting on key performance issues to the Board and also the Council's Cabinet and relevant Scrutiny Committees. It is intended that appropriate management systems be put in place to facilitate efficient reporting.

Recommendation 6 - Managing Cultural Issues

Whatever the alternative delivery option chosen by the Council, the new model has to address the cultural issues which are present in many of the services within the scope of the Infrastructure Business Model. Sickness rates are exceptionally high when compared against local authority and private sector averages; many of the services state that management and staff relationships are difficult; there is a reluctance within some services to adopt new technology & systems; changes to improved working practices are slow and productivity rates are low in some areas. Collectively these have a large impact on service delivery and the Council's finances. As a consequence they need to be addressed quickly. Members recommend that the following is done to address cultural issues:

- *Sickness – the new alternative delivery model has to reduce sickness levels across most of the services. The best practice providers applied a wide range of techniques and policies to manage this issue, these included:*
 - *A partnership bonus which is partially based on attendance;*
 - *Not paying any sick leave for the first two days in the sickness period;*

- *Applying a more relaxed and informal approach to managing sick leave, for example, placing the emphasis on informal conversations and early support to address underlying problems;*
- *Using the Bradford Factor to manage out regular short term sickness absences.*

All of these approaches are different; however, when applied and managed properly they appear to achieve the same result. The recommendation for sickness has to be that the Council either partners with a provider with a successful track record of reducing sickness, or (if an in house modification or wholly owned arms length company is selected) resource is invested to change the current approach to match an established approach which is used by one of the best performing providers. In addition to this the sickness rates of all the services have to be consistently benchmarked against the best performing providers.

- *Members feel that moving to a new structure and approach of working will provide an ideal opportunity to establish a better working relationship between staff and management. This can only be achieved through open and transparent dialogue. All parties need to understand what their responsibilities are and the standards which are expected of them. Proper engagement with staff and trade unions is essential during a period of significant change – it would seem sensible to obtain their opinion on working arrangements and allow them to take greater personal responsibility for achieving specific goals in their working environment. Some providers achieved success in this area by reducing the burden of bureaucracy and encouraging personal responsibility; this in turn seemed to improve staff and management relationships.*
- *Members believe that it is essential for the services within the Infrastructure Business Model to embrace new systems and technology. The best performing providers all use these to improve productivity and efficiency. A failure to keep up with the latest in industry systems and technology will mean the Council's services will fall further behind. The task group, therefore, recommends that the new services adopt the latest in industry technology and systems. In achieving this through a partnership / contract or an in house approach it should be made clear to staff why new systems and technology are required and the consequences of failing to change.*
- *A consistent theme of this report is that in future Council services need to be able to compete with the best local authorities and private sector providers. This ultimately means that efficiency and productivity have to increase. It is important to stress that Oxford Direct Services acknowledged that they needed to increase productivity in 2011 by 15% to maintain employee salaries and benefits at the same level. They achieved this through multi-skilling; better training; introduction of new systems & technology; incentivisation; good performance management & benchmarking and investment in staff and resources. They were also willing to step outside a national pay agreement to support the process – a decision which they were criticised for at the time. Members, therefore, recommend that productivity has to improve and that staff are made aware of exactly why it needs to improve.*

Response – this recommendation is accepted.

It is recognised that factors that have a negative impact upon service delivery performance, for example, high sickness absence in some Services, do need to be addressed. It is therefore intended that relevant policies be reviewed to ensure that they are 'fit for purpose' and assist in achieving organisational objectives. However, the good work that is currently ongoing to address these issues also needs to be acknowledged. For example, the sickness absence in Street Cleansing in 2014/15 was 20% less than in 2013/14. Modern technology is also being increasingly used to improve service delivery, for example, CCTV camera's are now installed on the Waste Collection vehicles to improve health and safety standards and assist with accident investigation. In 2014/15, route optimisation software assisted in the delivery of £300k savings for waste collections. A further efficiency saving of c£730k was achieved in Street Cleansing. In Highways Operations, on the back of a Director Lead Engagement Programme initiated in 2014/15, there has been an improvement in communications, relations between management and frontline staff, and also performance. The success of the engagement programme, although ongoing, can be seen through improvements in service delivery flexibility and also performance. For example, the completion of Category 2 safety repairs to the highway (within 28 days) increased from 48.69% in July 2014 to 97.26% in March 2015.

Plans are also currently being drawn up to introduce further new technology, for example, mobile working technology, in all appropriate operational areas. Clearly, consultation with employees and the Trade Unions regarding this ongoing modification process, and the associated benefits, is and will continue be an important success factor.

Recommendation 7 – Financial

Whatever the alternative delivery option chosen by the Council, the new model has to help ensure that the Council improves its financial control over the services within the scope of the Infrastructure Business Model. The budgetary pressures facing the Council (£123 million of savings in three years) mean that generating savings whilst as far as possible maintaining service delivery is probably the greatest risk facing the project. When looking at the best providers in the market a number of financial characteristics and priorities became apparent, these were:

- *The Council needs to design all of the specifications for the new services using a zero based budget approach. Instead of simply relying on finding savings from historical budgets the services need to be designed from the front line up so that finances are focused completely on service delivery.*
- *The finances of each of the services need to be independent of each other in accounting terms, i.e. they each need a transparent set of accounts which are readily available. This will make it easier to accurately monitor the services, quickly identify financial issues and take action to resolve the problem.*
- *In the services where financial control is (or has been) poor new financial systems need to be put in place. Where there are obvious systems issues it would seem sensible to bring in a third party software solution which is successfully used by the market leading providers, for example, a fleet*

management software system needs to be implemented for Central Transport Services – this would help the service better manage all transactions and monitor fleet values.

- *In advance of any transfer the Council needs to obtain a clear understanding of the costs of delivering all of the services within the scope of the Infrastructure Business Model. During the review of the services within scope the financial picture of each one was not always clear. Understanding the finances of each service before transfer is essential – failure to do this could cost the Council heavily if it enters into a contract or partnership with a third party.*
- *Prior to deciding on an alternative delivery model the Council needs to be clear as to how much of a saving can be made from the selected model. This is very difficult to achieve with certainty as there are too many variables to consider, however, industry average benchmarks, information from the scrutiny task & finish exercise and soft market testing events should help provide a reasonable estimate.*
- *To help achieve greater confidence for achieving savings the new alternative delivery model (where possible) should include some form of guaranteed savings value.*
- *The Council's current financial position means that the future budget settlements are likely to change. The new model needs to be flexible enough to accommodate any changes, for example, if the budget for a particular part of the service reduces then it is essential that there is scope to alter the service or the way in which it is delivered. A lack of flexibility around budgets and service delivery could cause the Council significant difficulties. Any contract or service level agreement that the Council agrees to has to include a financial flexibility clause.*
- *The new alternative delivery model has to be structured on a service based agreement and not an itemised delivery approach. Itemised delivery contracts tend to be very bureaucratic and expensive to manage.*
- *The task & finish group came across several examples of financial liabilities being transferred to third parties and creating financial savings for the local authority. For example, the Section 58 defence insurance liability for potholes was transferred by Cornwall Council to Cormac – to help achieve this they had to ensure that they were properly set up to manage the risks and avoid claims. Pension liabilities and other statutory target responsibilities can also be transferred to new providers at a cost. Members recommend that if practical and affordable, the Council should look to transfer as many of these financial liabilities into the new model as possible.*

Response – this recommendation is accepted.

Collectively, in 2014/15, the services in scope exceeded their budget by c.0.7% (c£212k overspend on a net budget of £29.9m) although many service areas in scope delivered a significant surplus. This does not therefore indicate that

significant budgetary control issue exists. However, the importance of robust financial management, transparency between services and the need to have appropriate profit and loss financial systems is recognised. In accordance with the proposals put forward, it is intended that the necessary zero budget exercises will be completed and that appropriate financial systems are put in place to allow effective financial management. Detailed proposals will be developed during the Full Business Case work.

A high level financial analysis has been undertaken as part of the Outline Business Case work. This indicated that the Wholly Owned company would deliver the most savings to the Council. A more detailed financial analysis will be undertaken as part of the Full Business Case.

The implementation of a Wholly Owned Company will allow the Council to maintain control regarding strategic matters whilst providing day to day operational autonomy to the company. One of the reserved matters which will be set out in Council/Company contract, which will include a service based Agreement, is the agreement of the annual business plan and budget which will provide the Council with the required flexibility to secure changes regarding budget and service delivery.

The potential transfer of financial liabilities, such as those mentioned in the above recommendation, will also be a consideration for the Full Business Case work.

Recommendation 8 – The Main Proposed Model

Having considered the five models proposed for the Infrastructure Business Model the Members believe that given the timescales; financial challenges; cultural changes required; inconsistency in performance management; the new systems and technology which need to be implemented; the working practice changes which have to happen and the scale of commercial change required the only viable option for the majority of services is to transfer them to a public / public joint venture. This option provides the Council with the ability to avoid a long procurement exercise by using the teckal principle to transfer services to another public owned company. It should be noted that this recommendation suggests a general direction of travel for the Infrastructure Business Model as a whole, however, the report will go on to comment on the individual services later in the report. Partnering with one or more Public / Public Joint Venture partners would enable the Council to:

- *Establish a Public / Public Joint Venture Company in advance of the start of the 2016/17 financial year;*
- *Retain a large degree of control over services in the new Public / Public Joint Venture Company;*
- *Quickly access a range of market leading systems and technology to help improve service delivery;*
- *Quickly access much needed commercial expertise to make the services more efficient and help generate new income opportunities;*
- *Trade commercially in the market without the legal trading restrictions placed against local authorities;*
- *Establish and refine new market leading working practices within Cardiff;*
- *Improve training opportunities for staff that transfer across to the new company;*

- *Improve performance management and benchmarking of the services by implementing established practices using industry standard systems and technology;*
- *Address a number of the Council's longstanding cultural issues which affect a large number of services within the scope of the Infrastructure Business Model;*
- *Agree an upper budget limit on the cost of delivering the services in advance of the financial year while receiving 50% of the dividend generated by the company for that year. This agreed approach allows the Council to set budgets with greater certainty;*
- *Ensure that the benefits and salaries of the staff who transfer to the new public / public joint venture are maintained at their current level;*
- *Have the potential to transfer risk including potential losses in the first years of operation, for example, waste fines and section 58 insurance claim liabilities.*

The task group also explored the options of in house modification and wholly owned arms length companies in detail. There were aspects of these services which were appealing, however, successful implementation from the current position would take many years (Oxford City Council has taken seven years to get to where it is today-with the support of local unions who broke national pay agreements) and the Council would need to invest heavily in systems and commercial experience. Procurement timescales for new systems and technology implementation would also slow down the transition and development process.

Overall the Members support the implementation of a Public / Public Joint Venture for the majority of services within the Infrastructure Business Model, however, exactly how each of the services are specifically transferred are dealt with in recommendations 10 to 23 of this report.

In advocating the Public / Public Joint Venture Members were keen to stress that because of the scale of the offer in Cardiff that it would, if possible, be prudent to look to appoint more than one Public / Public Joint Venture partner. In doing this it would be sensible to reflect on the respective strengths of the available providers and work with these for the benefit of the Council.

Response – this recommendation is not accepted

On the basis of the Outline Business Case analysis work completed, it is believed that the most appropriate future delivery model for the services within scope of the project is a Wholly Owned Company (Teckal). The key reasons for identifying this option as the preferred future delivery model include:

- The high level financial analysis undertaken as part of the Outline Business Case work indicates that the Wholly Owned company is most likely to deliver the greatest financial benefit for the Council;
- The Wholly Owned Company can commence operation to allow the Council achieve financial benefits early in the 2016/17 period;
- It will allow the Council to maintain control regarding strategic matters whilst providing day to day operational autonomy to the company. As stated above, one of the reserved matters which will be set out in Council/Company contract, which will include a service based Agreement, is the agreement of

the annual business plan and budget which will provide the Council with the required flexibility to secure changes regarding budget and service delivery. This is seen to be an important factor by the Cabinet;

- It will facilitate the development of a more commercialised culture and improved quality of service delivery to residents. The progress made over the last year regarding work practice modernisation, multi-skilling and improvement of service delivery, for example, on the Neighbourhood Services project, provides confidence that the required further improvements can be made within this preferred model of delivery;
- It will provide more commercial freedom and an incentive to effectively build upon and grow the external trading work which is currently undertaken. It is recognised that an injection of commercial expertise will be an important catalyst in respect of achieving sustainable income growth. It will ensure that all benefits are retained by the Council;
- It will ensure that all benefits are retained by the Council;
- It provides an opportunity to invest in and use industry standard systems and technology in the day to day management and delivery of services to suit the company's specific needs rather than the general needs of the Council;
- Whilst not perhaps the automatic preferred model of the Trade Unions and staff, it is preferred in relation to the other Joint Venture and Outsourcing options. Also, based on feedback provided from other Council's that have established Wholly Owned Trading Companies, it is believed that most staff will be motivated by the new culture created within the new organisation, and
- It fits with the general principles identified by residents as interpreted from the responses received to the Cardiff Debate survey;

Additionally, the Wholly Owned Company:

- will provide opportunity to look at different ways of working with the new Team to drive the new business forward;
- will retain jobs in the local economy and optimises the young people's employment agenda through apprenticeships ;
- provides the potential to improve the management of risk and other Council financial liabilities;
- fits with the strategic objective of the Council of becoming a commissioning organisation;
- provides future opportunities for co-ownership with other Council's which is important in respect of the Assembly's current local government agenda, and
- provides an appropriate strategic approach to achieving the required improvements, that is, if the key success criteria are not satisfied as determined through the ongoing Gateway Review Process, the necessary Company changes can be implemented or a further alternative delivery model adopted.

The key next step on this project is the completion of a Full Business Case analysis. Similarly to the Outline Business Case, this will be based on the Office of Government Commerce (OGC) "Five Case Model. However, it will comprise a more detailed consideration of the strategic, economic, commercial, financial and management factors relevant to both the Wholly Owned Company, as the preferred

way forward identified by the Outline Business Case, and also the Modified In-house model as the 'base' comparator.

It should be noted that based on the research work undertaken as part of the Outline Business Case analysis, it would not be possible to establish an operational Public/Public Joint Venture any quicker than a Wholly Owned Trading Company. Although a formal procurement may not be required, it is anticipated that a significant amount of negotiation and due diligence would be required to reach a position with any potential Public JV partner(s) that is commercially and contractually acceptable to both parties. This could take longer than establishing a Wholly Owned Company and relies upon a small market interest, thereby restricting the ability to use competition to drive forward the best negotiated position for the Council.

Recommendation 9 – High Level Structure of the Infrastructure Business Model

Members recommend that the services within the scope of the Infrastructure Business Model can be broken down into three main streams, these are:

- *Waste Services;*
- *Facilities & Neighbourhood Management Services;*
- *Highways Services.*

Each of the three services should be broken into two parts, i.e. client and contractor. The contractor would deliver the majority of the actual work while the client side of the service would contract manage, analyse performance, develop policy and generally manage the relationship between the contractor and Council.

Response – this recommendation is partly accepted

It is agreed that the services in scope should be broken down into appropriate streams and that the Council would need to retain a client function to undertake certain functions (e.g. service delivery performance checks, certify payments, etc). However, the composition of the proposed streams is not agreed. Further comments are provided below under the responses to Recommendations 10 – 23 below but further work to finalise the streams will be undertaken as part of the Full Business Case analysis.

Recommendation 10 – Client Function

Many of the providers who we met with during the process were advocates of having an effective client function to manage the contract(s) from the Infrastructure Business Model. This approach promotes a good understanding between the client and contractor and helps ensure that the client (in this case the Council) gets exactly what is agreed within the contract or service specification. Members, therefore, recommend that each of the three services (Waste Services, Facilities & Neighbourhood Management Services & Highways Services) have a client team to manage the contract(s) or service specification(s) within their area. These teams

should be able to contract manage, analyse performance, develop policy and generally manage relationships between the client and contractor. Members believe that some of the services (or parts of those services) within the scope of the Infrastructure Business Model are well placed to take over the role of the client function.

Response – this recommendation is accepted.

It is agreed that the Council will need to retain a function to manage the contract with the proposed Wholly Owned Company. However, to maximise efficiency and effectiveness, it is believed that this should be a single team rather than a series of separate teams. This is an area which will be developed further as part of the Full Business Case analysis work.

Recommendation 11 - Waste Education & Enforcement

Waste Education & Enforcement should become a part or attached to a client team within Waste Services. The client team should include resources for contract management; to write and develop waste policy and direct education and enforcement actions across the city to support waste policy where appropriate. Therefore, as a part of the client team the Waste Education & Enforcement service would remain in house. The success of the team within the structure should be reviewed on a regular basis and training standardised. The Council should retain the future option of transferring the service to the Public / Public contractor part of Waste Services.

Response – this recommendation is not accepted.

Subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator, it is believed that the Education and Enforcement Team should transfer to the Wholly Owned Company as it is now largely integrated within the Neighbourhood Services Team and also provides an essential supporting role to not only the customer, but also to the Waste Collections, Parks and Cleansing services, all of which are proposed for transfer into the Wholly Owned Company. The waste strategy function is undertaken by a separate team which is intended to remain as part of the core Council organisation as the strategy and policy making function which was not included within the scope of the infrastructure ADM project.

Recommendation 12 - Waste Collections

Waste Collections should become a part of the contractor team for Waste Services. The contractor team would also include Waste Street Cleansing, Waste Treatment & Disposal and Central Transport Services. As a part of the contractor team it is recommended that the service transfers into a Public / Public Joint Venture.

Response – this recommendation is partly accepted

It is believed that the Waste Collections service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture,

subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator

Recommendation 13 - Waste Street Cleansing

Waste Street Cleansing should become a part of the contractor team for Waste Services. The contractor team would also include Waste Collections, Waste Treatment & Disposal and Central Transport Services. As a part of the contractor team it is recommended that the service transfers into a Public / Public Joint Venture.

Response – this recommendation is partly accepted

It is believed that the Street Cleansing service should be transferred as part of the Neighbourhood Services function, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator.

Recommendation 14 - Waste Treatment & Disposal

Waste Treatment & Disposal should become a part of the contractor team for Waste Services. The contractor team would also include Waste Collections, Waste Street Cleansing and Central Transport Services. As a part of the contractor team it is recommended that the service transfers into a Public / Public Joint Venture.

Response – this recommendation is partly accepted

It is believed that the Waste Treatment and Disposal service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator

Recommendation 15 - Highway Asset Management

Highway Asset Management should become a part of the client team within Highways Services. The client team should include resources for contract management and to write and develop highways policy.

As a part of the client team the Highways Asset Management service would remain in house. The success of the team within the structure should be reviewed on a regular basis. The Council should retain the future option of transferring the service to the Public / Public contractor part of Highways Services.

Response – this recommendation is partly accepted

It is believed that to maximise the effectiveness of 's58 defences', the Highways Asset team should transfer to the proposed Wholly Owned Company, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator. However, it is currently

intended that the Highways Policy function would remain as part of the Council's core organisation as required to set out the Authority's requirements. This will be an area that will be investigated in more detail as part of the Full Business Case analysis work.

Recommendation 16 - Highway Maintenance

Highway Maintenance should become a part of the contractor team for Highways Services. The contractor team would also include Infrastructure Design & Construction Management. As a part of the contractor team it is recommended that the service transfers into a Public / Public Joint Venture.

Response – this recommendation is partly accepted

It is believed that the Highway Maintenance service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator.

Recommendation 17 - Pest Control

As the Pest Control service virtually covers its operating costs and because there is real potential for the service to generate additional income Members felt that the service could be suited to a Wholly Owned Arms Length Company or a Public / Public Joint Venture. Both of these options would need to fall under the contractor part of Facilities & Neighbourhood Management Services. Should the Council decide to opt for a Wholly Owned Arms Length Company then it has to allocate sufficient resources for the development of the service, for example, new systems & technology and buying in commercial expertise.

If the service is transferred into a Wholly Owned Arms Length Company then the Council should retain the future option of transferring the service into the Public / Public contractor part of Facilities & Neighbourhood Management Services.

Response – this recommendation is partly accepted

It is believed that the Pest Control service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator.

Recommendation 18 - Central Transport Services

Central Transport Services should become a part of the contractor team for Waste Services. The contractor team would also include Waste Collections, Waste Street Cleansing and Waste Treatment & Disposal. As a part of the contractor team the service would transfer into the Public / Public Joint Venture.

Members felt that Central Transport Services needed to sit within Waste Services as Waste Services is by far their largest customer. Central Transport Services has to

continue to supply its existing Council customers with vehicles, therefore, the Council needs to put appropriate contracts and service level agreements in place to ensure continued service and income streams for Central Transport Services whenever possible.

Response – this recommendation is partly accepted

To be aligned with its core service users and drivers, it is believed that the Central Transport Service should be transferred, to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator. Its 'location' within the Wholly Owned Company organisation will be considered as part of the Full Business Case analysis.

Recommendation 19 - Soft Facilities Management

As the Soft Facilities Management service makes an operating surplus and because there is potential for the service to generate additional income Members felt that the service could be suited to a Wholly Owned Arms Length Company or a Public / Public Joint Venture. Both of these options would need to fall under the contractor part of Facilities & Neighbourhood Management Services. Should the Council decide to opt for a Wholly Owned Arms Length Company then it has to allocate sufficient resources for the development of the service, for example, new systems & technology and buying in commercial expertise.

If the service is transferred into a Wholly Owned Arms Length Company then the Council should retain the future option of transferring the service into the Public / Public contractor part of Facilities & Neighbourhood Management Services.

Response – this recommendation is partly accepted

It is believed that the Soft Facilities Management service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator

Recommendation 20 - Parks Services

Parks Services should become a part of the contractor section of Facilities & Neighbourhood Management Services. Members felt that this service could be transferred into a Public / Public Joint Venture. The other services within the contractor section of Facilities & Neighbourhood Management Services would include Soft Facilities Management, Hard Facilities Management, Projects, Design & Development and Pest Control. All of these services would not necessarily be delivered from within the same alternative delivery model.

Response – this recommendation is partly accepted

It is believed that the Parks service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator. In view of the success of the Neighbourhood Services project, key elements on the Parks service should be closely aligned with the Street Cleansing and Waste Education/Enforcement services. This would be subject to the consideration in the Full Business Case analysis.

Recommendation 21 - Hard Facilities Management

Hard Facilities Management should become a part of the contractor section of Facilities & Neighbourhood Management Services. Members felt that this service should be transferred into the Public / Public Joint Venture. The other services within the contractor section of Facilities & Neighbourhood Management Services would include Soft Facilities Management; Parks Services; Projects, Design & Development and Pest Control. All of these services would not necessarily be delivered from within the same alternative delivery model.

Response – this recommendation is partly accepted

It is believed that the Hard Facilities Management service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator

Recommendation 22 - Projects, Design & Development

As Projects, Design & Development operate on a cost neutral basis and because there is potential for the service to generate additional income Members felt that the service could be suited to a Wholly Owned Arms Length Company or a Public / Public Joint Venture. Both of these options would need to fall under the contractor part of Facilities & Neighbourhood Management Services. Should the Council decide to opt for a Wholly Owned Arms Length Company then it has to allocate sufficient resources for the development of the service, for example, buying in commercial expertise.

If the service is transferred into a Wholly Owned Arms Length Company then the Council should retain the future option of transferring the service into the Public / Public contractor part of Facilities & Neighbourhood Management Services.

Response – this recommendation is partly accepted

It is believed that the Project Design and Development service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator. The need to establish further commercial expertise is agreed as noted in previous recommendations.

Recommendation 23 - Infrastructure Design & Construction Management

As Infrastructure Design & Construction Management is capable of generating external income and is aligned with the range of services provided with the work delivered by Highways Services the service should become a part of the contractor team for Highways Services. The contractor team would also include Highways Maintenance. As a part of the contractor team the service would transfer into the Public / Public Joint Venture.

Response – this recommendation is partly accepted

It is believed that the Infrastructure Design and Construction service should be transferred, but to the proposed Wholly Owned Company rather than into a Public/Public Joint Venture, subject to the completion of a Full Business Case analysis for the Wholly Owned Company model compared with the Modified In-house model comparator

Recommendation 24 – Evaluation Matrix

Members were satisfied with the draft evaluation matrix that the Infrastructure Business Model Project Team is proposing to use for evaluation of each of the services within the Infrastructure Business Model. They felt that it captured the main themes which need to be considered when evaluating the suitability of services against a range of alternative delivery options. The task group are, however, keen to stress that an evaluation matrix should be used for guidance and not as the decision making tool. They felt that the overall decision making process is very complex and as such any decision should be based on as wide a range of evidence as possible.

Response – this recommended is accepted

It is confirmed that the output from this evaluation tool has been considered alongside a number of other key criteria. These include the high level financial analysis and other factors impacting upon deliverability and timescale to arrive at the proposed future delivery model for the services within scope of the project.

Recommendation 25 – The Williams Report

The Williams Report is currently reviewing the future of public services in Wales; this includes local authorities. It is anticipated that the Welsh Government will announce a changed structure for the delivery of local authority services in Wales in the near future. The Council needs to be mindful of this when restructuring services on the scale of the Infrastructure Business Model. It would, therefore, be prudent to keep all interested parties updated on any proposed Council service changes, for example, Welsh Government, other neighbouring authorities and any prospective partners. Taking this approach will make it easier to manage any potential future change.

Response – this recommendation is accepted.

The Welsh Government and neighbouring authorities will be kept informed regarding the intentions and progress of this project. This issue and the flexibility of models to adjust have been some of the other factors taken into account.

Recommendation 26 – Creation of Service Specifications & Division of Duties

When the Council creates specifications for each of the services it should ensure that an adequate division of duties is placed between transferring staff and those designing the new service. For example, Members felt that while it is important to obtain feedback from staff involved in running the service it is also prudent to prevent them having a completely open hand in creating a service that they will ultimately manage. The task group, therefore, recommends that any proposals that they make are robustly challenged to help create an effective division of duties.

Response – this recommendation is accepted.

Appropriate steps will be taken to ensure that there continues to be effective challenge on the project during the final business case and transition stages, including the development of service specifications and the like going forward.

Recommendation 27 – Consultation & Transition Arrangements

The implementation of a new alternative delivery model across such a wide range of services will result in a significant change for the Council and its staff. The uncertainty could have an impact on staff morale which in turn could have an impact on services. This clearly means that the transitional period needs to be properly managed so that staff morale and service standards are maintained. With this in mind the Members recommend that:

- *Full consultation on the proposed model is undertaken with staff, trade unions, elected members, the public and any other relevant parties. This should include detail on the proposed model; an opportunity to ask questions on the proposed model; an opportunity for staff to visit other operations run by the provider if a partnership agreement or contract is entered into with a third party; an opportunity for trade union representatives to meet with their counterparts at operations run by the provider if a partnership agreement or contract is entered into with a third party and the opportunity for staff to have input into the new proposed model.*
- *The Council creates and then implements a transition plan for all of the services within the Infrastructure Business Model. This should be designed to ensure continuity of service and agreed by all relevant parties in advance of the new model being introduced.*

Response – this recommendation is accepted.

It is intended that the consultations with employees, Trade Unions and Members which commenced at an early stage in the project continue during the Full Business Case stage, through the proposed transition phase and also following commencement of the new operational arrangements. In terms of the consultation work undertaken to date, in particular, it should be noted that affected employees

were briefed ahead of Scrutiny's Task and Finish Report being made publically available and also again ahead of Cabinet considering the Outline Business Case prepared. Contact details for Union Representatives working within the various models visited by the Scrutiny Task and Finish Group have been shared with the Trade Unions. These include contact details for Trade Union Representatives working for Ansa Environmental Services Ltd, the Wholly Owned Company set up by Cheshire East Council. The Stakeholder Engagement Plan prepared at the outset of the project has been implemented. In terms of Members, an article was included in the December 2014 newsletter and briefings were provided in the lead up to the Outline Business report being considered by Cabinet. Consultation with the public regarding the project was undertaken as part of the Cardiff Debate consultation process undertaken in December 2014/January 2015 and the results are reported during the Budget setting in February for 2015/16 and in the Infrastructure ADM Outline Business Case and the associated Cabinet report.

A transition plan will be developed as part of the Full Business Case work.

DRAFT

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

CABINET MEETING: 16 JULY 2015

INFRASTRUCTURE SERVICES - ALTERNATIVE DELIVERY MODEL

REPORT OF DIRECTOR ENVIRONMENT AGENDA ITEM:

PORTFOLIO: ENVIRONMENT (COUNCILLOR BOB DERBYSHIRE)

Reason for this Report

1. To advise Cabinet on the Outline Business Case outcomes undertaken to evaluate the short list of alternative delivery models approved by Cabinet on 20th November 2014.
2. To seek Cabinet approval on the conclusion of the report regarding the most appropriate future delivery model for the services currently within scope of the project and the undertaking of a Full Business Case analysis as detailed in the report.

Background

3. On 15 May 2014, Cabinet approved the report of the Chief Executive entitled '*Establishing a Programme of Organisational Change for the City of Cardiff Council*'.
4. The report set out the Cabinet's view that for the Council to effectively address the significant fiscal and other challenges it immediately faces, the Council will need to fundamentally challenge the way that its services are currently delivered and consider a full range of service delivery models and providers.
5. The report launched an Organisational Development Programme which now comprises two primary Programmes: (i) Enabling and Commissioning Programme and (ii) Reshaping Services Programme. One of the priority areas of work identified within the latter programme is the Infrastructure Services Alternative Delivery Model project. The services identified in Table 1 below are currently included within scope of the project:

Table 1 Directorates and services in scope for Infrastructure Services

Directorate	Divisions
ENVIRONMENT	Waste Collections, Street Cleansing, Education & Enforcement, Waste

	Treatment and Disposal, Pest control
STRATEGIC PLANNING, TRANSPORT AND HIGHWAYS	Highway Operations, Highway Asset Management, Infrastructure Design and Construction
SPORT LEISURE AND CULTURE	Parks Management and Development
RESOURCES	Central Transport Services, Cleaning (non schools), Security and Portering, and Building Maintenance (non Housing)
ECONOMIC DEVELOPMENT	Projects Design and Development

6. The gross expenditure and net expenditure budgets for the 2015/16 financial period for the services in scope is approximately £72.8m and £29.1m respectively. The number of Full Time Equivalents (FTE's) funded by this budget at the start of the 2015/16 year was approximately 1032.
7. On 20 November 2014, Cabinet was provided with an update on the work undertaken to date across the infrastructure services to improve the efficiency and effectiveness of the services, and also on the initial evaluation of available alternative delivery models for the services within scope of the project. At this meeting, Cabinet approved:

That the recommended short list of alternative delivery models stated below be subject to:

- i. consultation with residents of Cardiff;
- ii. a business case analysis with the intention of identifying preferred future service delivery model(s) for the scope of services (as may have been amended) :
 - Modified In-house,
 - Wholly Owned Arms Length Company,
 - Public/Public Joint Venture,
 - Public/Private Joint Venture, and
 - Outsourcing
- iii. The publication of a Prior Information Notice (PIN) with a Memorandum of Information in the European Journal to ascertain market interest in the scope of services being considered by the project;
- iv. Delegation to the Chief Executive, authority to allocate resources as required to maximise the effectiveness of the ongoing Neighbourhood Services pilot, and

- v. It receives a further report following completion of the business analysis which will set out the responses received to the consultation and the impact which those responses have had on the development of the business analysis and making a recommendation as to the preferred future service delivery model(s) to be adopted.
8. The work undertaken in response to these recommendations is summarised in this Cabinet report with full detail being provided in the Outline Business Case which is attached as Appendix 1.
9. The Outline Business Case document, and the associated alternative delivery model evaluation work, has been subject to a robust independent review and challenge by Local Partnerships. This organisation was engaged to undertake this important role because of: its unique public sector status as a result of it being jointly owned by the Local Government Association and HM Treasury; its resulting strategic position in the landscape of both national and local government which enables it to provide unparalleled insight into current best practice and market intelligence from across the UK, and its extensive experience in assisting and working with the public sector, particularly local authorities, regarding the delivery and transformation of infrastructure type services.

Infrastructure Services – Project Objectives

10. The objectives of the Infrastructure Services Project, which are consistent with those identified in the Organisation Development Cabinet approved on 15 May 2014, are as follows:
 - reducing operating costs;
 - improving outcomes to address current performance weaknesses;
 - improving customer satisfaction, demand management and reduced failure demand, to more effectively address the increasing demand for services;
 - developing effective partnership and collaborative working, where appropriate, and
 - Optimising income generation to support core funded services
10. At the outset of the project, it was identified that the responsibility for determining the strategy and service requirements relevant to each service would be retained by the core Council regardless of the arrangements put in place for the delivery of the front line services, whether in-house or otherwise. This would become the robust parent role.

Business Case Methodology

11. The Council's Outline Business Case template has been used as the basis for the Outline Business Case report attached as Appendix 1. This was developed using the Office of Government Commerce (OGC) "Five Case Model", the best practice standard recommended by the HM Treasury for use by Public Sector Bodies when evaluating public sector proposals. Essentially, it enables the Council to identify which of the options should be subject to a Full Business Case Analysis ahead of the proposals being implemented.
12. The Full Business case (FBC) process would be the next stage to this report and would contain full details of the way forward. The FBC should then form the basis of a business plan for any of the models moving forward, This detailed stage will therefore be the subject of a further report to Cabinet. This specific report seeks approval of the Outline Business case (OBC) only and is the 'gateway' to the next detailed stage.

Service Reviews

13. An important preparation step to completing the OBC was the completion of the Service Reviews for each service within scope of the project. As reported in the report approved by Cabinet on 20 November 2014, the Reviews followed a corporately agreed format to ensure a structured, consistent and transparent approach was taken to identifying the strengths, weaknesses, opportunities and threats facing the service, taking account of the needs of customers and their demands on the service, staffing of the service; service delivery performance, and financial performance.
14. Each review was concluded with a statement of the strengths, weaknesses, opportunities, and threats (SWOT) relevant to the service. These SWOT analyses, which are included in the attached OBC, provide a compelling case for significant change to many of the current operating practices in place. A short summary of the generic strengths, weaknesses, opportunities and threats identified across many of the services, which correlates with the project objectives, include the following:

Strengths

- Appropriately skilled front line and managerial/supervisory staff with appropriate skills, knowledge and experience relevant to the services being provided, and
- Generally good levels of Customer satisfaction based on responses from the 'Ask Cardiff' surveys;

Weaknesses

- Although improvements to sickness absence levels were achieved during the 2014/15 financial period in some services, the absence levels in many of the services within scope remain above industry average which has an adverse impact upon service delivery and operational costs;
- A high level of unwanted and repeat demand on some services as recorded by Connect to Cardiff;
- A lack of industry standard software and hardware to support processes, such as mobile working technology, which would facilitate better management of performance, information and allocation/ scheduling of work, address custom and practice issues, reduce wasted time, repeat demand and improve back office processes;
- Current pay enhancements, which make working at night or at weekends more costly and less competitive;
- The duplication of activities across services due to the existing silo approach of services within directorates for vested land management and other assets, and
- Performance issues in respect of the Council's fleet, in particular, financial management, governance and also day to day use of the vehicles.

Opportunities

- Further commercialisation of services to increase the amount of external income earned, and
- Improving existing partnerships and developing new relationships with business, community enterprise groups and the third sector voluntary groups

Threats

- The impact of further revenue budget and grant reductions, and
- An increase in demand resulting from demographic growth.

Alternative Delivery Models Considered

15. The Outline Business Case analysis has considered the five alternative delivery models approved by Cabinet on 20th November 2014, that is:
 - Modified In-House,
 - Wholly Owned Arms Length Company,
 - Public/Public Joint Venture,
 - Public/Private Joint Venture, and;
 - Outsourcing
16. A description of each of these models is included within the Outline Business Case and for the sake of conciseness, these are not repeated in this report. However, it should be noted that a significant amount of In-

house Model improvement work has already been implemented. Of particular note is the progress made on the Neighbourhood Management Services project. The Services involved include Parks Maintenance, Street Cleansing, and Waste Enforcement, all of which are in scope of this project. The delivery of this work provides an improved land and street scene service, whilst delivering cost efficiencies and improved customer satisfaction and maintaining resilience to service performance during significant budget cuts.

17. Following a detailed resource analysis, with analysis and rapid improvement events with frontline operational teams, a pilot commenced in the South West Neighbourhood Management area (comprising the wards of Riverside, Canton, Caerau and Ely) in February 2015. Early feedback from a service delivery and workforce point of view has been positive and in June, this approach was rolled out to the Cardiff West and Cardiff City and South Neighbourhood Management areas. It is intended to expand this new way of working across the other three neighbourhood areas by September 2015. This is an example of service delivery becoming more responsive to the needs of the community and allowing staff to have more autonomy in addressing those needs. In addition to improving service delivery, this initiative is expected to save the Council c£1.6m per year going forward.
18. Another improvement of note is being achieved in Highways Operations on the back of a Director led Engagement Programme initiated in 2014/15. The focus of the programme has been to improve communications, improve relations between management and frontline staff, and thereby improve performance. The success of the engagement programme, although ongoing, can be seen through improvements in service delivery flexibility and also performance. For example, the completion of Category 2 safety repairs to the highway (within 28 days) increased from 48.69% in July 2014 to 97.26% in March 2015.
19. Also, the Education Cleaning resources have now been fully integrated within Facilities Management Cleaning Services function. This has been done to improve operational efficiencies and standardise service delivery processes. A strong commercial focus is being targeted with the objective of achieving commercial growth through providing services to other public sector organisations during this financial year and beyond.

Stakeholder Engagement

20. At the outset of the project, the engagement of key stakeholders, including Members, Unions, staff and Cardiff residents, was identified as an important factor in the ultimate success of the project. A Stakeholder Engagement Plan was therefore developed and implemented at an early stage and this has been reviewed and updated on a regular basis as the project has progressed.

21. Consultation with the Unions commenced at the end of May 2014, shortly after Cabinet approved the Chief Executives Organisation Development report, through the Trade Union Budget Forum. Consultation has continued since this time, particularly in respect of: the Service Reviews; development of the Corporate Alternative Delivery Model methodology, and through the Partnership Board and other meetings in the lead up to Cabinet's consideration of this report.
22. Relevant staff have also been regularly engaged at key stages as this project has progressed, for example, ahead of Cabinet considering this report and the report in November 2014, and also the release of Scrutiny's Task and Finish Group report in June 2015. Staff have also been kept updated on progress through the individual Directorate SAJC's. Articles have also been included in the Council's 'In-box' and the Core Brief and local staff briefings. This engagement will continue in more depth as the project moves forward.
23. In respect of Members, an article was included in the Members newsletter in December 2014. Members briefings were also undertaken in the period leading up to Cabinet considering this report.
24. The view of residents regarding the use of alternative delivery models to provide services was also sought through the 'Cardiff Debate' engagement and collaboration process. Of the 4191 total returns to the consultation process, 3583 (c.85.5%) respondents had completed the Infrastructure Services Alternative Delivery Models question '*Do you agree that the Council should consider alternative ways of delivering the services identified?*' Particular points to note from the consultation include:
 - 65.7% of the respondents agreed the Council should consider alternative delivery models whilst 22.9% weren't sure/didn't know;
 - The Modified In-house option was the most popular preference of respondents (36.7%). However, the Wholly Owned Company was the second choice (12%). The Public/Public JV, Public/Private JV and Outsourcing were the third/fourth and fifth preferences respectively (11.7%, 6% and 6.8% respectively). Some respondents didn't know or had no preference;
 - The most important factors in deciding which model should be used, as identified by the respondents, were as follows:
 - Quality of service (90.3%);
 - Keeping implementation costs to a minimum (49.0%)
 - Frequency of service 1656 (48.2%)
 - Certainty of achieving budget savings (43.0%);
 - Less than a quarter of respondents (24.8%) believed that 'who delivers the service' was of paramount importance when selecting a preferred delivery model for the services in scope;
 - Of the 258 open comments received:
 - 102 (39.5%) were opposed to private sector involvement for fear that service delivery will be profit driven;

- 83 (32.2%) were concerned about cost and quality implications if the services were moved beyond Council control, and
- 30 (11.6%) believed there was a need to improve Council management and move towards a new business model whilst retaining control.

Future Communications Plan Principles and tools

25. It is essential that a high level of stakeholder engagement is retained as the project progresses and that the communications for the project will support all stakeholders. In this respect, the next step will comprise a stakeholder mapping exercise to identify the 'audiences' that will need to be engaged. Key messages and objectives will be set, with communications channels established to ensure stakeholders identified as 'High Influence, High Interest' receive all relevant information to establish 'buy in' to the Project.
26. Employee engagement will be critical to the success of the project. All staff identified as 'in scope' will need to further understand the reason for this project, understand the business case and the income opportunities that the recommended preferred way forward identified later in this report will bring. It is important that employees understand the drivers for change as identified earlier in this report. The intention is to establish 'Project Champions' from the workforce, ensuring that employees are represented from each service area are involved.
27. The understanding of the Business Case is essential for staff to understand the 'vision' of any new proposed service. It is accepted that change can be difficult, but is critical to the delivery of the required level of change.
28. The Communications Strategy and Plan will ensure information is provided in a timely effective way through the variety of channels (i.e. enhanced social networking methods as well as insuring strong verbal and written and verbal communications) to all identified stakeholders, to support the project through each phase of the development. A Transition Plan will be prepared as part of the Full Business Case work recommended later in this report

Evaluation of Alternative Delivery Models

29. A robust overarching process has been used for the appraisal of the five alternative delivery models from a risk assessment based approach. The first step comprised the establishment of a new Corporate alternative delivery model evaluation methodology. This was developed by the Council's Commissioning and Procurement Service, approved by the Project Enablers and Commissioning Programme Board, reviewed by Informal Cabinet, and considered by the Council's Policy Review and Performance Scrutiny Committee. It has also been subject to external challenge and review by Local Partnerships and subject to detailed consultation with the Trade Unions

30. A further key component to the assessment has been the high level financial analysis of savings, income opportunities and costs. This included the consideration of:
- Implementation timescale;
 - Efficiency savings;
 - Income generation opportunities;
 - trading company management costs (for a company model);
 - Procurement timescales and costs (for a Joint venture partner or contracted model);
 - Implementation and/or set-up costs including the consideration of commercialisation;
 - Taxation, and
 - Overheads and Reductions to Council support services.
31. In addition to the Corporate evaluation and financial assessment the models were tested against a number of other factors such as: to what extent would each model offer flexibility for future council boundaries and for working with other authorities or public sector partners; how supportive would stakeholders be including political support, and as importantly, the impact upon staff/opportunities for staff and young people. Risk management was considered throughout this work.
32. A summary of the soft market testing and the evaluation work described above undertaken, is summarised in the following sections and fully detailed within the Outline Business Case attached as Appendix 1.

Soft Market Testing

33. Following the publishing of A Prior Information Notice (PIN) in the European Journal late November 2014, an Information Open Day was held on 8th December. Approximately 25 private and public sector organisations attended on this day following which 11 of these organisations subsequently separately met with Council Officers to answer a series of pre-set questions. These meetings demonstrated that there is market interest for delivering, or assisting to deliver, the services within scope of the project. The meetings also provided useful information in respect of the evaluation of the models and also the completion of the Outline Business Case.

Corporate Alternative Delivery Model Evaluation Methodology

34. The methodology involves three key processes:
- scoring each alternative delivery model against eight evaluation criteria on a scale of 1 – 6 in terms of ability to meet criteria, where 1 represents minimum ability and 6 maximum ability;
 - the allocation of weightings (of cumulative value 100) according to the priorities for each service against eight evaluation criteria, and

- Multiplying the model scores against the service area weightings to determine the cumulative scores for each model for each service being considered.
35. The scoring of each alternative delivery model against the eight evaluation criteria was completed by the Project Team, subject to challenge by Local Partnerships, and approved by the Project Enablers and Commissioning Board. The model scores were then subject to consultation with the Unions.
36. The allocation of weightings (of cumulative value 100) according to the priorities for each service against eight evaluation criteria was initially undertaken by the relevant Operational Managers and then subject to challenge by the Directors, Union Representatives and also externally by Local Partnerships .
37. The scores for each alternative delivery model for each service in scope were determined by multiplying the models scores by the service area weightings. The scores for each alternative delivery model for each service in scope of the project are detailed within section 2 of the Outline Business Case.

High Level Financial Analysis

38. In order to undertake the high level financial analysis, it was necessary to make a number of assumptions regarding each model. These assumptions, which are referred to in paragraph ? above, were informed from evidence obtained from the Soft Market Testing exercise, in particular the one to one meetings with potential bidders, and from further direct conversations with relevant organisations including as part of the Scrutiny Task and Finish Group site visits. In addition they have also been the subject of further discussions with Local Partnerships. Nevertheless, as with all financial modelling, there is an inherent risk with the assumptions made that should also be tested. The results derived from the model were therefore used as part of the package of evaluation tools and not the sole determinant of the preferred model.
39. Information regarding the assumptions made in respect of each of the above headings is enclosed in Appendix 4 of the Outline Business Case. The models were evaluated over a 12 year period to allow for a 2 year procurement / mobilisation period for the models with an external partner and a 10 year contract period which is typical of the JV arrangements.
40. In respect of the Modified In house model, it was possible to make more specific assumptions for the first three years of the evaluation period based on the savings plans prepared by the Operational Managers for the services in scope for the 3 year MTFP period commencing in 2015/16. For 2015/16 the additional savings over the agreed 2015/16 Budget proposals were captured. These plans have a good correlation with the strengths, weaknesses, opportunities and threats identified within the service reviews are identified earlier in this document. A

summary of the savings proposed for each service over this 3 year period for the categories identified below is provided in Table 2 below.

Table 2 Summary of In-house Savings for period 2015/16 to 2017/18

SERVICE	Directorate	Pay Enhancements / Working Practices	Policy Change Enablers	Income	TOTAL
	£'000	£'000	£'000	£'000	£'000
Waste Collection	31	729	224	40	1,024
Street Cleansing	0	258	44	0	302
Waste Education & Enforcement	90	15	0	0	105
Waste Treatment & Disposal	150	63	0	5	218
Pest Control	0	0	10	20	30
Highway Operations	1471	99	100	26	1,696
Highways Asset Management	20	0	0	0	20
Infrastructure Design & Construction	52	8	0	0	60
Parks	25	126	0	0	151
Central Transport Service	75	25	0	105	205
Cleaning non-schools,	10	20	0	70	100
Security and portering	0	120	0	0	120
Hard Facilities Management (excluding Housing)	0	0	0	0	0
Projects Design & Development	5	17	0	0	22
TOTAL ADM	1,929	1,480	378	266	4,053

41. It can be seen from this table that the In-House savings have been identified within the categories of:

- 'Directorate' – that is, saving proposals unique to the services within scope;
- 'Working practices' and 'Pay Enhancements' - that is, savings arising from changes to current working practices that adversely affect work productivities and efficiencies as well as that is savings arising from changes to the current pay enhancements. For legislative reasons, the changes to Pay enhancements would affect all Council employees and not just those within scope of this project;
- 'Policy Change Enablers (that is, changes to some existing Council policies, for example, the Attendance and Wellbeing Policy), and

- 'Income' – that is, growth of existing income streams and/or income from new trading activities. The amounts identified in the above table refer to the surplus arising from the trading activities (that is income minus costs).
42. It is important to emphasise that a significant element of the savings identified in Table 2 were identified as opportunities in the Councils Medium term financial Plan (MTFP) 2015-2017-18 as part of the Budget setting for 2015/16. These have been enhanced by additional savings over the MTFP period. The proposed Budget Strategy for 2016/17 (subject of a separate report) included a reshaping budget exercise that informed Directorate target setting for the 16/17 to 18/19 period, reflects this over the period covered. Therefore this alternative delivery model is a means to securing those benefits projected, and so these are not additional savings. It should also be noted that as the Budget Strategy evolves the services in scope may be subject to other budget reductions including those linked to reductions in service. These savings will be subject to full negotiation with staff and Trade Unions as part of the FBC/budget consultation stages and subject to approval of the recommendations of this report.
43. It should be noted that in the high level financial analysis, it has been assumed that the In-House saving proposals would also be fully implemented for the Wholly Owned Company alternative delivery model.
44. The high level financial analysis for the other models has been constructed using the headings and assumptions identified in paragraph ? above and detailed in Appendix 4 of the Outline Business Case. A summary of the evaluation is included in Table 3 below which includes both the net cash benefit and the Net Present Value (NPV) over the evaluation period for each of the models. The NPV analysis has been included given the relatively long 12 year evaluation period.

Table 3 Cost Savings for Each Model

	Cash benefit		NPV benefit	
	£000	Rank	£000	Rank
Modified In-house	12.524	4	10.513	4
Wholly Owned Company	17.089	1	14.394	1
Public Public JV	14.617	3	12.296	3
Public Private JV	15.008	2	12.455	2
Outsource	11.964	5	10.463	5

45. The Table above identifies the WOC model as the preferred option in terms of the projected financial benefit to the Council over the evaluation period.
46. The paragraphs above have highlighted the number of assumptions that have been used in the construction of the summary financial model. To model the impact of changing some of these assumptions a number of different scenarios and combination of scenarios have been run. The

results of this sensitivity analysis are included in Appendix 5 of the Outline Business Case attached to this report as Appendix A but a summary of the specific scenarios and the highest ranking model for each scenario is provided in Table 4 below:

Table 4 Sensitivity Analysis – Summary of Results

SENSITIVITY	Highest Model	Ranking	NPV £000
BASE CASE	WOC		14.394
1. External Partner : Efficiency increase of 5%	WOC		14.394
2. External Partner : Turnover increase of 10%	WOC		14.394
3. In-house / WOC : Reduce efficiency savings by 25%	Private JV		12.455
4. In-house / WOC : Reduce efficiency savings by 50%	Private JV		12.455
5. External Partner : Reduction in Overhead of 3.5%	WOC		14.394
6. In-house / WOC : Implementation Costs increase of 50%	WOC		13.944
7. Combination of 1,2,3,5 and 6	Private JV		15.145
8. Combination of 1,2,4,5 and 6	Private JV		15.145
9. Combination of 1,2,5 and 6	Private JV		15.145
10. Combination of 1,2 and 5	Private JV		15.145

47. The conclusion from Table 4 above is that with most of the single variable scenarios the Wholly Owned Company model is still the best option in terms of the delivery of projected savings to the Council over the evaluation period. There are however a number of scenarios in which the Wholly Owned Company model is displaced as the best option by the Public Private JV model. Of these scenarios the non-achievement of in-house (and by implication the Wholly Owned Company) savings are the most significant assumption.
48. As part of the high level financial analysis work undertaken, an assessment of the income currently earned by the services in scope was also completed. In summary, for the 2015/16 financial period, of the c£72.8m gross budget, the total income budget is c. £43.7m (c60%) comprising internal income, grants, external income, and 'other (e.g. income from the Housing Revenue Account and Harbour Authority). The value of external income budgeted is c£8m (c.11%).

Other Factors

49. Table 5 below summarises the other factors that have been considered in the evaluation of the five alternative delivery models. A more detailed version of this can be found in Appendix 6 of the Outline Business Case.

Table 5 Other Factors Considered in Evaluation of Alternative Delivery Models

	Modified In-House	Wholly Owned Company with Teckal Exemption	Corporate Public JV with Teckal Exemption	Corporate Private JV	Outsourcing to a private operator
Commercialisation Opportunities	Limited by statute and ability to make a surplus/profit	Limited to 20% of turnover of Company activities	Limited to 20% of turnover from JV Company activities. JV partner would provide commercial expertise. Profit would be shared	Unlimited. . JV partner would provide commercial expertise Profit would be shared	Unlimited. However, sharing of benefits would have to be contracted.
Implementation Time	Min 9 months timescale for full implementation	9-12 months implementation timescale	12 - 18 months implementation timescale	18-24 months implementation timescale	12-18 months implementation timescale
Indicative Contract Period (if applicable)	Not applicable but performance would need to be regularly reviewed	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle),	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle),	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle),	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle),
Extent Adopted by Other Councils	Numerous examples of such service provision across all service areas	Recent examples in respect of environmental and FM type services	Numerous examples in respect of most services except highways but limited Public companies offering JV's for	Numerous examples for services in scope	Numerous examples for services in scope

			services in scope		
Impact upon staff employment status	No change to employment status	Council employees would transfer under TUPE	Council employees would transfer under TUPE	Council employees would transfer under TUPE	Council employees would transfer under TUPE)
Organisation Governance	Current Governance and democratic accountability arrangements would continue	Through company Board typically with Directors comprising Council Members/Directors, and Company Senior Employees and Commercially experienced Non Executive Directors	Through JV Board typically with Directors comprising Council Members/Senior Officers (likely to be in minority) and JV Partner Senior Employees	Through JV Board typically with Directors comprising Council Members/Senior Officers (likely to be in minority) and JV Partner Senior Employees	Through relevant provisions within the agreed contract
Client Management	No change	Proportionate client role required for performance tests	Enhanced client role required	Enhanced client role required	Full client role required
Political Support	High	High	Medium	Low	Low
Union Support	High	Medium	Low	Low	Low
Cardiff Residents Support*	Preferred Model	Second Preferred Model	Third Preferred Model	Fourth Preferred Model	Least Preferred Model
Financial and contractual flexibility	High	High	Medium	Medium	Low
Strategic Control	High	High	Medium	Medium	Low

**Flexible for
Collaboration
agenda and
other Council
engagement
for services**

Medium

High

Low

Low

Low

Scrutiny

50. Shortly after the establishment of the Infrastructure Services project, the Environmental and Policy Review and Performance Scrutiny Committee's set up a joint Task and Finish Group to consider potential alternative delivery options for the Council.
51. In undertaking its work, the Task and Finish Group drew upon three key sources of evidence:
- Analysis of the Service Review documents referred to earlier in this report;
 - Fact finding visits to exemplars of the potential models of operation: modified in-house provision (Oxford Direct); wholly-owned company (Cheshire East and Cormac Solutions); public/public joint venture (Wellingborough Norse); public/private joint venture and outsourcing (Birmingham Amey). This was supplemented with further analysis of other examples of each model in operation, and
 - Verbal or written evidence from a wide range of stakeholders including: Council Members (including Cabinet Members); Service Area Managers; Officers representing the Council's Legal, HR and Commissioning and Procurement Services, and also Trade Union representatives.
52. From this evidence, the Members drew key findings and 27 recommendations. These are identified within the Task and Finish Report which is attached as Appendix 2.
53. A response to the recommendations in the report is enclosed as Appendix 3.
54. It should be noted that the work undertaken by both the Task and Finish Group Members and Council Officers in completing the research, visits to other Councils and preparing the report is gratefully acknowledged.

Summary and Proposed Way Forward

55. The Corporate evaluation methodology which assesses appetite for risk and control will express the current stakeholder view according to the resources, commercialisation, technology and governance in place.

56. However, the Cabinet, on the basis of the high level financial analysis undertaken and discussions with Senior Management, is confident that the savings, growth in income and service delivery improvements identified by the Outline Business Case analysis can be delivered in a timely manner without the assistance of an external party, and consequently the associated risk of delivery of these is considered less than that suggested by the model. This is reliant on the necessary decisions being made, and additional support for establishing a Wholly Owned Company or Improved in House model being embedded throughout the Full Business Case stage and beyond. It is essential that dedicated internal resources, strong governance and external commercialisation and company set up expertise are established and maintained to ensure that the delivery of the benefits associated with model being taken are driven through.
57. Subject to an acknowledgement of its limitations as a decision tool, outlined in paragraph ? above, the high level financial analysis work undertaken indicates that the Wholly Owned Trading company model is most likely to deliver the greatest financial benefit for the Council. Overall, this model is considered the best opportunity for the Council going forward to:
- retain jobs in the local economy & jobs growth funds;
 - offer the best opportunities to staff;
 - maintain the public sector ethos;
 - retain strategic control whilst allowing more autonomy for day to day delivery of services;
 - provide good strategic fit with other ongoing Council Programmes (e.g. Organisation Development and Alarm Response Centre (ARC));
 - allow all benefits to be retained by Council
 - allow establishment and smooth transition between existing and continued In House Improvements;
 - facilitate a faster development of a more commercialised culture and quality of services to residents;
 - allow incentivisation of the new Team to drive the business forward, and
 - provide future opportunities for co-ownership or services with other Council's and public bodies.
58. In respect of other factors, key issues from a Cabinet perspective include: the required speed of delivery of change, more operating freedom in respect of governance, innovation, diversification and commercialisation, maintaining the support of key stakeholders and improved employee ownership and commitment (i.e. the John Lewis effect).
59. In conclusion, it is believed that the most appropriate future delivery model for all the services within scope of the project is a Wholly Owned Company (Teckal). The key reasons for identifying this option as the preferred future delivery model include:

- Subject to the limitations of the financial model the high level financial analysis undertaken as part of the Outline Business Case work indicates that the Wholly Owned company is most likely to deliver the greatest financial benefit for the Council;
- The Wholly Owned Company can commence operation to allow the Council achieve financial benefits early in the 2016/17 period subject to the necessary implementation actions and identified cost saving decisions being taken;
- It will retain a public sector ethos and allow the Council to maintain control regarding strategic matters whilst providing day to day operational autonomy to the company. As stated above, one of the reserved matters which could be set out in Council/Company contract, which will include a Service Based Agreement, is the agreement of the annual business plan and budget which will provide the Council with the required flexibility to secure changes regarding budget and service delivery. This is seen to be an important factor by the Cabinet;
- It will facilitate the development of a more commercialised culture and improved quality of service delivery to residents. The progress made over the last year regarding work practice modernisation, multi-skilling and improvement of service delivery, for example, on the Neighbourhood Services project, provides confidence that the required further improvements can be made within this preferred model of delivery;
- It will provide more commercial freedom and an incentive to effectively build upon and grow the external trading work which is currently undertaken. It is recognised that an injection of commercial expertise will be an important catalyst in respect of achieving sustainable income growth. It will ensure that all benefits are retained by the Council;
- It will ensure that all benefits are retained by the Council;
- It provides an opportunity to invest in and use industry standard systems and technology in the day to day management and delivery of services to suit the company's specific needs rather than the general needs of the Council;
- Whilst not perhaps the automatic preferred model of the Trade Unions and staff, it is preferred in relation to the other Joint Venture and Outsourcing options. Also, based on feedback provided from other council's that have established Wholly Owned Trading Companies, it is believed that most staff will be motivated by the new culture created within the new organisation, and
- It fits with the general principles identified by residents as interpreted from the responses received to the Cardiff Debate survey;

60. Additionally,

- It will provide opportunity to incentivise the new Team to drive the new business forward;
- It will retain staff knowledge with the wider Council organisation;

- The anticipated commercial growth will assist in safeguarding jobs;
 - It provides the potential to improve the management of risk and other Council financial liabilities, for example, highway related matters that lead to claims being made against the Council;
 - It fits with the strategic objective of the Council of other ongoing Council Programmes (e.g. Organisation Development and Alarm Response Centre (ARC)) ;
 - It provides future opportunities for co-ownership with other council's which is important in respect of the Assembly's current local government agenda, and
 - It provides an appropriate strategic approach to achieving the required improvements, that is, if the key success criteria are not satisfied as determined through the ongoing Gateway Review Process, the necessary Company changes can be implemented or a new alternative delivery model adopted.
61. The Scrutiny Task and Finish Group recommended that the Council primarily adopt the Public/Public Joint Venture model with some services potentially being transferred to a Wholly Owned Trading Company. One of the main reasons for this recommendation was the ability to establish a Public/Public Joint Venture in advance of the start of the 2016/17 financial year. However, based on the research work undertaken as part of the Outline Business Case analysis, it is believed that it would not be possible to establish a Public/Public Joint Venture any quicker than a Wholly Owned Trading Company, particularly because of the negotiations that would need to be undertaken with a potential Public JV partner and the due diligence work that would need to be undertaken. In addition, commercial and performance experience is available and would be critical to establish early within the Transition Board and any final Company Board (subject to the later Full Business Case decisions).
62. It is important however to understand that all models retain a level of risk on deliverability and liability, which must be guarded against. For the Wholly Owned Company recommendations, 'lessons learnt' have been taken from the experience of others identified through research from other Councils to date and also APSE, and they are also encapsulated in 'Building a Successful Local Trading Company' by Grant Thornton, a few key areas of which are provided below:
- Being over optimistic on growth, savings and income assumptions. A prudent approach has been taken in the OBC to income generation so far. A full local market assessment is required for the trading services and the FBC will require an 'Optimism Bias' exercise to guard against over projection of benefits;
 - Lack of sensitivity analysis on the financial assumptions to assess risks, forecasting trends and expectations around the Authority's Requirements;
 - Inadequate modelling and projecting of financial performance;
 - Lack of innovation and diversification with in the new company which should be mitigated against through a strong Board of

- Directors creating the right culture of commercial risk and reward, strong identity through branding and marketing, and
- Inadequate assessment of risks and their management, ultimately leading to unplanned losses.

63. The roles of the Transition Board and ultimately appointed Directors are essential

Proposed Next Steps

64. The key next step for this project is the completion of a Full Business Case analysis for the preferred Wholly Owned Company model against the Modified In-house Comparator (base case) identified by the Outline Business Case and this report. Similarly to the Outline Business Case, this will be based on the Office of Government Commerce (OGC) "Five Case Model. However, it will comprise a much more detailed consideration of the strategic, economic, commercial, financial and management factors relevant to the recommended way forward, and also the Modified In-house model as a comparator.

65. As part of the Full Business Case analysis work proposed, particular consideration will need to be given to the following factors:

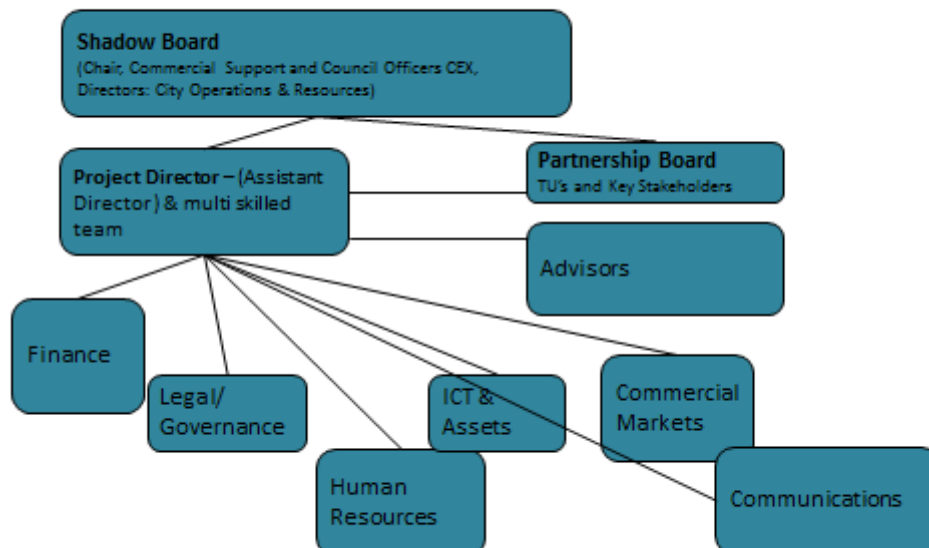
- The appropriate legal vehicle for the proposed trading company, for example, a company limited by shares or by guarantee;
- The proposed governance of the company, including possible options for the composition of the company Board;
- The proposed contractual arrangements between the Council and the proposed company, in particular, what company matters would be 'reserved' and require Council approval prior to implementation, and also performance management of the company;
- The proposed arrangements between the Council and the company regarding the provision of support services, for example, the provision of HR, Finance, Commissioning and Procurement, and ICT services;
- Opportunities for increasing external trading and market evaluation;
- Whether or not it would be appropriate to remove some services currently in scope, or parts thereof, and/or whether some other services should be included;
- Requirements in relation to the proposed transfer of staff to the new company in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended;
- Financial implications in respect of pensions, financing arrangements including working capital, day to day management of the Wholly Owned Trading company, and taxation;
- The transfer of relevant assets, for example, relevant accommodation, vehicles and equipment, and
- The initial investment required to establish the proposed Wholly Owned Company. An estimate of £175,000 was included within

the High Level Financial Analysis work referred to earlier in this report.

Next Stage: Final Business Case, Resources and Governance

66. Clearly, the completion of the Full Business Case analysis is a significant piece of work which will require the allocation of appropriate resources to ensure that it is completed in a timely manner. This activity would have been required if the models with an external partner had been the preferred option and so the associated expenditure is not solely attributable to the WOC model.
67. This will require a dedicated in-house team and also the procurement of expert advice where appropriate (for example, on legal, finance, and tax matters, company establishment and commercialisation) and also provision of ongoing appropriate external challenge which has been a most valuable investment during the Outline Business Case of the project. It is recommended that a budget of c£175,000 be approved for the purpose of obtaining external advice and that an internal team comprising the following resources be immediately established for completing the Full Business Case work. Whilst no revenue budget has been identified for this additional expenditure, earmarked Reserves are the suggested funding source for this important invest to save and earn project.
68. The governance of the team, such as the example shown below, should be established immediately:

FBC Governance



69. The Project Shadow Board would be accountable to the Cabinet and Scrutiny in the normal way at this stage, supported by the Project Team lead by the Project Director (Assistant Director Environment).

70. Upon completion of the Full Business Case the recommendations will be made to the Cabinet, and potentially Council on the final recommendation for decision. This is estimated to be January 2015. Should a Wholly Owned Company be the final solution then a Transition Board would be established to set the company up. It is estimated that the company could be established fully and staff transferred between April and July 2016, However this and future governance arrangements will be the subject of further detail as part of the Full Business Case.
71. In addition to the completion of the Full Business Case analysis, it is important that the saving opportunities identified for both the Modified In-house and Wholly Owned Trading Company options are subject to the required consultation processes and implemented to allow the financial benefits to be achieved in accordance with the timescales identified.

Local Member Consultation

72. Members were invited to briefings regarding the Outline Business Case and the proposals identified in this report in the lead up to Cabinet considering this report.

Reasons for Recommendations

73. To enable the most appropriate future service delivery model for the services in scope to be determined and thereafter implemented.

Legal Implications

74. There are no direct legal implications arising from recommendations in the report.
75. The Authority has the power to establish a company to trade under section 95 of the Local Government Act 2003 section 95. The vehicles which can be used under this power is limited (companies and registered societies, being former industrial and provident societies) but prior to trading the business plan for the trading company has to be approved by Council. However, there are other powers which the Authority may wish to rely upon to set up one or more companies and also to charge for any services provided (and where profit is not necessarily precluded). Accordingly the appropriate approach to establishing the company and undertaking any commercial activities will need to be reviewed and recommended within the full business case.
76. A wholly owned company is potentially capable of meeting the tests of what is commonly referred to as "Teckal". Teckal is the name of the case which confirmed that where a public sector body organises its operation by setting up its own company to deliver a function, this does not necessarily amount to a regulated procurement so long as certain principles are met. The case law is now consolidated in the Public Contracts Regulations 2015. It will be an important element of the final business case to ensure that the proposed structure and arrangements

for the company, to the extent reliant on meeting “Teckal” requirements, are met.

77. The report sets out how the responses from consultation have influenced the recommendations which is an important element in satisfying the obligation to secure continuous improvement under the Local Government (Wales) Measure 2009.
78. It will be essential, as the full business case is developed, to ensure that:
1. assumptions are checked and challenged;
 2. further due diligence is undertaken in relation to each of the services to ensure that:
 - i. the current and future service demands,
 - ii. the current service, the approach to meeting the demand mentioned above and all factors affecting its delivery and cost (including condition of assets/ working practices and procedures/third party contracts and inter-relationship to other services);
 - iii. the scope for change that will be allowed/required;
 - iv. all other information required for setting the framework within which success will be measured (eg. specifications, financial plans, performance measures and governance arrangements)
- is understood, verified and documented.
79. It will also be necessary for the shadow company to be developing a business plan and method statements for transition and delivery of the services to meet both technical and financial requirements. This approach is necessary to provide an appropriate level of assurance for the Authority and the Directors of the new company that the proposed arrangements are realistic and deliverable.
80. Much of that detailed work will need to be developed in parallel with the final business case as both pieces of work will often overlap (although will look at the information from different perspectives) and should mutually benefit the development of each (ie the business case for the Authority and the business plan for the company). As one enters the final detailed phase of the work it may be necessary for the company to receive independent professional support to ensure that potential conflicts are avoided and also to maximise the benefits of “critical challenge” as part of providing an assurance framework to secure the success of the alternative delivery mechanism.
81. The work mentioned above will involve dedicating time and resource to achieve the desired outcome. However, that work (and indeed in most cases additional work) would be required for any of the models in order to achieve the step change required as a result of the budget constraints. The choice of a wholly owned company as the preferred model to take forward for the final business case:
1. does provide more opportunity to avoid risks associated with delays in agreeing baseline data, expected levels of services, targets and financial models/sharing arrangements as part of the

above process (which should, but often may not, form part of any of the solutions); and

2. does not preclude later development into other alternative models if that is found to be necessary and would provide a useful staging post because:
 - i. if a decision is later made to change to another alternative model of delivery there will be much more robust business-specific data then available;
 - ii. this would assist in overcoming some of the delay factors in negotiating/procuring the arrangements required (other than modified in-house);
 - iii. the arrangements to move to another model would not be complicated, with transfer of the business potentially being achieved through issue of new shares or sale of the Council's share and the ability to return the business to a modified in-house delivery approach being far simpler than if one had to unpick the interests from another party.

Financial Implications

82. The choice of delivery model will be a significant decision for the Council given the extent of services in scope and the level of budget reductions the Council is expected to make over the medium term. The FBC is expected to be reported back to Cabinet early in 2016 with, subject to approval, the WOC being operational early in the 2016/17 financial year. This will allow an alignment with the emerging Budget Strategy both in terms of 2016/17 proposals and the longer MTFP horizon.
83. The Outline Business Case (OBC) financial projections are high level and assumption driven. In this context the associated sensitivity analysis included in paragraph 42 and Table 4 is especially significant. This confirms the Wholly Owned Company (WOC) as the preferred option in most cases but there are scenarios where JV models score better than the WOC or in-house. Given these caveats the OBC financial projections should not be the sole source of evidence to choose the preferred option. Instead the financial projections should be considered as part of the package of evidence to support the choice of the preferred option being taken forward to the Full Business Case (FBC) stage. The modified In-house option in its role as Comparator / Reference Project will also be considered as part of the FBC. The development of the sensitivity analysis will be included as part of the Full Business Case evaluation process.
84. Pre-Operational implementation costs comprise two separate elements which again will be developed further during the FBC stage:
 1. Costs included in the financial model, projected at £900,000, both revenue and capital, required to get the new company in a position to trade e.g. review and possible acquisition of IT systems, staff development, specialist professional advice, and
 2. Costs projected at £175,000 to acquire external advice etc that is required to complete FBC. This would be a cost that would be common to all the alternative delivery models that were

- considered during the OBC. As well as specialist external advice this will include a dedicated internal team including resources from the Council's support services as well as the Directorate.
3. No existing budget is available to fund these costs resulting in funding from Earmarked Reserves being required. The use of reserves is a one-off funding source and will reduce the council's future financial flexibility
85. The financial projections are an option appraisal comparing the benefits of the different models over the evaluation period and so don't, for example, include any benefits during their respective implementation phase. The reality is that business as usual savings will be applied during this period as further budget reductions are required but will apply equally to all of the models and are not included to avoid any risk of double counting.
 86. There is a direct link between in-house savings and the Wholly Owned Company with assumption that the Wholly Owned Company will achieve all the in-house savings. This is especially significant with regard to savings related to changes to pay enhancements with the assumption that the TUPE transfer will have taken place post changes to terms and conditions. The proposed pay enhancements change will be applied across the Council and as a consequence will have an impact on other Directorates outside the scope of this project.
 87. Although 100% Council owned the Wholly Owned Company will involve new governance arrangements which will include management by a Board of Directors. The financial reporting and auditing regime for the Company will be as required by Companies Act and outside of the Council financial reporting arrangement. The projection for the operating costs of the WOC include an allowance for these audit costs. As a Local Authority owned Company its financial results will be included in the consolidated group accounts of the council. .
 88. Current Council staff transferring to the proposed WOC will do so under a TUPE arrangement which will include continued membership of the Cardiff and Vale Pension scheme with the WOC becoming an admitted body to the Pension Fund. The FBC will develop this financial relationship in more detail including the WOC's Employers contribution which it will pay to the fund.
 89. The FBC will also develop the taxation implications for the WOC. As a Limited Company any profits generated by the WOC would be liable for an appropriate element of Corporation Tax. Arrangements to minimise this potential liability will be an important element of the FBC work.
 90. It is expected that the WOC will operate under the "Teckal" exemption which allows the Council to passport the deliver of the services in scope directly to the WOC without the need to undertake procurement. There are however three tests that have to be applied for the Teckal exemption to apply, which are :-
 1. There must be no private investment in the company which is the case here with 100% ownership of the company.
 2. The Council exercises a control over the company, for example by the use of Reserve Matters, which is similar to that which it exercises over its own departments.
 3. 80% of the turnover of the company is with the Council so maximum turnover with External Third Parties would be 20%.

Paragraph 41 identifies that 11% of the current budget is external income. The FBC will develop this income analysis including an assessment of whether specific income sources are best placed transferring to the WOC or remaining with the Council e.g, sale of recyclates.

91. Brief description of the key characteristics of each of the models in terms of delivery of benefits and associated costs
92. Financial risks

Human Resources Implications

93. Detailed HR implications of the move to a Wholly Owned Company will be provided as part of the Full Business Case. As proposals are developed within the FBC, there will need to be full consultation with employees and the Trade Unions so that they are fully aware of the proposals, have the opportunity to respond to them and understand the impact that the new model of service will have on them.
94. If a new trading company is created then the provisions of the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations 2006 as amended would apply and Council staff who are wholly or partially (to an agreed level) engaged in the activity that will be undertaken by the trading company will transfer automatically to the new company.
95. Any changes to working practices, which may or may not include terms and conditions, must go through the corporately agreed consultation processes with trade unions and employees. In order to comply with Equal Pay law any changes to contractual terms and conditions will have an impact across the Council and therefore the potential requirements of this change process will need to be provided in the Full Business case.

RECOMMENDATIONS

Cabinet is recommended to:

1. Approve content of this report and the Outline Business Case attached in Appendix 1, and the conclusion of the report that the most appropriate future delivery model for the services in scope is a Wholly Owned Company (Teckal);
2. Agree to the establishment of a Shadow Board to govern the company establishment and give delegated authority to the Chief Executive to work with the Leader of the Council and the Cabinet Member for the Environment to define the appointments of the Non Executive Directors to the Shadow Board;
3. Agree to the completion of a Full Business Case for the Wholly Owned Company model and also the Modified In-House Model comparator and report the findings back to Cabinet early in 2016 together with recommendations as appropriate regarding:
 - The appropriate legal vehicle for the proposed trading company, for example, a company limited by shares or by guarantee;

- The proposed governance of the company, including possible alternatives for the composition of the company Board;
 - The proposed contractual arrangements between the Council and the proposed company, in particular, what company matters would be 'reserved' and require Council approval prior to implementation, and also performance management of the contract;
 - The proposed arrangements between the Council and the company regarding the provision of support services, for example, the provision of HR, Finance, Commissioning and Procurement, and ICT services;
 - Opportunities for increasing external trading;
 - Whether or not it would be appropriate to remove some services currently in scope, or parts thereof, and/or whether some other services should be included;
 - Requirements in relation to the proposed transfer of staff to the new company in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended;
 - Financial implications in respect of pensions, day to day management of the Wholly Owned Trading company, and taxation;
 - The transfer of relevant assets, for example, relevant accommodation, vehicles and equipment, and
 - The initial investment required to establish the proposed Wholly Owned Company.
4. Approve the allocation of resources as identified in paragraph ? of this report for the completion of Recommendations 2 and 3 above and delegation to the Chief Executive to authorise amendments to these resources if necessary for the satisfactory completion of the Full Business Case work, and
5. Commence consultation on and thereafter implement the saving opportunities identified for the In-house and Wholly Owned Company Trading options to allow the financial benefits to be achieved within the timescales identified.

ANDREW GREGORY
DIRECTOR CITY OPERATIONS
16 July 2015

The following appendices are attached:

Appendix 1 – Infrastructure Services Alternative Delivery Models. Outline Business Case. July 2015.

Appendix 2 - **TO FOLLOW** - A Joint Report of the Environmental and Policy Review and Performance Scrutiny Committee's. Infrastructure Business and Alternative Delivery Options.

Appendix 3 – **TO FOLLOW** - Response to Environmental and Policy Review and Performance Scrutiny Committee's Task and Finish Group Report Recommendations

The following Background Papers have been taken into account:

Cabinet Paper 15 May 2014 – Establishing a Programme of Organisational Change for the City of Cardiff Council

Cabinet Paper 20 November 2014 – Infrastructure Services Alternative Delivery Models

Consultation Results and Feedback Report on the City of Cardiff Council's 2015/16 Budget Proposals. February 2015

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Infrastructure Services Alternative Delivery Models

Outline Business Case



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Revision History

Summary of Changes	Author of Changes	Date	Version

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This Business Case template has been developed using the Office of Government Commerce (OGC) “Five Case Model”, the best practice standard recommended by HM Treasury for use by Public Sector bodies when planning a public sector spending proposal.

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You may need to obtain guidance and advice from central functions such as Finance, Procurement, Enterprise Architecture, ICT, HR and Legal as you develop your business case.

All Business Cases must be submitted to the Investment Review Board for approval.

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Executive Summary

Strategic Case

On 15 May 2014, the Council's Cabinet approved the report of the Chief Executive entitled 'Establishing a Programme of Organisational Change for the City of Cardiff Council'. The report set out the Cabinet's view that for the Council to effectively address the significant challenges it immediately faces, the Council will need to fundamentally challenge the way that its services are currently delivered and consider a full range of service delivery models and providers. A key project identified by this report was the Infrastructure Services Alternative Delivery Models Project ("the Project") which is the focus of this Outline Business Case (OBC).

A total of 14 services across 5 directorates, as identified in Table 1 below, are included within the scope of the Project:

Table 1: Summary of Services in Scope of Project

Directorate	Service
Environment	Waste Collection
	Street Cleansing
	Waste Education and Enforcement
	Waste Treatment and Disposal (including Materials Recycling Facility, Waste Transfer Station and Household Waste Recycling Centres)
	Pest Control
Strategic Planning, Highways, Traffic and Transport	Highway Operations (including Highway Maintenance, Drainage and Street Lighting)
	Highways Asset Management
	Infrastructure Design and Construction
Sport Leisure and Culture	Parks (including Parks Management and Parks Development)
Resources	Central Transport Service
	Cleaning (non schools)
	Security and Portering
	Building Maintenance (including Schools but excluding Housing)
Economic Development	Projects Design and Development

The Project considers and appraises alternative delivery models for each of the services in scope, with the primary objective of significantly reducing the operating costs whilst protecting front line service delivery as far as it is possible to do so. The Council will retain responsibility for determining the strategy and service requirements relevant to each service.

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Economic Case

A structured Service Review, using a methodology developed by the Council, was completed for each service in scope. Each review was concluded with a statement of the strengths, weaknesses, opportunities, and threats (SWOT) relevant to the service. A summary of the generic strengths, weaknesses, opportunities and threats identified across many of the services, which correlates with the project objectives, is as follows:

Strengths

- Appropriately skilled front line and managerial/supervisory staff with appropriate skills, knowledge and experience relevant to the services being provided, and
- Generally good levels of Customer satisfaction based on responses from the 'Ask Cardiff' surveys;

Weaknesses

- Although improvements to sickness absence levels were achieved during the 2014/15 financial period in some services, the absence levels in many of the services within scope remain above industry average which has an adverse impact upon service delivery and operational costs;
- A high level of unwanted and repeat demand on some services as recorded by Connect to Cardiff;
- A lack of industry standard software and hardware to support processes, such as mobile working technology, which would facilitate better management of performance, information and allocation/ scheduling of work, address custom and practice issues, reduce wasted time, repeat demand and improve back office processes;
- Current pay enhancements, which make working at night or at weekends more costly and less competitive;
- The duplication of activities across services due to the existing silo approach of services within directorates for vested land management and other assets, and
- Performance issues in respect of the Council's fleet, in particular, financial management, governance and also day to day use of the vehicles.

Opportunities

- Further commercialisation of services to increase the amount of external income earned, and
- Improving existing partnerships and developing new relationships with business, community enterprise groups and the third sector voluntary groups

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Threats

- The impact of further revenue budget and grant reductions, and
- An increase in demand resulting from demographic growth

In accordance with the Infrastructure Services Alternative Delivery Model report approved by Cabinet on 20th November 2014, the following models have been appraised in this Outline Business Case in respect of the services in scope of the project:

- Modified In-house
- Wholly Owned Arms Length Company (Teckal),
- Public/Public Corporate Joint Venture,
- Public/Private Corporate Joint Venture and;
- Outsourcing

A simple but robust process was used for the appraisal of these alternative delivery models comprising:

- the application of a corporate evaluation methodology;
- a high level financial analysis, and
- the consideration of a number of other key factors.

The conclusion from the analysis was that the most appropriate future delivery model for the services within scope of the project is a Wholly Owned Company (Teckal). The key reasons for identifying this option as the preferred future delivery model include:

- Subject to the limitations of the financial model the high level financial analysis undertaken as part of the Outline Business Case work indicates that the Wholly Owned company is most likely to deliver the greatest financial benefit for the Council;
- The Wholly Owned Company can commence operation to allow the Council achieve financial benefits early in the 2016/17 period subject to the necessary implementation actions and identified cost saving decisions being taken.
- It will retain a public sector ethos and allow the Council to maintain control regarding strategic matters whilst providing day to day operational autonomy to the company. As stated above, one of the reserved matters which could be set out in Council/Company contract, which will include a Service Based Agreement, is the agreement of the annual business plan and budget which will provide the Council with the required flexibility to

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secure changes regarding budget and service delivery. This is seen to be an important factor by the Cabinet;

- It will facilitate the development of a more commercialised culture and improved quality of service delivery to residents. Progress made over the last year regarding work practice modernisation, multi-skilling and improvement of service delivery as evidenced by the Neighbourhood Services project, provides confidence that the required further improvements can be made within this preferred model of delivery.
- It will provide more commercial freedom and an incentive to effectively build upon and grow the external trading work which is currently undertaken. It is recognised that an injection of commercial expertise will be an important catalyst in respect of achieving sustainable income growth
- It will ensure that all benefits are retained by the Council;
- It provides an opportunity to invest in and use industry standard systems and technology in the day to day management and delivery of services to suit the company's specific needs rather than the general needs of the Council
- Whilst not perhaps the automatic preferred model of the Trade Unions and employees, it is preferred in relation to the other Joint Venture and Outsourcing options. Also, based on feedback provided from other council's that have established Wholly Owned Trading Companies, it is believed that most employees will be motivated by the new culture created within the new organisation
- It fits with the general principles identified by residents as interpreted from the responses received to the Cardiff Debate survey;

In summary, it is recommended that a Full Business Case be undertaken for the Wholly Owned Company model.

This will comprise a detailed analysis of the Wholly Owned Company model and the Modified In-house model as a Public Sector Comparator, culminating in the submission of a report to Council/Cabinet recommending which model should be implemented for the identified services in scope.

Financial Case

A mobilisation period of one year has been assumed from approval of the Outline Business Case to the Company becoming operational. This is to allow time for the necessary due diligence including but is not limited to activities such as zero based budgeting, defining service specifications, defining volumetric data, recording asset and system registers, details of employee scope and considerations, undertaking market analysis. The one year mobilisation period also allows time for the preparation of the Full Business Case and the Wholly Owned Company Business plan, as well as the subsequent preparation of the Contract between the Council and the Wholly Owned Company. This assumes

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that a single Wholly Owned Company will be established for all the services in scope, however this will be further considered in detail within the Full Business Case.

A key assumption with the Wholly Owned Company model is that it will achieve the same savings as the modified in-house option plus additional efficiency savings and income generation that derive from the behavioral / cultural impact of introducing a Wholly Owned Company and a more commercial approach.

It is projected that implementation / set-up costs of £0.9m will be incurred prior to the WOC becoming operational, allowing for costs associated with potential new commercial IT systems, specialist professional advice – legal, pensions, taxation, etc. necessary in forming a stand-alone company – and other costs such as company branding. This is an area that will be further developed in the Full Business Case and the development of the Wholly Owned Company business plan.

The financial projections in the Outline Business Case include an allowance of £250,000 per annum for the cost of the Commercial Director and Business Development roles as well as the cost of other corporate governance. This will be developed further as part of the Full Business Case analysis.

Commercial Case

It will be necessary for the Council to procure expert legal, financial and taxation advice on a number of issues to ensure the satisfactory completion of the Full Business Case. In addition, similarly to the process adopted for the Outline Business Case, it is also recommended that the Full Business Case be subject to appropriate independent review and robust external challenge. The estimated cost for the provision of the external advice is £175k.

The key risks identified are included in the table below

Risk Description	Risk Assessment Information				Risk Response Information				Future Action Required
	Risk Type	Proximity	Likelihood	Consequence	Inherent Risk	Likelihood	Consequence	Residual Risk	
There is a risk that the Council and/or project team lacks the skill and capacity to identify the most suitable new model(s) and therefore the project would not be able to deliver against its objective	Resource	No Time Period	B	3	Medium/High Priority	C	4	Low Priority	Assess if there are any gaps in knowledge/skill across the project team and identify how any gaps in knowledge/skill can be addressed. Ensure sufficient levels of challenge are sought from outside of the project.

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<p>Unions could oppose the investigation and adoption of new delivery model(s) delaying the decision making process, and achievability of the project goals</p>	<p>Communication, Stakeholders</p>	<p>No Time Period</p>	<p>B 2</p>	<p>High Priority</p>	<p>B 3</p>	<p>Medium/High Priority</p>	<p>Ensure that the Trade Unions are kept up to date with project progress, and that sufficient time is built into the project plan to liaise and engage with the Unions. Share drafts of project documentation with Unions to ensure their comments are taken on board and the documents are signed off, before the documents are circulated wider in the organisation.</p>
<p>Changes to the cabinet could take place during the project lifecycle and result in a loss of appetite for any proposed change to the model of service delivery.</p>	<p>Political</p>	<p>No Time Period</p>	<p>B 1</p>	<p>High Priority</p>	<p>C 1</p>	<p>Medium/High Priority</p>	<p>Ensure that there is continuous engagement and briefings with the cabinet, to maintain buy in for the project. Ensure OBC is based on appropriate evidence base, this is subject to external challenge and review (LP) and project updates are regularly provided to relevant Cabinet Members</p>
<p>Industrial Disputes/Staffing disputes and disruption (eg staff leaving)</p>	<p>Communication, Stakeholders</p>	<p>< 3 Months</p>	<p>B 2</p>	<p>High Priority</p>	<p>C 3</p>	<p>Medium/Low Priority</p>	<p>Ensure stakeholder plan makes adequate provisions to engage and consult Trade Unions at regular intervals, and that they are kept up to date with the progress of the project to minimise the potential for industrial dispute.</p>

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<p>Changes to the organisational structure of the Council could take place during the project lifecycle and result in loss of direction and delays to the project</p>	<p>Communication, Organisation, Stakeholders</p>	<p>No Time Period</p>	<p>B</p>	<p>2</p>	<p>High Priority</p>	<p>C</p>	<p>2</p>	<p>Medium/High Priority</p>	<p>Ensure that there is continuous engagement and briefings with the cabinet, directorates in scope and to the relevant governance boards to maintain buy in for the objectives of the project. Ensure that there are regular meetings between Directors for the services in scope, to maintain buy in and agreement for direction of project.</p>
<p>Service area resource time required to inform and produce the Full Business Case, could result in current levels of service delivery being compromised.</p>	<p>Reputation, Service Delivery</p>	<p>< 1 Months</p>	<p>C</p>	<p>2</p>	<p>Medium/High Priority</p>	<p>C</p>	<p>3</p>	<p>Medium/Low Priority</p>	<p>Ensure stakeholders are advised of resource requirements in advance so that service delivery can be planned accordingly. Ensure comms plans advise of potential impacts to current levels of service delivery.</p>
<p>Modified in house models are not sufficiently mature enough to inform Cabinet when the Full Business Case is presented.</p>	<p>Governance, Resource, Stakeholders</p>	<p>< 6 Months</p>	<p>B</p>	<p>2</p>	<p>High Priority</p>	<p>C</p>	<p>3</p>	<p>Medium/Low Priority</p>	<p>Ensure that there is equal emphasis placed on development of in-house models and that an equal amount of resource time is allocated to these. Inform Directors and Managers of their responsibilities in this regard.</p>

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Full Business Case for preferred model might show that the required level of savings can not be achieved within the required timescale	Benefits, Finance	< 6 Months	B	1	High Priority	C	2	Medium/High Priority	Ensure that financial analysis and modelling within the Full Business Case is robust and subject to appropriate levels of internal and external challenge. If any potential shortfall is identified, escalate this accordingly so that it can be highlighted and taken into account as part of the Council's annual budget setting process.
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Management Case

The Infrastructure Services ADM will continue to be managed as a project within the Infrastructure and Neighbourhood Delivery workstream, which falls within the Reshaping Services Programme as part of the Council's Organisational Development Programme. This will ensure that the appropriate management and governance arrangements are maintained.

The impact on other Council areas and support services will be an important consideration for the Full Business Case analysis in terms of the impact on employees, use of equipment and assets, and also delivery of services back to other Council services where applicable. Any potential adverse impacts identified will need to be assessed and appropriate mitigation measures established as far as it is reasonable and practical to do so.

Upon completion of the Full Business Case, recommendations on the way forward will be made to the Cabinet, and potentially Council. This is estimated to be January 2015. Assuming a Wholly Owned Company is the recommended way forward, a Transition Board would be established to set the company up. It is estimated that the company could be established fully and staff transferred between April and July 2016, However this and future governance arrangements will be the subject of further detail as part of the Full Business Case.

It will be necessary to establish an internal Project Team to manage the completion of the Full Business Case. The precise resource requirements were being finalised at the time this Outline Business Case. However, in terms of function/skills set, the Team will need to include dedicated Project Management Resources, representatives from each service in scope, and also representatives from the Council's Corporate Service functions including: Finance; Human Resources; Legal; ICT; Corporate Communications and Commissioning and Procurement. The allocation of the required resources will be sought through the Investment Review Board.

A Communications Strategy and Plan will ensure information is provided in a timely effective way through the variety of channels (i.e. enhanced social networking methods as well as insuring strong verbal and written and verbal communications) to all identified stakeholders, to support the project through each future phase of its development.

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1. The Strategic Case

1.1. Strategic Background

1.1.1 On 15 May 2014, the Council's Cabinet approved the report of the Chief Executive entitled 'Establishing a Programme of Organisational Change for the City of Cardiff Council'. The report set out the Cabinet's view that for the Council to effectively address the significant challenges it immediately faces, the Council will need to fundamentally challenge the way that its services are currently delivered and consider a full range of service delivery models and providers. The significant challenges faced by the Council were identified as follows:

- **Rapid Fiscal Consolidation** – the need to address the predicted c.£124m budget gap across the period of the Medium Term Financial Plan (2015/18);
- **Increased demand on services** – Cardiff continues to rank as one of the fastest growing UK core cities with the city's population projected to increase by 14.5% between 2011 and 2026;
- **The need for continuous improvement and service performance challenges** – the areas of concern, some of which were highlighted by the Welsh Local Government Peer Review, include:
 - An under-developed performance management practice;
 - Unacceptably high sickness absence in some services;
 - Inconsistent approach to Personal Performance and Development Reviews;
 - Significant improvements required to educational attainment as highlighted by a recent Estyn monitoring visit, and
 - Persistently high Children's Services case load which represents a risk to service performance;
- **Accelerating Cardiff's development as a European Capital City** – the city's economic performance has recently dipped in international terms and more needs to be done if Cardiff is to play a part in sustaining economic recovery in Wales, and
- **Reorganising local government** – the 'Williams Commission' proposes to reduce the number of local authorities in Wales to 11 or 10.

1.1.2 The report confirmed the Cabinet's view that the organization is currently too often characterised by a top down, silo-based approach to service delivery that tends to be too inflexible, impersonal, inefficient and difficult to understand from the perspective of the citizen.

1.1.3 To address the key challenges faced by the Council, a three year Organisational Development Programme was proposed with the following specific outcomes being sought:

- Reduced operating costs, to address rapid fiscal consolidation;
- Improved outcomes across the Council and in key improvement priorities, to address current performance weaknesses;
- Improved demand management and reduced failure demand, to more efficiently address the increasing demand for services;
- Delivery of key infrastructure projects to accelerate Cardiff's development as a European Capital City, and

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- Development of effective partnership and collaborative working where that fits with the Council's objectives.

1.1.4 The Organisational Development Programme comprises two primary Programmes (as set out in Appendix 1 – Organisational Development Structure), each with specific workstream components:

- Programme and Project Enablers and Commissioning (comprising five separate workstreams):
 - Governance & Member Engagement;
 - Engagement & Improvement;
 - Assets & Property;
 - Strategic Commissioning;
 - Commercialisation, and
- Reshaping Services (comprising four separate workstreams):
 - Customer Focus & Enabling Technology;
 - Services for Vulnerable Children;
 - Services for Vulnerable Adults;
 - Infrastructure & Neighbourhood Delivery.

1.1.5 A key project identified by the May 2014 Organisational Change Report, included within the Infrastructure and Neighbourhood Delivery workstream within the Reshaping Services Programme, is the Infrastructure Services Alternative Delivery Models Project ("the Project") which is the focus of this Outline Business Case (OBC).

1.2 Project Scope

1.2.1 A total of 14 services across 5 directorates are included within the scope of the Project. Each was selected as they share significant challenges, consistent with those identified within the Council's May 2014 Organisational Change report, as set out in Table 1 below:

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Table 1: Key Reasons for Inclusion of the Individual Services within Scope.

Directorate	Service	Cost Savings Required	Income Opportunities	The Need to Increase Capacity to address City Growth	Performance Issues (e.g. High Absence Levels, High Complaint Levels, Low Productivity, Cultural Issues, etc.)	Important Synergies with/Support to Other Services in Scope
Environment	Waste Collection	X	X	X	X	X
	Street Cleansing	X	X	X	X	X
	Waste Education and Enforcement	X	X	X	X	X
	Waste Treatment and Disposal (including Materials Recycling Facility, Waste Transfer Station and Household Waste Recycling Centres)	X	X	X	X	X
	Pest Control	X	X	X	X	X
Strategic Planning, Highways, Traffic and Transport	Highway Operations (including Highway Maintenance, Drainage and Street Lighting)	X	X	X	X	X
	Highways Asset Management	X		X	X	X
	Infrastructure Design and Construction	X	X			X
Sport Leisure and Culture	Parks (including Parks Management and Parks Development)	X	X	X	X	X
Resources	Central Transport Service	X	X		X	X
	Cleaning (non schools)	X	X		X	X
	Security and Portering	X	X			X
	Building Maintenance (including Schools but excluding Housing)	X	X		X	
Economic Development	Projects Design and Development	X	X			X

1.2.2 It should be noted that the Telematics Service was initially included within scope of the project. However, following a restructuring of the Strategic Planning, Highways Traffic and Transport Directorate, the Telematics Service has effectively been disbanded with its former

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functions being transferred to the Highways Asset Management Service with the exception of the Highways Control Room. The Control Room is a service delivered in partnership with the police and has been aligned with the Network Management functions carried out by the Strategic Planning, Highways, Traffic and Transport directorate, which are not in scope of the project.

- 1.2.3 The associated budgets and employee numbers for each service within scope are set out in the Economic Case section of this document.

1.3 Project Objectives

- 1.3.1 Consistent with the May 2014 Organisational Change report, the Project will consider and appraise alternative delivery models for each of the services in scope, with the objective of significantly reducing the operating costs whilst protecting front line service delivery as far as it is possible to do so. Consistent with the Council's challenging medium term financial period (MTFP) saving targets, a savings opportunity of c.£4.3m was identified across the 14 services within scope of this project (c.£2.3m in 2016/17 and c.£2.0m in 2017/18).
- 1.3.2 The Council will retain responsibility for determining the strategy and service requirements relevant to each service. However, the implementation of the strategy, approved by the Council, will be undertaken by whatever arrangements are put in place for the delivery of the front line services, whether in-house or otherwise.
- 1.3.3 In accordance with the report approved by Cabinet in November 2014, work has been progressed to improve the in-house delivery of services within scope of this project. The improvements already made, and planned for implementation, are set out in the Economic Case section of this document. These will be used as the baseline against which the other four models being considered will be evaluated.
- 1.3.4 The output of this OBC will be to identify a suggested delivery option for each service within scope. Where this is not based on in-house service improvement, this will be subject to further analyses via a Full Business Case. However, the in-house service improvement plans will continue to be pursued for all services in parallel with this process. This will then be used as the in house comparator before any final decision is made on which model should be used for the delivery of each service in scope.

1.4 Sections of the Outline Business Case

- 1.4.1 In addition to the Strategic Case there are four more sections of the Outline Business Case, as follows.

- 1.4.2 The Economic Case:

- Provides an overview of the 'as is' position of each service in scope;
- Provides an overview of the in-house service improvement plans for each service in scope;
- Provides a summary of the alternative delivery models being considered;

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- Sets out the options appraisal process, comprising:
 - the evaluation methodology;
 - a high level financial analysis; and
 - consideration of other factors;
- Identifies the suggested alternative delivery model for each service in scope.

1.4.3 The Financial Case assesses the affordability of the suggested delivery model(s) by

- Projecting costs, savings and income
- Profiling the financial model over a period of time, and
- Detailing underlying assumptions, accounting and tax implications.

1.4.4 The Commercial Case describes how the Council will work in-house, procure or work with partners to achieve the suggested delivery model(s) by:

- Considering the contractual model and duration (where relevant)
- Determining any payment and performance mechanisms (where relevant)
- Describing the procurement strategy (where relevant), and
- Considering how risks will be allocated (where relevant)

1.4.5 The Management Case will describe how the suggested delivery model(s) will be delivered by:

- Describing how the change will be delivered, governed and managed;
- Detailing an implementation timetable and cost;
- Setting out the approvals and assurances that will be required; and
- Setting out the reporting and monitoring arrangements, and
- Setting out the Project Team requirements.

1.4.6 If approved, the suggested delivery model(s) set out in this Outline Business Case will then be subject to more detailed consideration via a Full Business Case(s). If the Full Business Case(s) is approved, implementation will then commence.

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2. The Economic Case

2.1 Introduction to As-is Analysis of Services in Scope

- 2.1.1 To assist with the implementation of the programme of organisation change initiated by the Chief Executive's Cabinet Report of 15th May 2014, the Council's Commissioning and Procurement Service developed a Service Planning Framework comprising three key phases. This Framework (which can be found on the CIS system under [Commissioning and Procurement/Procedures/Service Reviews/001-Service Review Toolkit](#)) has been reviewed by Cabinet and also the Policy Review and Performance Committee.
- 2.1.2 Phase 1 (Service Review) involves undertaking a structured service review which includes a desk based data collection and analysis, benchmarking and engagement / consultation with key stakeholders. A Service Review Toolkit, which requires the completion of a detailed questionnaire, has been developed to assist with the completion of this structured review.
- 2.1.3 Phase 2 (Outline Business Case) comprises an appraisal of the ability of alternative delivery models to meet the Organisational Programme Objectives (see 1.1.3 above), and the completion of an Outline Business Case (OBC) to examine, on an outline basis, the strategic, economic, commercial, financial and management case for the project and identified way forward.
- 2.1.4 Phase 3 (Full Business Case) comprises the detailed examination of the strategic, economic, commercial, financial and management case for the suggested delivery model for each service.
- 2.1.5 The Service Reviews (Phase 1) were completed by the relevant Operational Managers and subject to challenge by their Directors and also Trade Unions. A tabulated summary of the Service Reviews is reported separately for each service in scope in sections 2.2 to 2.6 below.
- 2.1.6 This document forms the output from Phase 2 (Outline Business Case). Phase 3 will be initiated if the Outline Business Case is approved by the Council's Cabinet.

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2.3 Environment Directorate Services As-is Summary

2.2.1 Waste Collections

Service Title	Waste Collections			
Service Description	Provision of Domestic and Commercial Waste Collections for the citizens and businesses of Cardiff			
Statutory Services Provided	<ul style="list-style-type: none"> Collection of Domestic Waste is a statutory obligation, charges can be levied for the provision of receptacles as well as the collection of garden and bulky waste Collection of Recyclable Waste and fulfilment of recycling targets set by Welsh Government The Council must provide a Commercial collection service if requested, this can be carried out in house or by a partner 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Bulky waste collection Hygiene waste collection Assisted lifts 			
Customers and Volume of Demand	<ul style="list-style-type: none"> 23.4 million scheduled domestic waste collections per annum, serving c. 153,000 properties 15,600 bulky collections per annum 93,600 commercial collections per annum 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 237 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	11,826	8,079	3,747	-271
2015/16	12,458	8,496	3,962	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Commercial collections has a market share of c.27% (2014) Skilled and experienced employees to deliver the services The Council's domestic and commercial customers are broadly satisfied with the services provided 		<ul style="list-style-type: none"> Sickness absence levels, although these have reduced from 23.7 days per FTE in 13/14 to 21.18 days per FTE in 14/15 Lack of industry standard technology Custom and practice issues, for example, the Job and Finish system which operates on a waste stream rather than all waste stream basis Pay enhancements mean working weekends and from 8pm- 6am are more costly than other times Performance issues in respect of the Council's fleet 		
Opportunities		Threats		
<ul style="list-style-type: none"> Growing the Commercial collections business Collaboration with neighbouring authorities or external partners Increase marketing of Commercial collections and stretch communication boundaries Reduce overheads and optimisation of fleet 		<ul style="list-style-type: none"> Ongoing Council budget reductions in the short/medium term Reduction in the Sustainable Waste Management Grant Forecast demographic growth and resultant increase in demand on the service 		

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2.2.2 Street Cleansing

Service Title	<ul style="list-style-type: none"> Street Cleansing 			
Service Description	<ul style="list-style-type: none"> Cleansing of adopted highway areas across the city (except Lloyd George Avenue and The Hayes) Removal of fly-tipping 			
Statutory Services Provided	<ul style="list-style-type: none"> Street cleansing Bin emptying Removal of fly-tipping 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> n/a 			
Customers and Volume of Demand	<ul style="list-style-type: none"> Street cleansing of c.1088km of carriageway and c.1900km of footway Emptying c.1700 bins Removal of waste from 6,700 fly-tipping incidents (in 2013/14) 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 177 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	6,330	717	5,614	-236
2015/16	5,526	505	5,021	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Skilled and experienced employees to deliver the services 78% of respondents to the Ask Cardiff 2014 Survey rated street cleansing in the city centre and their street as very good 63% of respondents to the Ask Cardiff 2014 Survey rated street cleansing in the city centre and their street as good The early feedback from the Neighbourhood Services pilot being undertaken in the South West Neighbourhood Management area of the city is positive Service has achieved significant savings in previous years 		<ul style="list-style-type: none"> Sickness absence levels, although these have reduced from 20.35 days per FTE in 13/14 to 16.12 days per FTE in 14/15 Lack of industry standard technology Custom and practice issues, for example, teams returning to their depot for breaks rather than taking breaks on their rounds Pay mean working weekends and from 8pm- 6am are more costly than other times Performance issues in respect of the Council's fleet 		
Opportunities		Threats		
<ul style="list-style-type: none"> Rolling out the Neighbourhood Services approach to street cleaning across the city Growing the service by pursuing commercial opportunities Co-ordinating voluntary groups to increase capacity and benefits to the Community Increase productivity and performance of the function Reduce overheads and optimisation of fleet 		<ul style="list-style-type: none"> Ongoing Council budget reductions in the short/medium term Forecast demographic growth and resultant increase in demand on the service 		

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2.2.3 Waste Treatment and Disposal

Service Title	Waste Treatment and Disposal			
Service Description	<ul style="list-style-type: none"> Receiving, treating and disposing of Cardiff residential domestic waste and also commercial waste collected by the Council's Commercial Waste Collections service Waste Treatment and Disposal includes the Materials Recycling Facility (MRF); two Waste Transfer Station's (WTS), 3 Household Waste Recycling Centres (HWRC's) and the depots at Lamby Way & Millicent Street 			
Statutory Services Provided	<ul style="list-style-type: none"> Provision of a HWRC (each Council must provide a minimum of 1) Management of the waste facilities and depots to comply with Health & Safety and Waste Management legislation & regulation Provision of a means to recycle, treat and dispose of all controlled municipal waste collected as the Waste Disposal Authority 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Provision of more than 1 HWRC Provision of Waste Transfer Stations Provision of a Materials Recycling Facility 			
Customers and Volume of Demand	<ul style="list-style-type: none"> The service receives, stores and processes c.170,000 municipal waste per annum, including c.34,000 tonnes of waste received by the 3 HWRC's and c.35,000 tonnes dry recycling waste processed by the MRF. The WTS processes c.132,000 tonnes per annum. 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 81 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	7,724	4,597	3,126	+1,103
2015/16	6,596	3,726	2,870	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Skilled, experienced and flexible employees In house waste facilities with planning permissions and waste regulatory licenses and permits 75% of respondents to the Ask Cardiff 2014 survey rated the HWRC facilities as very good or good MRF has improved performance following changes to the shift patterns in June 2014 In house service provision manages adverse external contractor rates e.g. MRF external gate fee significantly less than market rates 		<ul style="list-style-type: none"> Sickness absence levels, although these have reduced from 23.7 days per FTE in 13/14 to 18.78 days per FTE in 14/15 Pay enhancements mean working weekends and from 8pm- 6am are more costly than other times The HWRC's use fixed annual open hours rather than hours based on demand Weekly reject levels at the MRF range from 12 - 18%, due to contamination received from collected waste Speed of procurement in securing new 'end' markets for selling MRF processed materials adversely affects income levels Performance issues in respect of the Council's fleet Restricted number of assets and capacity at the MRF 		

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Opportunities	Threats
<ul style="list-style-type: none"> • Grow income by processing dry-recycling waste and bulking operations for other Council's; improving the performance of the MRF; securing additional customers for the commercial waste facilities • Supporting Commercial collections on external waste contract tender bids through the use of the service's Skip Lift Operations • Base budgeting of the service 	<ul style="list-style-type: none"> • Ongoing Council budget reductions in the short/medium term • Forecast demographic growth and resultant increase in demand on the service • Absence of long term markets for increasing volumes of recycling UK and Europe wide • External market risks based on worldwide recycle prices • Increased contamination levels from waste collections and low participation • Changing legislation which could result in a failure to meet targets and fiscal penalties

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2.2.4 Waste Education and Enforcement

Service Title	Waste Education and Enforcement			
Service Description	Provision of recycling and waste management related education and enforcement activities			
Statutory Services Provided	<ul style="list-style-type: none"> Enforcement activities in relation to fly-tipped waste 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Education in respect of waste presentation and recycling Assessment of assisted lift requests Enforcement of waste-related environmental crime including incorrect waste presentation, littering, abandoned trollies and dog fouling 			
Customers and Volume of Demand	<ul style="list-style-type: none"> 1,200 requests per month including c.400 calls regarding littering, dog fouling & fly-tipping and 100 assisted lift request Removal of c.1000 abandoned trollies per year Issue of c.522 FPN's per year (2014/15) 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 27 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	2,844	970	1,874	+22
2015/16	1,280	708	571	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Skilled and experienced employees to deliver the services The early feedback from the Neighbourhood Services pilot being undertaken in the South West Neighbourhood Management area of the city is positive Service has recently made significant savings, reducing net expenditure by 60% 		<ul style="list-style-type: none"> Lack of industry standard technology The Council's Pay Enhancements which mean working weekends and from 8pm- 6am are more costly than at other times Team has been recently reduced (to achieve budget savings) which has reduced the capacity of the service to meet its workload Loss of historical legal and court knowledge from the team reduction Further training needed within the service to ensure that all relevant employees have the same level of capability to deal with PACE (Police and Criminal Evidence Act 1984) and court prosecution work 		
Opportunities		Threats		
<ul style="list-style-type: none"> Improve the streetscene and earn additional income by increasing the amount of enforcement action against members of the public and businesses that do not comply with relevant environmental legislation Collaborate with Commercial Services to optimise fines and income 		<ul style="list-style-type: none"> Ongoing Council budget reductions in the short/medium term Forecast demographic growth and resultant increase in demand on the service 		

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2.2.5 Pest Control

Service Title	Pest Control			
Service Description	Provision of a pest control service in respect of common pests including rats, mice, squirrels, fleas, bedbugs, cockroaches and wasps. It also undertakes some bird control work.			
Statutory Services Provided	<ul style="list-style-type: none"> The Council is required to take such steps as may be necessary to secure as far as practicable that the district is kept free from rats and mice It is also required to ensure that other owners and occupiers of land comply with similar duties It also has a duty to investigate and deal with Filthy and Verminous Properties 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Provision of a commercial pest control service Providing advisory service and sending letters and/or test baiting when there have been reports of rodents in an area Offering one Council approach for general public health issues e.g. liaising with Food Safety, Waste Management, Housing and Parks 			
Customers and Volume of Demand	<ul style="list-style-type: none"> Customers are Private Domestic, Private Commercial, Local Authority Departments, Welsh Water In 14/15 there were 2788 requests for service, 6676 visits (including contracts) and 4470 sewers baited 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 8 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	324	305	19	-8
2015/16	352	301	50	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> High levels of customer satisfaction, based on compliments received and historical customer surveys Qualified employees with appropriate skills and experience Quick response times Value for money service compared to private sector Well established links with other Council departments ensuring a one Council approach to efficiently resolve a problem Dedicated, knowledgeable administrative employees who accommodate customer requirements 		<ul style="list-style-type: none"> Currently unable to offer a service to domestic customers at night or on weekends Small team means that there is limited capacity to grow and attract new business contracts due to existing demands Poor marketing of service Uncontrollable internal overheads 		
Opportunities		Threats		
<ul style="list-style-type: none"> Growing the Pest Control Service by increasing the size and capacity of the team Increase marketing through other Council Services and with a dedicated website 		<ul style="list-style-type: none"> Competition with private sector companies 		

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2.3 Strategic Planning Highways Traffic and Transport Directorate As-Is Summary

2.3.1 Highway Operations

Service Title	Highway Operations			
Service Description	The service is responsible for carrying out functions to fulfil the Council's statutory obligation to maintain the adopted highway and associated assets (Highways Act 1980 and other legislation)			
Statutory Services Provided	<ul style="list-style-type: none"> Reactive highway repairs, renewals, resurfacing, footway reconstruction, street lighting, lining, signing, drainage operations, traffic management and barrier repairs for high speed routes Winter and twenty-four hour emergency services 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Legislation does not stipulate a standard that the functions should be carried out to, so the service uses the guidance provided in the Well Maintained Highways, Code of Practice for Highway Maintenance Management 2005 			
Customers and Volume of Demand	<ul style="list-style-type: none"> The adopted highway in Cardiff equates to 1400km of footways and 1092km of carriageway creating various levels of demand on the service In 2014/15 there were 98,500 tarmac repairs and 17,500 paving repairs completed internally 1,800 were sent to external providers 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 48 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	7,260	1,966	5,294	+204
2015/16	6,728	1,644	5,084	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> In 13/14 performance Indicators for Urgent and Emergency works are at a high level Service is able to co-ordinate and address additional but necessary services i.e. Winter Maintenance and 24 Hour Emergency Response Brindley Road depot has appropriate facilities for an operational base 		<ul style="list-style-type: none"> Understanding the customer and their needs Customers are not satisfied with the level of service Lack of industry standard technology Low focus on external market and commercial opportunities Performance management and a lack of ownership/responsibility at all levels Performance indicators for routine repairs are low Fleet and fleet management costs and inefficiencies Asset deterioration which is increasing demand on the service Volume and cost of compensation claims Corporate investment strategies do not prioritise essential highway maintenance High levels of non-productive time 		

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Opportunities	Threats
<ul style="list-style-type: none"> Grow the service to become more commercially viable, however this would require significant investment and for productivity levels to improve 	<ul style="list-style-type: none"> Ongoing Council budget reductions in the short/medium term Forecast demographic growth and resultant increase in demand on the service

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2.3.2 Highways Asset Management

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Service Title	Highways Asset Management			
Service Description	<ul style="list-style-type: none"> The service is responsible for carrying out functions to fulfil the Council's statutory obligation to maintain the adopted highway and associated assets (Highways Act 1980 and other legislation). There is also a network management duty: To secure the expedition, convenient and safe movement of vehicular and other traffic (including pedestrians) on the highway 			
Statutory Services Provided	<ul style="list-style-type: none"> Compilation of Capital programmes for the Highway Operations Service Developing the Council's approach to Highway Asset Management Undertaking highway safety inspections Investigation of highway insurance claims Managing and carrying out streetworks inspections Managing and administering the highway licensing function Provision, implementation and maintenance of Intelligent Transport Systems in Cardiff Maintenance of the traffic systems and structures associated with Butetown Tunnel 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Legislation does not stipulate a standard that the functions should be carried out to, so the service uses the guidance provided in the Well Maintained Highways, Code of Practice for Highway Maintenance Management 2005 			
Customers and Volume of Demand	<ul style="list-style-type: none"> The adopted highway in Cardiff equates to 1400km of footways and 1092km of carriageway The inspection function carried out 7,744 inspections in 2014/15 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 33 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15*	4,000	1,398	2,602	+161
2015/16*	4,879	1,079	3,800	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> AMX software for Asset Management Highway Asset Management Policy Knowledge, experience and flexibility of employees 		<ul style="list-style-type: none"> Understanding the customer and their needs Customers are not satisfied with service delivery Lack of industry standard technology Low focus on external market and commercial opportunities Performance management Utilisation of contracts, currently work undertaken in house is not covered where a contract may offer better value for money 		
Opportunities		Threats		
<ul style="list-style-type: none"> Improve commercial viability Delivery of services in collaboration with neighbouring authorities or partner organisations 		<ul style="list-style-type: none"> Ongoing Council budget reductions in the short/medium term Forecast demographic growth and resultant increase in demand on the service 		

* The Highways Asset Management service has undergone a restructure and other changes over the last financial year, the budget figures assigned to Highways Asset Management will need to be reviewed and clarified further as part of the Full Business Case

2.3.3 Infrastructure Design and Construction Management

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Service Title	Infrastructure Design and Construction Management			
Service Description	Delivery of all civil engineering projects on behalf of the Council			
Statutory Services Provided	<ul style="list-style-type: none"> None of the functions provided are a statutory responsibility for the Council 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Feasibility / Concept Design Detail Design Project Management Contract Management Site Supervision Construction, Design and Management services 			
Customers and Volume of Demand	<ul style="list-style-type: none"> In 2013/14 service delivered £15 million worth of work, which equated to around 45 individual projects 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 22 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	1,457	1,426	31	-28
2015/16	1,215	1,105	109	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Flexible and competent employees who deliver projects under tight timescales No negative impact on the Council's revenue budget, funding is from charges levied on Capital projects 		<ul style="list-style-type: none"> Insufficient employee numbers to deal with increasing demand levels Annual budget setting makes management of the service and allocation of employees to projects difficult Commercial opportunities are not fully understood, and potential profit margin is overestimated 		
Opportunities		Threats		
<ul style="list-style-type: none"> Commercialisation of the service by taking on opportunities to work with neighbouring authorities, other public bodies and on private projects if the service had extra capacity 		<ul style="list-style-type: none"> Use of external consultants to undertake projects for the Council Loss of employees and capacity due to uncertainty in the Council and employment opportunities outside of the Council 		

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2.4 Sport Leisure and Culture Directorate As-is Summary

2.4.1 Parks Management and Development

Service Title	Parks Management and Development			
Service Description	Management and development of public open space provision throughout the city			
Statutory Services Provided	<ul style="list-style-type: none"> Provision of land for allotment gardening Inferred responsibilities from various legislation Obligations linked to the provision and management of public open space linked to Planning Policy & Guidance Fulfilment of covenant and grant conditions 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Grounds maintenance activities i.e. grass cutting, litter clearance Arboriculture Sports pitch management Plant production 			
Customers and Volume of Demand	<ul style="list-style-type: none"> In excess of 1,600 hectares of land managed (not including amenity grassland, housing green space, office grounds and strategic estates land) 7,000 participants for sport pitch and facility provision during a traditional winter weekend fixture programme 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 151 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	7,806	2,333	5,473	+1
2015/16	7,536	2,354	5,182	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> High public profile and well supported politically Good levels of customer satisfaction 2014 APSE Runner up for most improved performer in parks, open spaces and horticultural services Comprehensive programme of Apprenticeships, Traineeships and work experience opportunities Good engagement with friends and volunteer groups Mixed economy for the provision of functions, which have historically been exposed to competition 		<ul style="list-style-type: none"> Understanding the customer and their needs Management information is inconsistent No suitable 'operational' performance indicators Low focus on external environment and commercial opportunities Service does not effectively show how it delivers benefits, that facilitate Corporate objectives e.g. Health and Well Being Lack of industry standard technology Ageing vehicles, machinery and equipment Lack of investment in outdoor sport building stock Some operational facilities are not fit for purpose 		
Opportunities		Threats		
<ul style="list-style-type: none"> Change the delivery model or make internal changes to the service Grow the service to become more commercially viable (however investment would be required) 		<ul style="list-style-type: none"> Forecast demographic growth and resultant increase in demand on the service Expectations of all stakeholders 		

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2.5 Resources Directorate As-is Summary

2.5.1 Central Transport Service

Service Title	Central Transport Service			
Service Description	Enabling service with responsibility for fleet management and maintenance on behalf of Council services			
Statutory Services Provided	<ul style="list-style-type: none"> Fulfilment of statutory obligations placed against all vehicles i.e. MOT testing, HSE compliance 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Fleet management; parts procurement; vehicle repairs (scheduled and non-scheduled); legislation and compliance; management of external/partnership revenue streams; management of fuel usage and management of service level agreements with other service areas 			
Customers and Volume of Demand	<ul style="list-style-type: none"> 900 vehicles (600 inspected once a year, large good vehicles inspected every 8 weeks creating around 1,000 inspections per annum) 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 37 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	8,977	9,043	-66	-56
2015/16	8,111	8,009	102	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> State of the art depot at a prime location in Coleridge Road Skilled workforce Can offer private MOTs to compete for additional income Recent changes have reduced waste and unnecessary demand on the service, allowing for a restructure 		<ul style="list-style-type: none"> Systems and processes that do not support visibility of spend, income and overheads Not enough measures of customer satisfaction Lack of experience in managing a large vehicle operation Lack of suitable industry standard software used to manage the service Council policies and processes prevent the service from adapting to change at pace 		
Opportunities		Threats		
<ul style="list-style-type: none"> Use workshop spare capacity to expand service or offer concessions Offering repairs to council employees when vehicles are presented for MOT and fail Offer after hour repairs (5pm – 10pm) 4 days a week to organisations within Cardiff Develop and provide a robust pricing matrix for vehicles, based on individual repair jobs and vehicle life costs Improve data management and performance Potential to sell services and generate further income Potential to make significant savings by replacing long term hire vehicles with lease hire or purchase 		<ul style="list-style-type: none"> External contractors are able to offer more competitive and speedy levels of service Changes in other service areas could further diminish the fleet and internal demand on the service, any loss of service and internal income would need to be addressed by pursuing external income Supporting technology and software is constantly evolving, potentially leaving the service 'behind the times' Current levels of flexibility could be lost if the service is combined with others or is run under a different operating model 		

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2.5.3 Soft Facilities Management - Cleaning

Service Title	Soft Facilities Management – Cleaning			
Service Description	Enabling service with responsibility for cleaning offices and buildings across the Council			
Statutory Services Provided	<ul style="list-style-type: none"> Provision of cleaning services satisfies the Council's 'Duty of Care' for Regulation 9 of Workplace (Health, Safety and Welfare) Regulations 1992 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> All functions carried out are non statutory in nature but are necessary to satisfy legislative responsibilities as detailed above 			
Customers and Volume of Demand	<ul style="list-style-type: none"> Bulk of demand on the service relates to cleaning for all core buildings and Council owned non domestic properties, which is carried out on a daily basis to output based cleaning standards 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 73 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	1,637	1,641	-4	-71
2015/16	1,744	1,744	0	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Experienced managers and employees, with a high level of retention City of Cardiff Brand is a selling point for other public bodies and schools Supports and enables service delivery across the Council Output based cleaning specification provides a good level of cleaning with reduced employee numbers Customers trust the in-house provision and satisfaction levels are high 		<ul style="list-style-type: none"> Delivery of service from a variety of locations during unsocial hours, makes it hard to manage and develop employees Unable to compete commercially with open market due to the 'Living Wage' Lack of industry standard technology Sickness absence levels have slightly increased from 9.59 days per FTE in 13/14 to 9.94 days per FTE in 14/15 Duplication of functions across the Council Historical low focus on exploiting commercial opportunities Service is isolated from Strategic Estates where property decisions are made Under investment in buildings creating office accommodation that is difficult to clean 		
Opportunities		Threats		
<ul style="list-style-type: none"> Pursue income from schools, other public sector bodies and externally Delivery of services in collaboration with neighbouring authorities or partner organisations Centralising/integrating duplicate functions Expanding services offered 		<ul style="list-style-type: none"> Ongoing Council budget reductions in the short/medium term Property strategy is progressing disposal of Council owned premises creating less internal demand for the service 		

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2.5.5 Soft Facilities Management – Security and Management

Service Title	Soft Facilities Management – Security and Building Management			
Service Description	Enabling service with responsibility for security and building management across the Council			
Statutory Services Provided	<ul style="list-style-type: none"> Provision of security satisfies the Council's 'Duty of Care' in relation to the Health and Safety Act 1974 as well as insurance cover obligations Provision of building management satisfies the Council's 'Duty of Care' for the Health and Safety at Work Act 1974 and the Workplace Health and Safety Regulations 1992 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> All functions carried out are non statutory in nature but are necessary to satisfy legislative responsibilities as detailed above 			
Customers and Volume of Demand	<ul style="list-style-type: none"> 240 key holding accounts, for mobile security as well as planned opening and closing of buildings and open areas Average of 30 mobile security call outs per month 1,250 weekly hours of static security Relief caretaking to cover schools 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 31 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	1,438	1,417	21	-111
2015/16	1,359	1,231	129	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Experienced managers and employees, with a high level of retention City of Cardiff Brand is a selling point for other public bodies and schools Supports and enables service delivery across the Council Customers trust the in-house provision and satisfaction levels are high 		<ul style="list-style-type: none"> Delivery of service from a variety of locations during unsocial hours, makes it hard to manage and develop employees Unable to compete commercially with open market due to the 'Living Wage' Lack of industry standard technology Sickness absence levels have slightly increased from 12.11 days per FTE in 13/14 to 12.14 days per FTE in 14/15 Duplication of functions across the Council Historical low focus on exploiting commercial opportunities Employee knowledge in critical areas of security management Service is isolated from Strategic Estates where property decisions are made Under investment in buildings creating office accommodation that is difficult to secure 		
Opportunities		Threats		
<ul style="list-style-type: none"> Pursue income from schools, other public sector bodies and externally Delivery of services in collaboration with neighbouring authorities or partner organisations Centralising/integrating duplicate functions Expanding services offered 		<ul style="list-style-type: none"> Ongoing Council budget reductions in the short/medium term Property strategy is progressing disposal of Council owned premises creating less internal demand for the service 		

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2.5.4 Hard Facilities Management

Service Title	Hard Facilities Management			
Service Description	Enabling service with responsibility for building repair & maintenance, building improvements and planned preventative maintenance of a statutory nature			
Statutory Services Provided	<ul style="list-style-type: none"> Fulfilment of the Council's 'duty of care' responsibilities for employees as part of the Health and Safety at Work Act 1974 and the Workplace Health and Safety Regulations 1992 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> All functions carried out are non statutory in nature but are necessary to satisfy legislative responsibilities as detailed above 			
Customers and Volume of Demand	<ul style="list-style-type: none"> 104 schools signed into Service Level Agreements Maintenance of 483 Council buildings and 500 building in total that receive statutory services During 2013/14 this generated a total of 8,158 jobs 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 53 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	11,341	11,503	-162	-182
2015/16	10,478	10,478	0	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Skilled workforce with a good knowledge of the building portfolio, maintenance/construction and Health and Safety legislation Customer loyalty particularly amongst primary schools Customers trust the Council brand over external contractors Focused on delivering a high level of customer service 		<ul style="list-style-type: none"> Building Maintenance Framework Contract does not suit operational needs of the business unit and management of the contract needs to improve Unit is income funded which means that sub-contracting adds to cost of the job Productivity management of the workforce Lack of performance benchmarking Not all income is recovered Customer demand outweighs workforce capacity Lack of industry standard scheduling and facilities management technology Lack of capital investment in properties Risk of non compliance with Statutory Obligations for Health & Safety contract management Schools could become dissatisfied with levels of communication and service provided, resulting in a loss of customers 		
Opportunities		Threats		

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<ul style="list-style-type: none"> • Pursuing income from schools, small businesses, private dwellings and other Local Authorities • Growing the trades team to insource work • Improve Service Desk and restructure service to meet customer requirements • Closer collaboration with framework partners to improve outcomes and minimise costs • Review of directorates and integration of teams carrying out duplicate functions • Modification of building maintenance framework contract 	<ul style="list-style-type: none"> • Reducing maintenance budgets • In light of budget cuts customers could lose patience with paying an uplift for professional advice from the service on top of the uplift applied by the contractor, resulting in a loss of customers
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2.6 Economic Development Directorate As-is Summary

2.6.1 Projects, Design and Development

Service Title	Projects, Design and Development			
Service Description	Delivery of design and project management for the capital programme and other non-housing construction projects on behalf of the Council			
Statutory Services Provided	<ul style="list-style-type: none"> None of the services provided are a result of any statutory obligation 			
Non-Statutory Services Provided	<ul style="list-style-type: none"> Design functions offered by the service support the Council's Asset Management Strategy which seeks to preserve and improve the existing building stock There is an established Council policy and set of procurement rules that state that in-house services for the design of Capital works must be used in the first instance 			
Customers and Volume of Demand	<ul style="list-style-type: none"> 320 projects per year ranging from a structural survey to multi million pound schemes; such schemes can take years to develop from inception to completion Currently the majority of design and project management work relates to the Schools Organisational Planning Programme which is expected to last until at least 2018/19 			
No. of FTEs (01/04/15)	<ul style="list-style-type: none"> 47 			
Budget/Variance (£000's)	Gross Budget	Total Income Budget (Internal, Grant and External)	Net Expenditure Budget	Variance Against Initial Budget
2014/15	3,096	3,137	-41	-42
2015/16	2,016	2,016	0	-
Strengths		Weaknesses		
<ul style="list-style-type: none"> Delivery of a quality, professional service with a satisfied end user customer base Operates with a trading account and is a cost neutral self sufficient service Fees charged are competitive Continual Improvement is embedded within the service Employees have extensive knowledge and experience Databases are in place to track current building stock and site ground conditions 		<ul style="list-style-type: none"> Some clients do not understand the design and construction process , and need to be educated to help avoid additional costs and delays In 2013/14 internal client satisfaction was below target level of 75% , this has since been addressed A benchmarking exercise from a few years ago showed that the service may not be the most economical route for the Council to use where schemes exceed £5 million in value 		
Opportunities		Threats		
<ul style="list-style-type: none"> Potential collaborative working with other Local Authorities to provide a design service and generate income for Cardiff Council Merge Cardiff with another Local Authority or Local Authorities to deliver design and project management functions 		<ul style="list-style-type: none"> Improving market conditions could result in a loss of employees, due to more attractive employment opportunities elsewhere which the Council can not compete with 		

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2.7 Summary of Service Improvements Required

2.7.1 Following completion of the Service Review's, the Operational Manager's were requested to prepare Improvement Plan's for each service in scope of the project. The primary objectives of this work were to identify saving opportunities for input into the budget setting process with a particular focus on the 3 year MTFP period commencing in 2015/16, and also provide cost saving projections for the Modified In-house Alternative Delivery Model which is one of the five models being considered by this Outline Business Case, based on such service improvement plans. It was also intended that the improvements plans address issues that were identified in the Service Reviews.

Indications of the types of Service Improvements identified by the service areas are included in the High Level Financial analysis in section 2.9.3 of this Outline Business Case.

2.8 Overview of Alternative Delivery Models Being Considered

2.8.1 Establishment of Short List of Alternative Delivery Models

2.8.1.1 The following seven alternative delivery models (ADMs) were initially researched and appraised:

- Modified in-house service delivery
- Establishment of wholly owned arms Length Company
- Public/Public Corporate Joint Venture
- Public/Private Corporate Joint Venture
- Social Enterprise (Co-operatives and mutuals)
- Collaboration (Shared Service Agreement)
- Outsourcing

2.8.1.2 This initial appraisal work raised concerns regarding whether some of these models could realistically deliver against the challenges faced. As identified within the Project Objectives (section 1.3), a key consideration is the time required for the chosen model to be implemented and thereafter deliver against its objectives. With reference to Cardiff Council's previous and ongoing collaboration work with other nearby Councils (Prosiect Gwyrdd - collaboration with Newport, Monmouthshire, Caerphilly and Vale of Glamorgan Council's for the procurement of residual municipal waste treatment facilities , and the Regulatory Services project – collaboration with the Bridgend and Vale of Glamorgan Council's for the provision of regulatory services across the three Council areas), the Project Team believed that the adoption of Shared Services type of collaboration, on its own, at the current time, would not give certainty to Cardiff Council in addressing its critical challenges, in particular, the achievement of cost savings within the MTFP period. However, it was recognised that this did

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not mean that other collaboration opportunities would not be explored in respect of whichever model is ultimately adopted

2.8.1.3 Additionally, the research did not identify any significant social enterprise spin-out models previously established by Councils to deliver any of the services covered by this project (although Sunderland was understood to be currently in the process of developing a mutual approach to deliver similar services), hence no track record for the successful operation of this type of model for the services in scope has been identified. Newly set-up social enterprises can find it difficult to be competitive and win contracts in the short-term, thereby putting the future of such organisations at risk, it is also likely that there would be a c. 18 months set up time. As a result it is considered that the risk in adopting a social enterprise model to address the critical challenges faced by the Council would be too high for any of the services currently in scope. However, it was noted that such a model may be appropriate for the delivery of other Council services, subject to appropriate business analyses being undertaken.

2.8.1.4 Consequently, it is considered that the remaining models had the potential to achieve the project objectives in respect of the services in scope:

- Modified In-house
- Wholly Owned Arms Length Company,
- Public/Public Corporate Joint Venture,
- Public/Private Corporate Joint Venture and;
- Outsourcing

2.8.1.5 On 20th November 2014, the Council's Cabinet approved that this short list of models be subject to further evaluation and a business case analysis to determine the suggested service delivery models for each service in scope.

2.8.1.6 To assist with this, Cabinet also approved the undertaking of a 'soft market analysis' through the publication of a Prior Information Notice (PIN) with a Memorandum of Information in the European Journal. An overview of this exercise is included in Appendix 6 – Soft Market Testing Summary.

2.8.1.7 The following sub-sections provide a brief description of each model being considered and examples of where each model has been implemented. More detailed information regarding each model in respect of the eight evaluation criteria is included can be found on the CIS system under [Commissioning and Procurement/Procedures/Alternative Delivery Model \(ADM\)/002 - Assessment Panel Pack - Part 2](#).

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2.8.2 Modified In-House

Brief Description of Model

Under this model, the Services in Scope continue to be delivered in-house using employees directly employed by the Council. The Services would be redesigned as required through 'leaning' and re-engineering of procedures, policies and processes and using industry best practice technology to become self-sustaining and cost effective, commercially focussed business units.

The commercial trading abilities of an in house model would remain the same as that of the Council, that is, the risk and reward from reshaping the Council would be held by the Council.

In terms of trading and income provision, it should be noted that growth opportunities are not without limit. In this context it should be borne in mind that an Authority has to rely on statutory powers to trade in an activity and it cannot rely on the general power under section 95 Local Government Act 2003 without establishing a corporate vehicle.

Key features of this option include:

- Existing employees remain as Council employees;
- The pension scheme would continue to apply to affected employees;
- Employment costs and liabilities would remain with the Council;
- Management structures and job grading would continue to be consistent with Corporate Job Evaluation principles, and
- Specialist support services for the services (finance, HR, ICT etc.) would continue to be provided by the Council.

A significant amount of work has already commenced regarding the development of a Modified In-House for Cardiff. The work includes the preparation of In-house Improvement Action Plans for each service in scope with financial and other benefits being identified. Further information on these plans is provided on a service by service basis in section 2.9.3 below.

A significant In-house improvement project already under away is the Neighbourhood Management Services project. The Services involved include Parks Maintenance, Street Cleansing, and Waste Enforcement, which are in scope of this project. The objectives of this work are to provide an improved land and street scene service, whilst delivering cost efficiencies and improved customer satisfaction and maintaining resilience to service performance during significant budget cuts. This will be achieved through service delivery becoming more responsive to the needs of the community and allowing employees to have more autonomy in addressing these needs. Following a detailed resource analysis with Value Stream Analysis and rapid improvement events with frontline operational teams, a pilot commenced in the South West Neighbourhood Management area (comprising the wards of Riverside, Canton, Caerau and Ely) in February 2015. Early feedback from a service delivery and workforce point of view has been positive and in June, this approach was rolled out to the Cardiff West and Cardiff City and South Neighbourhood Management areas. It is

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intended to expand this new way of working across the other three neighbourhood areas by September 2015. In addition to improving service delivery, this initiative is expected to save the Council c£1.6m per year going forward.

Another improvement of note is being achieved in Highways Operations on the back of a Director led Engagement Programme initiated in 2014/15. The focus of the programme has been to improve communications, improve relations between management and frontline staff, and thereby improve performance. The success of the engagement programme, although ongoing, can be seen through improvements in service delivery flexibility and also performance. For example, the completion of Category 2 safety repairs to the highway (within 28 days) increased from 48.69% in July 2014 to 97.26% in March 2015.

Also, the Education Cleaning resources have now been fully integrated within Facilities Management Cleaning Services function. This has been done to improve operational efficiencies and standardise service delivery processes. A strong commercial focus is being targeted with the objective of achieving commercial growth through providing services to other public sector organisations during this financial year and beyond.

Examples of Councils that have adopted an In-House Model

- Oxford City Council – Oxford Direct Services was established in 2011 to deliver a range of front line operational services (including Environmental), with an instilled commercial ethos using trade to offset budget cuts. Benchmarking and market testing has been used to improve the productivity of employees and to ensure that the in house operation provides the Council with best value, for example Waste Collection operations were put out to tender and won by the in-house provider. Oxford has also been able to improve performance and competitiveness by coming out of National Terms and Conditions. In 2013/14 Oxford Direct Services beat its turnover target and provided an additional £750,000 surplus to the Council.
- Tameside Metropolitan Borough Council – The Council has transformed its Operations and Green Space services (street cleansing, grounds maintenance, countryside, arboricultural and horticultural works) from the bottom up to meet budgetary pressures. In working with employees and adopting a zonal approach to work, the service was able to deliver a 25% (c. £1,000,000) cost saving in 2013/14 and a 42% cost saving since 2011. Cost reductions have been achieved by creating a more productive multi-skilled workforce in addition to reduced employee and management numbers, as well as reduced numbers of vehicles and depots. The service has still been able to maintain previous levels of service, supplemented by 20,000 hours of unpaid work from the Probation Service, Youth Offending Service and Routes to Work Charity.
- East Ayrshire Council – The Council which already possesses a good cleaning function has recently trialled a new approach to achieve further efficiencies. By utilising Bio Active cleaning products they have been able to improve productivity, customer satisfaction, health & safety and achieve high environmental standards. The new approach has increased productivity by an estimated 15% which has presented the Council with a £150,000 saving opportunity for employee costs plus a potential extra £12,000 saving for cleaning supplies.

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2.8.3 Establishment of a Wholly Owned Trading Company

Brief Description of Model

Under this model, the Services within scope would be delivered by a trading company set up and wholly owned by the Council in accordance with Section 95 of the Local Government Act 2003.

The main effect of this is to enable Councils to trade with the private sector (subject to the limits set out below) in respect of function related activities for a profit and enter into commercial contracts. The profits would then go back to the Council through dividends or rebates on service charges. The Company would need to ensure that it has, or can acquire, the commercial skills and capability that would be required to ensure that it could take advantage of the new trading freedom.

If the Council satisfies the provisions of the "Teckal exemption", then it may 'passport' work to the company without following a formal procurement process. For the company to benefit from the "Teckal exemption", the following criteria must be satisfied:

- a) the trading company must be wholly owned by the public owned authority, and there can be no private ownership or interest in the company;
- b) the local authority exercises a control which is similar to that which it exercises over its own departments, and
- c) the trading activity of the company must not exceed 20% of the turnover of the company, that is, 80% or more of the activity of the company must be for its public sector owners.

The Council's employees would transfer to the new company through the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) meaning that their existing Terms and Conditions would be protected. However, as with other models, the non-contractual elements of employment under the wholly owned company model would be structured towards improving organisation performance and service delivery.

As with the In-House model, the Services would need to be redesigned as required through 'leaning' and re-engineering of procedures and processes to become self-sustaining and cost effective, commercially focussed business units.

The Wholly Owned Company would have an independent board (which could include representatives from the Council as well as company employees) and be accountable to the Council and the company through contractual and Company governance arrangements.

The Council would have contractual arrangements with the Company and would be a 100% shareholder.

Based on discussions with other Councils, these arrangements would typically take 9 -12 months to establish. However, a transitional bedding-in period would be required (approximately 12 months) before significant improvements would start to be achieved. The cost of set up, based on

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discussions with recently established similar organisations, could be in the region of £500,000 however this is likely to be a significantly greater figure if a large number of services are involved.

Examples of Councils that have Established Wholly Owned 'Teckal' Companies

- Cheshire East Council – set up ANSA Environmental Services Ltd in April 2014 to delivers its waste, street cleansing, grounds maintenance and fleet management services with a savings target of 10% over the first 5 years of operation. Recent reports suggest that ANSA is on track to deliver the agreed £1,300,000 level of saving for the first year of operation.
- Cheltenham Borough Council and Cotswold District Councils – set up Ubico Ltd in 2012 to deliver their waste, cleansing, grounds maintenance and fleet management/maintenance operations. In the first 2 years of operation the Company has delivered £2,500,000 in savings and is forecast to deliver £5,000,000 over the first 5 years of operation.
- Cornwall Council – In 2012 the Council's Neighbourhood Services were transferred to Cormac Solutions Ltd and Cormac Contracting Ltd both of which were newly formed Wholly Owned Companies. These companies have proceeded to deliver highways maintenance, highway design, grounds maintenance, property services, cleaning and caretaking, fleet management/maintenance and quarry services both for the Council and for tendered work from clients. Cormac has been successful in its initial years of operation making efficiency improvements, investing in the services/workforce and increasing income levels. In 2013/14 Cormac was able to return a £6,000,000 dividend back to the Council after 2 years of operation.
- Norfolk County Council – established Norse Group Ltd which now comprises three subsidiaries: NPS Group Ltd, Norse Commercial Services Ltd and Norsecare Ltd. These subsidiary companies have separately established a number of Joint Ventures with other Council's across the UK.

2.8.4 Establishment of a Corporate Joint Venture with another Public Sector Organisation

Brief Description of Model

Under this model, the Services in scope would be delivered by a Company setup by the Council and another Public Sector Organisation, typically by using powers under Section 95 of the Local Government Act 2003.

The Company would have an independent board (comprising representatives from Council and the Joint Venture partner) and be accountable to the Council and Joint Venture partner through contractual and Company governance arrangements.

The Council would have contractual arrangements with the Company and there would be shareholder or partnership agreements with Joint Venture partner.

The soft market testing undertaken indicated that there are other public sector based organisations in the market place that would be interested in partnering with Cardiff Council to deliver the services within scope.

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As the model remains wholly within the realms of the Public Sector, the Company established will satisfy the provisions of the “Teckal exemption” subject to the criteria stated in the previous section being satisfied thereby allowing the Council to ‘passport’ work to the company without following a formal procurement process.

If the Teckal” exemption criteria are satisfied, the Company could benefit from trading with the private sector in respect of function related activities for a profit and enter into commercial contracts. However, the cumulative value of these contracts can not exceed 20% of its turnover if the ‘Teckal’ criteria are to be satisfied. Profits generated from this activity would then be passed back to the Council as a rebate or dividend, through profit share arrangements with the Joint Venture Company (profit share arrangements are subject to negotiation but tend to be 50:50).

The Council’s employees would transfer to the new company through the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) meaning that their existing Terms and Conditions would be protected. However, as with other models, the non-contractual elements of employment within the Joint Venture Company model could be subject to changes aimed at improving performance and service delivery.

Risks associated with improved performance, redesign of service delivery and more commercial activity would be shared with the Joint Venture partner. A suitable partner would also provide access to external expertise and resources that might be required to ensure that the Company addresses its budget and key service delivery challenges.

Examples of Other Councils that have Established a Corporate Joint Venture with Another Public Sector Organisation

Norse Commercial Services (part of the Norse Group, which is wholly owned by Norfolk County Council) is an example of a public organisation that has entered into joint ventures with over 20 other Councils. Examples of Councils it has formed joint ventures with include:

- Newport City Council formed Newport Norse in 2014 for the delivery of Property, Cleaning and Facilities Management Services. A ten year contract has been signed with Norse worth £73 million and the initial business case identified a potential £1.3 million saving over the first five years of the contract.
- Waveney District Council formed Waveney Norse in 2008 for the delivery of a range of services including Waste Collection, Street Cleansing, Grounds Maintenance, Fleet Management and Car Parking. A fifteen year contract was signed with Norse and representatives of Waveney Council estimate that £2.25 million savings have been generated since 2008/9 and £250k worth of savings had been forecast for 2014/15.
- Borough Council of Wellingborough formed Wellingborough Norse in 2012 for the delivery of a range of services including waste collection, street cleansing, parks and cemetery maintenance, civic building facilities management and public toilets. A ten year contract was signed with Norse worth £50 million and was profiled to deliver a saving of £2.4 million over the first five years.

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Cormac Ltd is currently in discussion with Nottingham Council regarding the establishment of a Public Sector Joint Venture to manage and deliver the Council's highway services.

2.8.5 Establishment of a Corporate Joint Venture with a Private Sector Organisation

Brief Description of Model

Here, the services in scope would be delivered by a Company setup by the Council and a Private Sector Organisation, typically by using powers under Section 95 of the Local Government Act 2003.

The Company would have an independent board (comprising representatives from Council and the Joint Venture partner) and be accountable to the Council and Joint Venture partner through contractual and Company governance arrangements.

The Council would have contractual arrangements with the Company and there would be shareholder or partnership agreements with the Joint Venture partner.

A formal procurement process would need to be compliant with the Council's tendering rules, and the subsequent Joint Venture Agreement would need to include the agreed terms and conditions of contract, a specification setting out the services included, financial arrangements, and standards required. If the competitive dialogue procurement process was followed, the procurement could take 18 – 24 months (but shorter if using restricted or open procedure which may be applicable for simple competition on delivery of specified services) and be relatively expensive with the Council being responsible for these costs. The soft market testing undertaken indicated that there are commercial organisations in the market place that would be interested in tendering for the delivery of services within scope as Joint Venture partner with the Council.

As the model has a Private Sector partner, the Company established would not satisfy the conditions for "Teckal exemption". Therefore the Private Sector partner would need to be procured and awarded the contract to carry out the services as part of a procurement exercise. This model however does not limit the amount of trading that the company can do in external markets.

Any profits generated by the company would then be passed back to the Council as a rebate or dividend, through profit or super profit share arrangements with the Joint Venture Company. Profit share levels tend to be 50:50 but can be different depending on the amount of resource and investment each party has contributed and would be subject to negotiation.

The Council's employees would transfer to the new company through the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) meaning that their existing Terms and Conditions would be protected. However, harmonisation opportunities might arise through employees choosing to adopt the partners Terms and Conditions or if employees take on new roles. Also, as with other models, the non-contractual elements of employment within the Joint Venture Company model could be subject to changes aimed at improving performance and service delivery.

Risks associated with improved performance, redesign of service delivery and more commercial activity would be shared with the Joint Venture partner. If a suitable partner is secured then the

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Council would also have access to external expertise and resources that might be required to ensure that the Company addresses its budget and key service delivery challenges.

The Council's ability to vary the budget provided to the JV on an annual basis would be built into the services agreement. As the Council would be a partner to the company and not the whole owner, its control over the company and ability to 'flex' its requirements would be less than if it wholly owned the company.

Examples of Councils that have set up a Corporate Joint Venture with a Private Sector Organisation

- London Borough of Barnet has established the Regional Enterprise Ltd joint venture with Capita plc in 2013. The partnership is responsible for the delivery of development and regulatory services including building control, highways services and cemetery/crematorium services. The partnership is guaranteed to deliver £39 million benefit to the Council through income and savings over the 10 year contract length.
- London Borough of Harlow Council entered into a joint venture with Kier in 2007 to deliver Building Maintenance and Environmental services. In the first 2 years of the contract cashable savings of £3.2 million were realised, with total savings of an estimated £12.8 million over the initial seven year contract. In 2012 the joint venture partnership with Kier was extended for a further 5 years until 2017 where an estimated £4.41 million will be saved.
- Amey established a joint venture with North Lanarkshire Council in 2000 to deliver road, lighting and winter services. The partnership was renewed in 2010 and since it started in 2000, £10 million has been returned to the Council in dividends.

2.8.6 Outsourcing

Brief Description of Model

This model would involve the Council contracting the delivery of the services to another (usually private) organisation whilst retaining overall ownership and ultimate responsibility for the delivery of the services. The contracted organisation (Contractor) would deliver services to the Council in accordance with appropriate specifications identified within a commercial contract.

A formal procurement process would need to be compliant with the Council's tendering rules, and any arrangement entered into with a contractor would be subject to the Council's terms and conditions of contract, including a specification setting out the services included, financial arrangements, and standards required. If the competitive dialogue procurement process was followed, the procurement could take 12 – 18 months (but shorter if using restricted or open procedure which may be applicable for simple competition on delivery of specified services) and be relatively expensive with the Council being responsible for these costs. The soft market testing undertaken indicated that there are commercial organisations in the market place that would be interested in tendering for the delivery of services within scope.

The Council's employees would transfer to the new company through the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) meaning that their existing Terms and Conditions

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would be protected. However, as with other models, the non-contractual elements of employment within the Joint Venture Company model could be subject to changes aimed at improving performance and service delivery.

On employee transfer to the commercial sector the Council's legal and HR responsibility ceases on the transfer date, as long as all liabilities have been discussed and disclosed between the parties to the transfer.

The HR principles are common to all options involving employee transfer to an external body:

- Where services are transferred to an external body, employees will normally transfer to that body under TUPE - Transfer of Undertakings (Protection of Employment) regulations.
- Where the transfer is to a commercial organisation additional TUPE requirements need to be met under the Code of Practice on Workforce Matters.
- One of the key principles of the code of practice is that any external body should be able to demonstrate the ability to provide conditions of service, which are not less favourable than those provided by the Council.
- Where employees transfer to a new employer under TUPE, the new employer must either provide a "broadly comparable pension scheme" or apply to join the Local Government Pension Scheme (LGPS) as an "Admitted Body".

Examples of Council's that have Outsourced Infrastructure Type Services

- Epping Forest District Council – In 2014 Biffa Ltd were awarded a 10 year contract worth £50 million for recycling, refuse collection and street cleansing. This contract is expected to deliver the Council a £400k saving per annum when compared to their previous contract.
- Oxfordshire County Council – in 2012, Carillion was awarded a 10-year contract for the provision of property and facilities management services worth up to £500 million. The reported savings to the Council are £550,000 per annum.
- North Tyneside Council – in 2012 awarded a 15 year contract worth £152 million to Capita Symonds for the delivery of highways engineering, traffic and transportation planning, properties and facilities management, planning and building control and environmental health services. When the contract was signed it was estimated that Capita Symonds would be able to provide at least £41 million in savings to the Council.

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2.9 Evaluation of Alternative Delivery Models

2.9.1 Introduction

A simple but robust process has been developed for the appraisal of the alternative delivery models. It comprises:

- the application of a corporate evaluation methodology;
- a high level financial analysis, and
- the consideration of a number of other key factors.

The options appraisal process is set out in sections 2.9.2 to 2.9.4 below.

2.9.2 Corporate Evaluation Methodology

2.9.2.1 To assist with the evaluation of alternative delivery models being considered by the Council as part of its Organisational Development Programme, a Corporate Alternative Delivery Model Evaluation Methodology has been developed by its Commissioning and Procurement Service. This methodology has been approved by the Project Enablers and Commissioning Programme Board and reviewed by Informal Cabinet and the Council's Policy Review and Performance Scrutiny Committee. It, together with the other elements of the options appraisal, has also been subject to external challenge and review by Local Partnerships and subject to detailed consultation with the Trade Unions. A summary of the process and its application to this project is provided in sub-sections 2.9.2.2 to 2.9.2.6 below.

2.9.2.2 The evaluation methodology involves three key elements:

- scoring each alternative delivery model against eight evaluation criteria;
- the allocation, by each service, of weightings (of cumulative value 100) reflecting their relative priorities against the eight evaluation criteria, and
- multiplying the "model scores" against the "service area weightings" to determine the weighted score for each model for each service.

2.9.2.3 The eight criteria, which link to the high level Organisation Development objectives referred to in paragraph 1.3 above, are detailed in Table 2 below:

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Table 2: Alternative Delivery Model Evaluation Criteria

Organisation Development Objective	Criteria Ref	Question Asked When Assigning Weighting to Service	Question Asked When Assigning Model Score
		How Important is that the chosen model for the service delivery will allow the Council...	How able is the model to...
Reducing Operating Costs	1	... to transfer risk in respect of cost reductions	... transfer risk for achieving cost savings away from the Council?
	2	... to exploit income opportunities for its benefit	... exploit income generation opportunities for the Council's benefit?
Improved Customer Satisfaction and Demand Management	3	... to maintain influence and control over day to day decision making	... maintain influence and control over day to day decision making?
	4	... flexibility to change service scope and delivery specifications in future years	... easily change service scope and delivery specifications in future years?
Improved Outcomes and Performance	5	... to transfer risk in respect of operational performance	... transfer risk in respect of operational performance?
	6	... to transfer risk in respect of repaying financial investment (if required)	... transfer risk in respect of repaying financial investment (if required)?
	7	... to transfer the risk to improve service delivery performance and increase capacity	... transfer the risk to improve service delivery performance and increase capacity?
Design and Delivery	8	... to realise benefits within the short term.	... realise benefits in the short term?

2.9.2.4 The scoring of each alternative delivery model against the eight evaluation criteria was completed by the Project Team, subject to challenge by Local Partnerships, and approved by the Project Enablers and Commissioning Board. The model scores are included in Appendix 2 – Output from the Corporate Evaluation Methodology.

2.9.2.5 The allocation of weightings (of cumulative value 100) according to the priorities for each service against the eight evaluation criteria was initially undertaken by the relevant Operational Managers and then subject to challenge by the Directors, Union Representatives and also externally by Local Partnerships. These weightings are included in Appendix 2 – Output from the Corporate Evaluation Methodology.

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2.9.2.6 The weighted scores for each alternative delivery model for each service in scope, determined by multiplying the models scores by the services area weightings for each criterion are reported in Appendix 2 – Output from the Corporate Evaluation Methodology. A summary is provided in Table 3 below:

Table 3 – Alternative Delivery Models scores for each Service (Based on Evaluation Matrix Methodology Only)

Directorate	Service Area	First	Second	Third	Forth	Fifth
Environment	Waste Collection	Pub/Pub JV (375)	Pub/Priv JV (365)	Out (330)	WOC (315)	MIH (305)
	Street Cleansing	Pub/Pub JV (375)	Pub/Priv JV (365)	Out (330)	WOC (315)	MIH (305)
	Waste Education and Enforcement	Pub/Pub JV (367)	Pub/Priv JV (351)	MIH (331)	WOC (327)	Out (313)
	Waste Treatment and Disposal	Pub/Pub JV (385)	Pub/Priv JV (365)	WOC (325)	MIH (325)	Out (315)
	Pest Control	Pub/Pub JV (395)	MIH (385)	WOC (370)	Pub/Priv JV (370)	Out (255)
Strategic Planning, Highways, Traffic and Transport	Highway Operations	Pub/Pub JV (365)	Pub/Priv JV (345)	MIH (340)	WOC (320)	Out (320)
	Highways Asset Management	MIH (400)	Pub/Pub JV (365)	WOC (355)	Pub/Priv JV (330)	Out (275)
	Infrastructure Design and Construction	Pub/Pub JV (400)	Pub/Priv JV (395)	WOC (330)	Out (310)	MIH (295)
Sport Leisure and Culture	Parks Management and Development	Pub/Priv JV (395)	Pub/Pub JV (390)	Out (375)	WOC (305)	MIH (275)
Resources	Central Transport Service	Pub/Pub JV (390)	Pub/Priv JV (385)	Out (330)	WOC (315)	MIH (285)
	Soft Facilities Management - Cleaning (non schools)	Pub/Pub JV (385)	Pub/Priv JV (380)	Out (330)	WOC (320)	MIH (300)
	Soft Facilities Management - Security and Portering	Pub/Pub JV (380)	MIH (360)	Pub/Priv JV (350)	WOC (340)	Out (270)
	Hard Facilities Management	Pub/Priv JV (395)	Pub/Pub JV (390)	Out (355)	WOC (310)	MIH (275)
Economic Development	Projects Design and Development	MIH (410)	WOC (400)	Pub/Pub JV (400)	Pub/Priv JV (370)	Out (230)

Model Key	
Modified In-House	MIH
Wholly Owned Company	WOC
Public/Public Joint Venture	Pub/Pub JV
Public/Private Joint Venture	Pub/Priv JV
Outsourcing	OUT

2.9.3 High Level Financial Analysis

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In order to undertake the high level financial analysis, it was necessary to make a number of assumptions regarding each model. These assumptions were informed from evidence obtained from the Soft Market Testing exercise, in particular the one to one meetings with potential bidders, and from further direct conversations with relevant organisations including as part of the Scrutiny Task and Finish Group site visits. In addition they have also been the subject of further discussions with Local Partnerships. Nevertheless, as with all financial modelling, there is an inherent risk with the assumptions made that should also be tested. The results derived from the model were therefore used as part of the package of evaluation tools and not the sole determinant of the preferred model. The assumptions relate to the following factors:

- Implementation timescale;
- Efficiency savings;
- Income generation;
- Overheads;
- Company related costs;
- Procurement and Implementation costs;
- Client Management costs;
- Taxation, and
- Reductions to Council Support Services.

Information regarding the assumptions made in respect of each of the above headings is enclosed in Appendix 3 – High Level Financial Analysis Assumptions.

The models were evaluated over a 12 year period to allow for a 2 year procurement / mobilisation period and a 10 year operational period, commensurate with the contract period which would be typical of the Joint Venture and outsourcing arrangements.

For the modified in-house model, the saving assumptions are derived from the savings plans prepared by the Operational Managers for the 3 year MTFP period commencing in 2015/16, pursuant to the Service Improvement Plans. For 2015/16, the additional savings over the agreed 2015/16 budget proposals were captured. A summary of the savings proposed for each service over this 3 year period for the categories identified below is provided in Table 4 below.

Table 4: Summary of In-house Savings for period 2015/16 to 2017/18

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	Directorate	Pay Enhancements / Working Practices	Policy Change Enablers	Income	TOTAL
Service	£'000	£'000	£'000	£'000	£'000
Waste Collection	31	729	224	40	1,024
Street Cleansing	0	258	44	0	302
Waste Education & Enforcement	90	15	0	0	105
Waste Treatment & Disposal	150	63	0	5	218
Pest Control	0	0	10	20	30
Highway Operations	1471	99	100	26	1,696
Highways Asset Management	20	0	0	0	20
Infrastructure Design & Construction	52	8	0	0	60
Parks	25	126	0	0	151
Central Transport Service	75	25	0	105	205
Cleaning non-schools, Security and portering	10	20	0	70	100
Hard Facilities Management (excluding Housing)	0	0	0	0	0
Projects Design & Development	5	17	0	0	22
TOTAL ADM	1,929	1,480	378	266	4,053

It can be seen from this table that the In-House savings have been identified within the categories of:

- 'Directorate' – that is, saving proposals unique to the services within scope (for example improving productivity of operational teams);
- 'Working practices' and 'Pay Enhancements' - that is, savings arising from changes to current working practices that adversely affect work productivities and efficiencies as well as that is savings arising from changes to the current pay enhancements. For legislative reasons, the changes to Pay enhancements would affect all Council employees and not just those within scope of this project;
- 'Policy Change Enablers (that is, changes to some existing Council policies, for example, the Attendance and Wellbeing Policy), and
- 'Income' – that is, growth of existing income streams and/or income from new trading activities. The amounts identified in the above table refer to the surplus arising from the trading activities (that is income minus costs).

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It is important to emphasise that a significant element of the savings identified in Table 4 were identified as opportunities in the Councils Medium term financial Plan (MTFP) 2015-2017-18 as part of the Budget setting for 2015/16. These have been enhanced by additional savings over the MTFP period. The proposed Budget Strategy for 2016/17 (subject of a separate report) included a reshaping budget exercise that informed Directorate target setting for the 16/17 to 18/19 period, reflects this over the period covered. Therefore this alternative delivery model is a means to securing those benefits projected, and so these are not additional savings. It should also be noted that as the Budget Strategy evolves the services in scope may be subject to other budget reductions including those linked to reductions in service. These savings will be subject to full negotiation with staff and Trade Unions as part of the FBC/budget consultation stages and subject to approval of the recommendations of this report.

It should be noted that in the high level financial analysis, it has been assumed that the In-House saving proposals would also be fully implemented for the Wholly Owned Company alternative delivery model.

A summary of the high level financial analysis is included in the table below which sets out the projected net savings over current costs both in cash benefit and Net Present Value (NPV) terms over the 12 year evaluation period for each of the models. Further details of the assumptions underpinning the financial projections for each of the alternative delivery models are provided in appendix 3 – High Level Financial Analysis Assumptions.

Table 5: Summary Financial Appraisal over a 12 year period

Model	Cash benefit		NPV benefit	
	£m	Rank	£m	Rank
Modified In-house	12.524	4	10.513	4
Wholly Owned Company (Teckal)	17.089	1	14.394	1
Public Public Joint Venture	14.617	3	12.296	3
Public Private Joint Venture	15.088	2	12.455	2
Outsource	11.964	5	10.463	5

Based on the analysis undertaken, the Wholly Owned Arms-length Company model is projected to achieve the greatest financial benefit to the Council over the evaluation period.

Sensitivity Analysis

The paragraphs above have highlighted the number of assumptions that have been used in the construction of the summary financial model. To model the impact of changing some of these assumptions a number of different scenarios and combination of scenarios have been run. The results of this sensitivity analysis are included in Appendix 5 with a summary being provided in Table 6 below:

Table 6: Sensitivity Analysis – Summary of Results

SENSITIVITY	Highest Ranking Model	NPV Benefit £000's
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BASE CASE	WOC	14.394
1. External Partner : Efficiency increase of 10%	WOC	14.394
2. External Partner : Turnover increase of 10%	WOC	14.394
3. In-house / WOC : Reduce efficiency savings by 25%	Private JV	12.455
4. In-house / WOC : Reduce efficiency savings by 50%	Private JV	12.455
5. External Partner : Reduction in Overhead to 3.5%	WOC	14.394
6. In-house / WOC : Implementation Costs increase of 100%	WOC	13.944
7. Combination of 1,2,3,5 and 6	Private JV	15.145
8. Combination of 1,2,4,5 and 6	Private JV	15.145
9. Combination of 1,2,5 and 6	Private JV	15.145
10. Combination of 1,2 and 5	Private JV	15.145

The conclusion from Table 6 above is that with most of the single variable scenarios the Wholly Owned Company model is still the best option in terms of the delivery of projected savings to the Council over the evaluation period. There are however a number of scenarios in which the Wholly Owned Company model is displaced as the best option by the Public Private JV model. Of these scenarios the non-achievement of in-house (and by implication the Wholly Owned Company) savings are the most significant assumption.

As part of the high level financial analysis work undertaken, an assessment of the income currently earned by the services in scope was also completed. In summary, for the 2015/16 financial period, of the c£72.8m gross budget, the total income budget is c. £43.7m (c60%) comprising internal income, grants, external income, and 'other (e.g. income from the Housing Revenue Account and Harbour Authority). The value of external income budgeted is c£8m (c.11%).

2.9.4 Other Factors

The options appraisal also considered the following other factors for each alternative delivery model:

- commercialisation opportunities;
- implementation period;
- contract period (where applicable);
- extent that the model has been adopted by other Council's for the services in scope;
- impact upon the employment status of employees, organisation governance;
- organisational governance;
- client management;
- political support;
- union support;

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- Cardiff residents support;
- Financial and contractual flexibility;
- Strategic control, and
- Flexibility for Collaboration agenda and other Council engagement for services

The Political and Union support was determined through dialogue with the Council's Cabinet and Trade Unions respectively during the latter stages of the preparation of this Outline Business Case. The Cardiff residents support was determined through the Cardiff Debate consultation and engagement process undertaken in December 2014/January 2015, the results from which were included with the 2015/16 budget report approved by Cabinet on 26th February 2015. See Appendix 7 – 'Changes for Cardiff' 2015/16 Budget Consultation: Questions and Responses.

A high level summary of these factors is shown in Table 7 below. A more detailed summary is included in Appendix 5- Summary of 'Other Factors' Considered in Assessment of Alternative Delivery Models.

Table 7 - High Level Summary of 'Other Factors' considered in Assessment of the Alternative Delivery Models

	Modified In-House	Wholly Owned Company with Teckal Exemption	Corporate Public JV with Teckal Exemption	Corporate Private JV	Outsourcing to a private operator
Commercialisation Opportunities	Limited by statute and ability to make a surplus/profit	Limited to 20% of turnover of Company activities	Limited to 20% of turnover from JV Company activities. JV partner would provide commercial expertise. Profit would be shared.	Unlimited. Profit would be shared	Unlimited. However, sharing of benefits would have to be contracted.
Implementation Time	Min 9 months timescale for full implementation	9-12 months implementation timescale	12 - 18 months implementation timescale	18-24 months implementation timescale	12-18 months implementation timescale
Indicative Contract Period (if applicable)	Not applicable but performance would need to be regularly reviewed	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle)	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle)	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle)	7-10 years minimum, dependant on the specific investment requirements of each service (or bundle)

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Extent Adopted by Other Councils	Numerous examples of such service provision across all service areas	Recent examples in respect of environmental services	Numerous examples in respect of most services except highways but limited Public companies offering JV's for services in scope	Numerous examples for services in scope	Numerous examples for services in scope
Impact upon employee employment status	No change to employment status	Council employees would transfer under TUPE	Council employees would transfer under TUPE	Council employees would transfer under TUPE	Council employees would transfer under TUPE)
Organisation Governance	Current Governance and democratic accountability arrangements would continue	Through company Board typically comprising Council Members/Senior Officers, and Company Senior Employees and Commercially experienced Non Executive Directors	Through JV Board typically comprising Council Members/Senior Officers (likely to be in minority) and JV Partner Senior Employees	Through JV Board typically comprising Council Members/Senior Officers (likely to be in minority) and JV Partner Senior Employees	Through relevant provisions within the agreed contract
Client Management	No change	Proportionate client role require	Enhanced client role required	Enhanced client role required	Full client role required
Political Support	High	High	Medium	Low	Low
Union Support	High	Medium	Low	Low	Low
Cardiff Residents Support*	Preferred Model	Second Preferred Model	Third Preferred Model	Fourth Preferred Model	Least Preferred Model
Financial and contractual flexibility	High	High	Medium	Medium	Low
Strategic Control	High	High	Medium	Medium	Low
Flexibility for Collaboration agenda and other Council engagement for services	Medium	High	Low	Low	Low

2.9.5 Discussion

2.9.5.1 The Corporate evaluation methodology which assesses appetite for risk and control will express the current stakeholder view according to the resources, commercialisation, technology and governance in place.

However, the Cabinet, on the basis of the high level financial analysis undertaken and discussions with Senior Management, is confident that the savings, growth in income and service delivery improvements identified by the Outline Business Case analysis can be delivered in a timely manner without the assistance of an external party, and consequently the associated risk of delivery of these is considered less than that suggested by the model.

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This is reliant on the necessary decisions being made and additional support to establishing a Wholly Owned Company or Improved in House being embedded throughout the Full Business Case stage and beyond. It is essential that dedicated internal resources, strong governance and external commercialisation and company set up expertise are established and maintained to ensure that the delivery of the benefits associated with model being taken are driven through.

The high level financial analysis work undertaken indicates that the Wholly Owned Trading company model is most likely to deliver the greatest financial benefit for the Council. Overall, this model is considered the best opportunity for the Council going forward to:

- retain jobs in the local economy & jobs growth funds;
- offer the best opportunities to staff;
- maintain the public sector ethos;
- retain strategic control whilst allowing more autonomy for day to day delivery of services;
- provide good strategic fit with other ongoing Council Programmes (e.g. Organisation Development and Alarm Response Centre ARC);
- allow all benefits to be retained by Council
- allow establishment and transition between existing and continued In House Improvements smoothly;
- facilitate a faster development of a more commercialised culture and quality of services to residents;
- allow incentivisation of the new Team to drive the business forward, and;
- provide future opportunities for co-ownership or services with other Council's and public bodies.

2.9.5.3 In respect of other factors, key issues from a Cabinet perspective include: the required speed of delivery of change, more operating freedom in respect of governance, innovation, diversification and commercialisation, maintaining the support of key stakeholders and improved employee ownership and commitment (i.e. the John Lewis effect).

2.9.5.4 In conclusion, it is believed that the most appropriate future delivery model for the services within scope of the project is a Wholly Owned Company (Teckal). The key reasons for identifying this option as the preferred future delivery model include:

- Subject to the limitations of the financial model the high level financial analysis undertaken as part of the Outline Business Case work indicates that the Wholly Owned company is most likely to deliver the greatest financial benefit for the Council;
- The Wholly Owned Company can commence operation to allow the Council achieve financial benefits early in the 2016/17 period subject to the necessary implementation actions and identified cost saving decisions being taken;

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- It will retain a public sector ethos and allow the Council to maintain control regarding strategic matters whilst providing day to day operational autonomy to the company. As stated above, one of the reserved matters which could be set out in Council/Company contract, which will include a Service Based Agreement, is the agreement of the annual business plan and budget which will provide the Council with the required flexibility to secure changes regarding budget and service delivery. This is seen to be an important factor by the Cabinet;
- It will facilitate the development of a more commercialised culture and improved quality of service delivery to residents. Progress made over the last year regarding work practice modernisation, multi-skilling and improvement of service delivery as evidenced by the Neighbourhood Services project, provides confidence that the required further improvements can be made within this preferred model of delivery;
- It will provide more commercial freedom and an incentive to effectively build upon and grow the external trading work which is currently undertaken. It is recognised that an injection of commercial expertise will be an important catalyst in respect of achieving sustainable income growth;
- It will ensure that all benefits are retained by the Council;
- It provides an opportunity to invest in and use industry standard systems and technology in the day to day management and delivery of services to suit the company's specific needs rather than the general needs of the Council
- Whilst not perhaps the automatic preferred model of the Trade Unions and employees, it is preferred in relation to the other Joint Venture and Outsourcing options. Also, based on feedback provided from other council's that have established Wholly Owned Trading Companies, it is believed that most employees will be motivated by the new culture created within the new organisation, and
- It fits with the general principles identified by residents as interpreted from the responses received to the Cardiff Debate survey;

2.9.5.5 Additionally,

- It will provide opportunity to incentivise the new Team to drive the new business forward;
- It will retain employee knowledge with the wider Council organisation;

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- The anticipated commercial growth will assist in safeguarding jobs;
- It provides the potential to improve the management of risk and other Council financial liabilities, for example, highway related matters that lead to claims being made against the Council;
- It fits with the strategic objective of the Council of other ongoing Council Programmes (e.g. Organisation Development and Alarm Response Centre (ARC));
 - It provides future opportunities for co-ownership with other council's which is important in respect of the Assembly's current local government agenda, and
 - It provides an appropriate strategic approach to achieving the required improvements, that is, if the key success criteria are not satisfied as determined through the ongoing Gateway Review Process, the necessary Company changes can be implemented or a new alternative delivery model adopted.

2.10 Recommendations for Full Business Case Analysis

- 2.10.1 It is recommended that a Full Business Case be undertaken for the Wholly Owned Company model. This will comprise a detailed analysis of the Wholly Owned Company model and the Modified In-house model as a Public Sector Comparator, culminating in the submission of a report to Council/Cabinet recommending which model should be implemented for the identified services in scope.
- 2.10.2 The completion of the Full Business Case will form part of the ongoing 'gateway process'. Similar to this Outline Business Case, the analysis will follow the Office of Government Commerce (OGC) "Five Case Model", the best practice standard recommended by the HM Treasury for use by Public Sector Bodies when evaluating public sector proposals.
- 2.10.3 At this Outline Business Case stage, it is assumed that a single Wholly Owned Company will be established for all the services within scope. However, this will be considered in more detail in the Full Business Case analysis.

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3. The Financial Case

3.1 Delivery of Operational Savings and Timescales for Realisation

- 3.1.1 A mobilisation period of one year has been assumed from the decision to proceed with the suggested option of a Cardiff Council Wholly Owned Company (WOC), operating under the Teckal exemption, to the Company becoming operational. This is to allow time for the necessary due diligence including but not limited to activities such as zero based budgeting, defining service specifications, defining volumetric data, recording asset and system registers, details of employee scope and considerations, undertaking market analysis. The one year mobilisation period also allows time for the preparation of the Full Business Case (FBC) and the WOC Business plan, as well as the subsequent preparation of the Contract between the Council and the WOC. As identified in paragraph 2.10, this assumes that a single Wholly Owned Company will be established for all the services in scope, however this will be further considered in detail within the Full Business Case
- 3.1.2 A key assumption with the WOC model is that it will achieve the same savings as the modified in-house option plus additional efficiency savings and income generation that derive from the behavioral / cultural impact of introducing a WOC and a more commercial approach. These assumptions are outlined in Chapter 2 – The Economic Case with more detail in Financial Analysis Assumption in Appendix 3. Efficiency Savings are assumed from Year 1 of the operation of the Company with income generation benefits commencing after a delay in year 2.
- 3.1.3 As outlined in 3.1.2 savings from the WOC option are dependent on the Council securing savings from the modified in-house option. In this context the savings from changes to employee policies and pay enhancements as well as productivity improvements from addressing existing custom and practice are especially significant to the success of the WOC.
- 3.1.4 Table 8 below provides an overview of how it is expected savings will be phased over time for both the Wholly Owned Company and the Modified In-House models.

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Table 8: Phasing of savings over 12 years for the Wholly Owned Company and Modified In-House models

	£000s	WOC			In-house		
		Yrs 1-3	Yrs 1-7	Yrs 1-12	Yrs 1-3	Yrs 1-7	Yrs 1-12
		£000s	£000s	£000s	£000s	£000s	£000s
15/16 Gross Expend budget	72,789						
Savings							
Efficiency		(6,060)	(12,140)	(14,942)	(3,787)	(7,487)	(10,622)
Net income		(321)	(1,806)	(6,479)	(266)	(764)	(2,402)
Costs							
WOC costs		577	1,577	2,827	0	0	0
Implementation costs		900	900	900	500	500	500
Contract Management		110	330	605	0	0	0
NET SAVING		(4,793)	(11,139)	(17,089)	(3,553)	(7,751)	(12,524)
NET NPV		(4,532)	(10,047)	(14,394)	(3,386)	(7,015)	(10,513)

3.2 Implementation Costs

- 3.2.1 One advantage of the WOC option is that it avoids procurement or negotiation with a third party. However, as the WOC does not get the benefit of “buying-in” to an established group company structure with proven processes, infrastructure and investment / marketing strategies, significant implementation costs will be incurred. It is projected that implementation / set-up costs of £0.9m will be incurred prior to the WOC becoming operational, allowing for costs associated with potential new commercial IT systems, specialist professional advice – legal, pensions, taxation, etc. necessary in forming a stand-alone company – and other costs such as company branding. This is an area that will be further developed in the FBC and the development of the WOC business plan.
- 3.2.2 The implementation costs associated with the WOC are not currently provided for in the Council’s budget. Resources will need to be identified for any costs falling in the 2015/16 financial year, for example from relevant reserves, and adequate provision identified in the 2016/17 Budget to finance these costs. This may include both revenue and capital resources.
- 3.2.3 The OBC does not include any costs associated from the WOC requiring a working capital loan from the Council as the assumption with regard to contract payments is that the Council will be invoiced in advance by the WOC. This is an arrangement that has been adopted by a number of other WOC/Teckals. The FBC will include consideration of the Payment Mechanism to be included in the Contract between the WOC and the Council which will determine if this proposed arrangement is appropriate. FBC cash flow modelling will determine if any additional or replacement working capital facilities are required and the costs associated with them.

3.3 Corporate Management Cost

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- 3.3.1 The underlying assumption is that direct employees, including operational management, will be included as part of the TUPE transfer from the Council to the WOC. A key factor behind the success of the WOC will be the imbedding of a more customer focused, commercial approach to the delivery of the services. To facilitate this cultural and behavioural switch the Outline Business Case (OBC) financial projections include a provision for the recruitment of two commercially focused posts for the Managing Director and Business Development roles in the WOC, and the appointment of non-executive directors to the company's board.
- 3.3.2 As a contractual relationship will exist between the Council and the WOC the OBC financial projections also include an allowance for Client Management costs. This is assumed to be relatively "light touch" compared to the arrangements involving an external partner and has been informed by the experiences of other local authorities operating WOC (Teckals). Further work will be undertaken during the FBC to develop a management structure for the company that is appropriate for the services in scope for this project and to include potential synergies with other organisational development projects being undertaken by the Council.
- 3.3.3 The WOC will be registered at Companies House, governed by articles of association and a Board of Directors, comprising executive and non-executive directors. Proposals for the structure of the Board of Directors will be developed in the Full Business Case and will reflect the need to achieve a balance between Council influence and flexibility for the company to drive efficiencies, growth and development.
- 3.3.4 The financial projections in the OBC includes an allowance of £250,000 per annum for the costs of non-executive directors and other corporate governance costs such as the audit fee as well as the cost of the Managing and Business Development Directors. The financial assumptions outlined above will be developed further in the FBC.

3.4 Accounting implications

- 3.4.1 The legal structure of the WOC will be as a limited company albeit wholly owned by the Council. As such the WOC will be outside the Council's current External Audit arrangements with the Wales Audit Office. The financial accounts of the WOC will be subject to Companies Act and appropriate Auditors will need to be appointed to undertake this audit.
- 3.4.2 As a 100% owned company the assets and liabilities of the WOC will be included in the Group accounts for Cardiff Council which would also include Cardiff Bus and the relevant share of Joint Committees.

3.5 Taxation Implications

- 3.5.1 The OBC financial projections assume that there is no additional tax liability for the Council from the move to a WOC. The WOC will charge VAT on the services it supplies to the Council who will recover the VAT as with any Third Party payment. The FBC will consider whether any services provided by the WOC would not be standard rated and whether there may be any irrecoverable VAT from the WOC perspective.

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- 3.5.2 As a limited company any profits made by the WOC would be subject to Corporation Tax. In some instances WOCs have avoided this tax liability by offering “rebate” to their parent councils rather than by paying a dividend which would be subject to tax. The FBC will explore such matters in more detail. Specialist tax advice will be required in this regard.

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4. The Commercial Case

4.1 Commercial Arrangement for Delivery of Proposed Model

4.1.1 As previously identified, the key next step is the completion of a Full Business Case as part of the ongoing 'gateway process'.

4.1.2 The Full Business Case will need to consider, in particular, the following factors:

- The appropriate legal vehicle for the proposed trading company, for example, a company limited by shares or by guarantee;
- The proposed governance of the company, including possible options for the composition of the company Board;
- The proposed contractual arrangements between the Council and the proposed company, in particular, what company matters would be 'reserved' and require Council approval prior to implementation, and also performance management of the company;
- The proposed arrangements between the Council and the company regarding the provision of support services, for example, the provision of HR, Finance, Commissioning and Procurement, and ICT services;
- Opportunities for increasing external trading including potential clients and growth timescales;
- The scope of services to be transferred to the Company, and whether it would be appropriate to remove any services currently in scope, or parts thereof, and/or whether some other services should be included;
- Requirements in relation to the proposed transfer of employees to the new company in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended;
- Financial implications in respect of pensions, financing arrangements including working capital, day to day management of the Wholly Owned Trading company, and also taxation;
- The transfer of relevant assets, for example, relevant accommodation, vehicles and equipment, and
- The initial investment required to establish the proposed Wholly Owned Company. An initial estimate of £0.9M has been included within the High Level OBC Financial Analysis.

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- 4.1.3 It will be necessary for the Council to procure expert legal, financial and taxation advice on a number of the issues referred to in paragraph 4.1.2 above to ensure the satisfactory completion of the Full Business Case. In addition, similar to the process adopted for the Outline Business Case, it is also recommended that the Full Business Case be subject to appropriate independent review and robust external challenge
- 4.1.4 The estimated cost for the provision of the external advice as referred to paragraphs 4.1.3 is £175k.
- 4.1.5 Approval for the budget required for external assistance will be sought through the Investment Review Board which forms part of governance structure established as part of the Council's Organisational Development Programme.

4.2 Procurement Arrangements

- 4.2.1 As the suggested model of a Wholly Owned Company does not involve another organisation delivering, or assisting to deliver the services in scope, a procurement process does not need to be followed in order to implement the model. However, specific procurement processes will need to be followed in order to secure the external advice required for the Full Business Case, and also to procure further advice and equipment that is required to assist with establishing the model.

4.3 Payment Mechanisms

- 4.3.1 The payment mechanism(s) between the Council and the Company will be considered as part of the Full Business Case and thereafter set out in the contract(s) between the two organisations. In particular, consideration will need to be given to the invoicing requirements, frequency of invoicing/payment, and the authorisation process to be adopted by the Council including any performance management implications.

4.4 Management of Risk

- 4.4.1 A fully detailed risk register was prepared by the Project Team at the outset of the project and this has been reviewed on a regular basis as the project has commenced. Full details of these risks can be found on the Council's Programme and Project Database. Risks will continue to be identified and reviewed during the completion of the Full Business Case and beyond.
- 4.4.2 The key risks in relation to the production of the Full Business Case are shown in Table 9 below.

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Table 9: Key Risks in relation to the Full Business Case

Risk Description	Risk Assessment Information				Risk Response Information				
	Risk Type	Proximity	Likelihood	Consequence	Inherent Risk	Likelihood	Consequence	Residual Risk	Future Action Required
Project is not managed well resulting in slippage of timeframes due to ineffective marshalling of resources and uncertainty	Communication, Resource	No Time Period	C	2	Medium/High	C	3	Medium/Low	Ensure that regular project team meetings take place to keep project on track. Prioritise project tasks based on resource made available to the project
There is a risk that the Council and/or project team lacks the skill and capacity to identify the most suitable new model(s) and therefore the project would not be able to deliver against its objective	Resource	No Time Period	B	3	Medium/High Priority	C	4	Low Priority	Assess if there are any gaps in knowledge/skill across the project team and identify how any gaps in knowledge/skill can be addressed. Ensure sufficient levels of challenge are sought from outside of the project.
A lack of cabinet support for the investigation and adoption of a new approach to service delivery could delay and undermine the goals of the project	Communication, Stakeholders	< 3 Months	B	2	High Priority	C	3	Medium/Low Priority	Engage cabinet members at key stages of the project and ensure they are fully briefed in preparation for the sign off of any cabinet reports. Ensure that the project remains aligned to the objectives of the chief executives report from May 2014.

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<p>A lack of member support for the investigation and adoption of a new approach to service delivery could delay and undermine the goals of the project.</p>	<p>Communication, Stakeholders</p>	<p>< 3 Months</p>	<p>C</p>	<p>2</p>	<p>Medium/High Priority</p>	<p>C</p>	<p>3</p>	<p>Medium/Low Priority</p>	<p>Engage members at key stages of the project and ensure they are fully briefed in preparation for the sign off of any cabinet reports. Ensure that the project remains aligned to the objectives of the chief executives report from May 2014.</p>
<p>Unions could oppose the investigation and adoption of new delivery model(s)delaying the decision making process, and achievability of the project goals</p>	<p>Communication, Stakeholders</p>	<p>No Time Period</p>	<p>B</p>	<p>2</p>	<p>High Priority</p>	<p>B</p>	<p>3</p>	<p>Medium/High Priority</p>	<p>Ensure that the Trade Unions are kept up to date with project progress, and that sufficient time is built into the project plan to liaise and engage with the Unions. Share drafts of project documentation with Unions to ensure their comments are taken on board and the documents are signed off, before the documents are circulated wider in the organisation.</p>
<p>Changes to the cabinet could take place during the project lifecycle and result in a loss of appetite for any proposed change to the model of service delivery.</p>	<p>Political</p>	<p>No Time Period</p>	<p>B</p>	<p>1</p>	<p>High Priority</p>	<p>C</p>	<p>1</p>	<p>Medium/High Priority</p>	<p>Ensure that there is continuous engagement and briefings with the cabinet, to maintain buy in for the project. Ensure OBC is based on appropriate evidence base, this is subject to external challenge and review (LP) and project updates are regularly provided to relevant Cabinet Members</p>

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Failure to put in place all correct authorisations/delegations resulting in unlawful decisions	Governance, Legal	No Time Period	C	1	Medium/High Priority	C	1	Medium/High Priority	Maintain input of corporate legal services for the project to ensure that project work and decisions are carried out in a lawful manner. Previous action owner is leaving the authority so new owner will need to be identified and appointed to project. Residual Risk level changed until this occurs.
Lack of clear governance structure and decision making processes which ensure efficient communication, proportionate decision making and accountability result in loss of direction or delays	Governance	No Time Period	C	2	Medium/High Priority	C	3	Medium/Low Priority	Adhere to PQA and democratic governance requirements, to ensure that communication around decision making and accountabilities are fully understood by all project team members and key stakeholders
Changes in Council policy and objectives could undermine the aims and objectives of the project.	Political, Stakeholders, Strategic	No Time Period	C	2	Medium/High Priority	C	3	Medium/Low Priority	When any new policies or objectives are revealed, consider impact on the project and raise these at project meetings. Create appropriate risks and mitigating actions if and when discovered.
Industrial Disputes/Staffing disputes and disruption (eg staff leaving)	Communication, Stakeholders	< 3 Months	B	2	High Priority	C	3	Medium/Low Priority	Ensure stakeholder plan makes adequate provisions to engage and consult Trade Unions at regular intervals, and that they are kept up to date with the progress of the project to minimise the potential for industrial dispute.

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<p>Loss of project team members due to changes in staff or re-prioritisation of resources</p>	<p>Resource</p>	<p>No Time Period</p>	<p>C 2</p>	<p>Medium/High Priority</p>	<p>C 3</p>	<p>Medium/Low Priority</p>	<p>Escalate any loss of resource issues as soon as known, and request for suitably experienced resource to replace any lost project team resource utilising established governance routes.</p>
<p>Legal implications may not be fully understood and result in a preferred model being identified which is legally unable to deliver what is required.</p>	<p>Legal</p>	<p>No Time Period</p>	<p>C 1</p>	<p>Medium/High Priority</p>	<p>D 1</p>	<p>Medium/Low Priority</p>	<p>Maintain legal input at all stages of the project and seek external counsel as and when required.</p>
<p>Changes to the organisational structure of the Council could take place during the project lifecycle and result in loss of direction and delays to the project</p>	<p>Communication, Organisation, Stakeholders</p>	<p>No Time Period</p>	<p>B 2</p>	<p>High Priority</p>	<p>C 2</p>	<p>Medium/High Priority</p>	<p>Ensure that there is continuous engagement and briefings with the cabinet, directorates in scope and to the relevant governance boards to maintain buy in for the objectives of the project. Ensure that there are regular meetings between Directors for the services in scope, to maintain buy in and agreement for direction of project.</p>
<p>Interdependencies with other projects and service areas may not be fully understood in producing the Full Business Case, which would result in disjointed delivery of projects and the creation of further issues for the Council.</p>	<p>Governance</p>	<p>< 6 Months</p>	<p>C 2</p>	<p>Medium/High Priority</p>	<p>C 3</p>	<p>Medium/Low Priority</p>	<p>Ensure key stakeholders are involved in project, and that Full Business Case receives challenge from these stakeholders as well as senior officers on the Reshaping and Enabling programme boards. Any conflicts will need to be raised and escalated to the appropriate boards to amend scope, briefs and other governance accordingly.</p>

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Demand from service areas out of scope may not be fully understood within the Full Business Case, resulting in incorrect specifications and contract agreements being produced which could be to the detriment of the Company or the Council.	Benefits, Governance, Reputation	< 6 Months	B	2	High Priority	C	3	Medium/Low Priority	Ensure due diligence workstream is correctly resourced, and outputs from service areas are reviewed to minimise the risk of missed information regarding demand from internal departments.
Impact of demand on services outside the scope of the project may not be fully considered within the Full Business Case, resulting in service areas outside of scope facing unexpected changes to their budgets, capacity etc.	Corporate Risk, Finance, Service Delivery	< 6 Months	B	2	High Priority	C	3	Medium/Low Priority	Ensure due diligence exercise captures details of SLA's and demand on services outside the scope of the project. Ensure that these areas are kept informed on the project and that the corporate centre in particular is aware of the potential impacts on how they deliver services.
Service area resource time required to inform and produce the Full Business Case, could result in current levels of service delivery being compromised.	Reputation, Service Delivery	< 1 Months	C	2	Medium/High Priority	C	3	Medium/Low Priority	Ensure stakeholders are advised of resource requirements in advance so that service delivery can be planned accordingly. Ensure comms plans advise of potential impacts to current levels of service delivery.
Savings pressures for 2016/17 onwards could result in the new approach being rushed without clear consideration of the potential impacts or if other models may still be more appropriate.	Finance, Governance, Timescale	< 6 Months	B	2	High Priority	C	2	Medium/High Priority	Ensure regular communication and engagement with key stakeholders to bring the appropriate levels of challenge. Utilise gateway review process effectively and ensure that the required sign offs are received.

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Buy in from the Directorates in scope of the project including Directors, Managers and Staff could be lacking and result in delays in obtaining the information required to develop the Full Business Case.	Stakeholders	< 1 Months	B	2	High Priority	C	3	Medium/Low Priority	Employ thorough stakeholder management, backed up with a detailed communication plan. Ensure engagement is early and project progress is communicated at regular intervals.
Impact on existing income streams may not be fully understood, and result in a Full Business Case that is unable to maintain or exceed current income levels.	Finance, Governance	< 6 Months	C	2	Medium/High Priority	C	3	Medium/Low Priority	Ensure due diligence is thorough and makes suitable provisions to capture all income information. Ensure Full Business Case receives informed challenge regarding all financial information.
Some services/functions may not be appropriate for delivery by the model developed for the Full Business Case, and may need to retain in-house provision.	Scope Management, Service Delivery	< 6 Months	B	3	Medium/High Priority	D	3	Low Priority	Ensure that there is a thorough due diligence exercise and that a test is developed as part of the Full Business Case which will determine if all functions/services should be delivered by the identified model.
Modified in house models are not sufficiently mature enough to inform Cabinet when the Full Business Case is presented.	Governance, Resource, Stakeholders	< 6 Months	B	2	High Priority	C	3	Medium/Low Priority	Ensure that there is equal emphasis placed on development of in-house models and that an equal amount of resource time is allocated to these. Inform Directors and Managers of their responsibilities in this regard.

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<p>Lack of independent challenge at appropriate levels for the Full Business Case to ensure robustness, could result in time delays caused by further challenge from Key Stakeholders</p>	<p>Governance, Partnership, Stakeholders</p>	<p>< 1 Months</p>	<p>C 2</p>	<p>Medium/High Priority</p>	<p>D 3</p>	<p>Low Priority</p>	<p>Identify levels of external challenge required for the Full Business Case and ensure that there is available budget and approval to appoint appropriate bodies. Ensure that project plan timetables enough time to receive challenge at key stages of Full Business Case production.</p>
<p>Full Business Case for preferred model might show that the required level of savings can not be achieved within the required timescale</p>	<p>Benefits, Finance</p>	<p>< 6 Months</p>	<p>B 1</p>	<p>High Priority</p>	<p>C 2</p>	<p>Medium/High Priority</p>	<p>Ensure that financial analysis and modelling within the Full Business Case is robust and subject to appropriate levels of internal and external challenge. If any potential shortfall is identified, escalate this accordingly so that it can be highlighted and taken into account as part of the Council's annual budget setting process.</p>

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5. The Management Case

5.1 Management and Governance of Implementation of the Suggested Model

5.1.1 The Infrastructure Services ADM will continue to be managed as a project within the Infrastructure and Neighbourhood Delivery workstream, which falls within the Reshaping Services Programme as part of the Council's Organisational Development Programme. This will ensure that the appropriate management and governance arrangements are maintained.

5.1.2 Alternatives for the management and governance of the proposed new Company will be considered as part of the Full Business Case for the project. These considerations will include the requirements for the 'client' management team which will remain within the main Council organisation.

5.2 Management and Governance of Impact on Other Council Areas and Support Services

5.2.1 The impact on other Council areas and support services will be an important consideration for the Full Business Case analysis in terms of the impact on employees, use of equipment and assets, and also delivery of services back to other Council services where applicable. Any potential adverse impacts identified will need to be assessed and appropriate mitigation measures established as far as it is reasonable and practical to do so.

5.3 Implementation Timescales

5.3.1 The proposed programme for the completion of the Full Business Case [Business Plan] analysis and establishment of the Company is included in Appendix 9 – Project Programme. The key milestones are as follows:

- Cabinet approval of the Outline Business Case – 16th July 2015
- Establishment of a Full Business Case Board - August 15
- Due Diligence – July to October 2015
- Full Business Case Consideration – August to October 2015
- Completion of Full Business Case and Business Plan – October to November 2015
- Establishment of a Full Business Case Board - August 15
- Cabinet approval of the Full Business Case and draft Business Plan – January 2016.
- New Company commences trading - First Quarter 2016/17

5.4 Stakeholder Engagement

5.4.1 At the outset of the project, the engagement of key stakeholders, including Members, Unions, employees and Cardiff residents, was identified as an important factor in the ultimate success of the project. A Stakeholder Engagement Plan was therefore developed and implemented at an early stage, and this has since been reviewed and updated on a regular basis. Members, Unions and Employees have been regularly updated as the project

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has progressed, particularly in the lead up to the Cabinet considering this Outline Business Case report. As reported in paragraph 2.9.4, Cardiff residents were consulted under the Cardiff Debate budget consultation process which was undertaken in December 2014/January 2015, and reported to Cabinet on 26th February 2015.

- 5.4.2 The Environmental and PRAP Scrutiny Committee's have also been important stakeholders through the completion of the Outline Business Case. The work undertaken by both the Task and Finish Group, comprising Members from these two Committee's, and Council Officers in completing the research, visits to other Councils leading to the preparation of the Task and Finish report is gratefully acknowledged.
- 5.4.3 The Stakeholder Engagement Plan will be updated for the next phase of this project and set out how the key stakeholders will be provided with regular and timely updates as the project progresses.

5.5 Making the Recommendation a Success

- 5.5.1 In its publication 'Spreading their wings. Building a successful local authority trading company', based on its research, Grant Thornton identifies a number of key determinants to establishing a successful local authority trading company. The key issues identified include:

- the drive and ambition of the people running the business;
- establishment of the right culture within the company;
- positive support and commitment from the local authority, and
- for growth to occur, a focus on innovation, expansion into new markets, and diversification.

- 5.5.2 These important issues, and other factors identified in the report, will need to be priority issues for the Company, and also the Council, if it is to be successful. The need for additional knowledge and experience to assist with embedding the required commercial and high performance culture, and also achieving commercial growth, has been recognised. An allowance of £250,000 for the recruitment of a Commercial Director, Contracts Manager and other costs was included as set up costs for the Wholly Owned Trading Company in the high level financial analysis.

- 5.5.3 It is intended that the Full Business Case identify key success factors against which the performance of the Company will be measured on a quarterly basis. These regular reviews will assist in determining whether the Company is delivering against its objectives and, if not, whether further strategic action is required in respect of the services being delivered for the Council.

5.6 Project Team

- 5.6.1 It will be necessary to establish an internal Project Team to manage the completion of the Full Business Case. The precise resource requirements were being finalised at the time this Outline Business Case. However, in terms of function/skills set, the Team will need to include dedicated Project Management Resources, representatives from each service in

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scope, and also representatives from the Council's Corporate Service functions including: Finance; Human Resources; Legal; ICT; Corporate Communications and Commissioning and Procurement. The allocation of the required resources will be sought through the Investment Review Board.

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Establishing a Programme of Organisational Change for the City of Cardiff Council. Report of the Chief Executive. Cabinet Meeting 15th May 2014.

Budget Strategy 2015/16 and The Medium Term. Report of the Corporate Services Director. 17th July 2014

Infrastructure Services - Alternative Delivery Models. Report of the Director Environment. Cabinet Meeting 20 November 2014

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Cardiff Council. How Clean Are Your Streets ?2014/15. Local Environmental Audit and Management System (LEAMS) Report. Keep Wales Tidy. May 2014.

Spreading their wings. Building a successful local trading company. Grant Thornton. 2015

A Joint Report of the Environmental and Policy Review and Performance Scrutiny Committee's. Infrastructure Business and Alternative Delivery Options.

Appendices:

Appendix 1 – Organisational Development Structure

Appendix 2– Output from Corporate Evaluation Methodology

Appendix 3 – High Level Financial Analysis Assumptions

Appendix 4 – Financial Sensitivity Analysis

Appendix 5 – Summary of 'Other Factors' Considered in Assessment of Alternative Delivery Models

Appendix 6 – Soft Market Testing Summary

Appendix 7 – 'Changes for Cardiff' 2015/16 Budget Consultation: Questions and Responses

Appendix 8 – Project Programme

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Appendix 1 – Organi

Appendix 2 – Output from Corporate Evaluation Methodology

Evaluation Criteria

The evaluation criteria identified for the Corporate Evaluation Methodology are as follows, these have been assigned a number for reference within this appendix.

Organisation Development Objective	Criterion Reference Number	Criteria Description
Reducing Operating Costs	1	... to transfer risk in respect of cost reductions
	2	... to exploit income opportunities for its benefit
Improved Customer Satisfaction and	3	... to maintain influence and control over day to day decision making

EC - Assets & Property	EC - Corporate Commercialisation	EC - Engagement & Improvement	EC - Governance and Member Engagement	EC - Strategic Commissioning	RS - Customer Focus & Enabling Technology	RS - Infrastructure & Neighbourhood Delivery	RS - Services for Vulnerable Adults	RS - Services for Vulnerable Children
Programme RAG PFD Christine Salter SRO Isabelle Bignall PGM Marie Rosenthal Total Projects 5	Programme RAG PFD Christine Salter SRO Martin Hamilton PGM Total Projects 3	Programme RAG PFD Christine Salter SRO Marie Rosenthal PGM Total Projects 4	Programme RAG PFD Christine Salter SRO PGM Total Projects 3	Programme RAG PFD Christine Salter SRO PGM Total Projects 3	Programme RAG PFD Sarah McGill SRO Isabelle Bignall PGM Michael Walsh Total Projects 6	Programme RAG PFD Sarah McGill SRO Andrew Gregory PGM Michael Walsh Total Projects 5	Programme RAG PFD Sarah McGill SRO Stan Walker PGM Michael Walsh Total Projects 5	Programme RAG PFD Sarah McGill SRO Tony Young PGM Michael Walsh Total Projects 7
Strategic Property Management - Operational Estate PEX: Christine Salter SRO: Hannah PGM: Michael Smith SAP: [redacted] Economic Property Management - Non Residential Estate PEX: Eve Watkins EAP: [redacted] SAP: [redacted] Marketing PEX: Matthew Seymour PM: Tom Foster EAP: [redacted] Operationalisation PEX: John Hoinger EAP: [redacted]	Trading Company Model & Commercial Services Delivery Vehicle PEX: Shaun Jamieson PM: [redacted] CD01 Corporate Commercialisation Strategy PEX: Chris Hesse SAP: [redacted] Phase 1 Commercial Services PEX: Isabelle Bignall PM: [redacted] ECD03	Performance Management PEX: Martin Hamilton PM: [redacted] EPD01 Workforce Planning & Employee Engagement PEX: Lynne David PM: [redacted] EPD03 Internal Communications PEX: Timothy Gordon PEX: Jeremy Rhys EPD04	Culture and Leisure ADM PEX: Chris Hesse PM: Malcolm Stammers ES003 Commissioning & Capability PEX: Steve Robinson PM: [redacted] ES005 SAP Asset Management (Accounting) PEX: Ani Hirani PM: [redacted] ES006	Online Services (CRM & Web) PEX: Isabelle Bignall Ross Maude PM: Alison Evans RCC01 SharePoint (Doc Management) PEX: Ross Maude PM: Lisa Meredith RCC02 Income Management PEX: Gary Watkins PM: David Butler RCC03 Customer Services Strategy PEX: Isabelle Bignall PM: [redacted] RCC04 Hub Delivery PEX: Jane Thomas PM: Rashmi Wilson RCC05 Debt Management PEX: [redacted] PM: [redacted] RCC07	Infrastructure ADM PEX: Jane Forshaw PM: David Lowe R00401 Neighbourhood Services Operations PEX: Tara King PM: Chris Stephens Claire Cudrom R00402 Neighbourhood Services Back Office PEX: Tara King PM: [redacted] R00403 Neighbourhood Roll-Out PEX: Tara King PM: [redacted] R00404 Neighbourhood - Commercial Services PEX: Tara King PM: [redacted] R00405	First Point of Contact PEX: Jane Thomas PM: Ruth Evans RS0303 Accommodation & Support Strategy PEX: Jane Thomas PM: [redacted] RS0305 MWS Health & Social Care - Reablement PEX: Susan Schelewa PM: Andrew Phillips RS0306 Aglie Mobile Working (Adults & Childrens Services) PEX: Susan Schelewa PM: Ruth Evans RS0307 Proof of Concept - Mobile Working for Social Care PEX: [redacted] PM: Beth Gillard RS0308	Vulnerable Families Phase 1 PEX: Rachel Jones PM: [redacted] RS02001 Adolescent Resource Centre PEX: Angela Bourge PM: [redacted] RS02002 Multi-Agency Safeguarding Hub (MASH) PEX: Jane Hoey PM: [redacted] RS02003 Remodelling Services for Disabled Children and Young Adults PEX: Sarah Woelk PM: [redacted] RS02004 Accommodation & Support Review - Children PEX: Jane Thomas PM: [redacted] RS02005 Childrens - Business Process Improvement PEX: [redacted] PM: Jo-Anne Phillips RS02006 Fostering Recruitment PEX: Angela Bourge PM: Rose Hees RS02007	

Project Stage Key: Closing (Green), Delivery (Blue), On Hold (White), Planning/Initiation (Yellow), Pre Start Up (Dark Blue), Start Up (Purple), RAG Status Key: Green, Amber/Green, Red/Amber

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Demand Management	4	... flexibility to change service scope and delivery specifications in future years
Improved Outcomes and Performance	5	... to transfer risk in respect of operational performance
	6	... to transfer risk in respect of repaying financial investment (if required)
	7	... to transfer the risk to improve service delivery performance and increase capacity
Design and Delivery	8	... to realise benefits within the short term.

Model Scores

The five models in scope were scored from a value of 1-6 in relation to how far they satisfy each criterion description, with a score of 6 representing they satisfy the criterion to the greatest extent. A full breakdown of the model scoring pack and the scores assigned to each model can be found on the Council's CIS system under [Commissioning and Procurement/Procedures/Alternative Delivery Model \(ADM\)](#), the below represents a summary of the scores assigned to each model against each criterion.

Criteria Reference Number	Model Score (1-6)				
	Modified In-House	Wholly Owned Company	Public/Public Joint Venture	Public/Private Joint Venture	Outsourcing
1	1	2	4	5	6
2	3	4	5	5	2
3	6	4	3	2	1
4	6	5	4	3	2
5	1	2	3	4	5
6	1	1	4	4	6
7	1	3	4	5	5
8	4	3	3	2	2

Service Area Weightings

The service areas in scope of the project were asked to weight each criterion in relation to their specific priorities within the MTFP and moving forward. Each service had to assign a score to each of the specified criteria, and the cumulative score across the eight criteria had to equate to a total of 100. The scores assigned to the eight criteria for each of the services in scope is detailed in the table below.

Directorate	Service Area	Criteria Reference Number							
		1	2	3	4	5	6	7	8
Environment	Waste Collection	15	15	10	10	5	5	15	25
	Street Cleansing	15	15	10	10	5	5	15	25
	Waste Education and Enforcement	15	13	11	15	10	1	10	25
	Waste Treatment	10	20	10	15	5	10	10	20

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	and Disposal								
	Pest Control	5	30	30	15	5	5	10	0
Strategic Planning, Highways, Traffic and Transport	Highway Operations	10	10	20	15	10	10	10	15
	Highways Asset Management	10	10	30	20	5	5	10	10
	Infrastructure Design and Construction	10	30	10	5	0	5	20	20
Sport Leisure and Culture	Parks Management and Development	20	15	5	15	5	10	15	15
Resources	Central Transport Service	5	25	5	10	10	10	15	20
	Soft Facilities Management - Cleaning (non schools)	15	20	10	10	5	5	15	20
	Soft Facilities Management - Security and Portering	10	25	20	10	5	5	5	20
	Hard Facilities Management	20	20	5	10	5	5	15	20
Economic Development	Projects Design and Development	0	30	30	20	0	0	20	0

Evaluation Methodology Output

The Output from the Corporate Evaluation methodology used a weighted score to determine what would be the recommended delivery model for each of the services in scope. The weighted score was achieved by multiplying the weighting of a criterion (as assigned by the service area) against the score each model achieved against that specific criterion.

The weighted scores for each model against each criterion for each specific service area were then added together in order to indicate a preferred model, as evidenced by whichever model achieved the highest score.

The total weighted score for each service area in relation to each service in scope is shown in the table below.

Directorate	Service Area	Modified In House	Wholly Owned Company	Public/Public Joint Venture	Public/Private Joint Venture	Outsourcing

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Environment	Waste Collection	305	315	375	365	330
	Street Cleansing	305	315	375	365	330
	Waste Education and Enforcement	331	327	367	351	313
	Waste Treatment and Disposal	325	325	385	365	315
	Pest Control	385	370	395	370	255
Strategic Planning, Highways, Traffic and Transport	Highway Operations	340	320	365	345	320
	Highways Asset Management	400	355	365	330	275
	Infrastructure Design and Construction	295	330	400	395	310
Sport Leisure and Culture	Parks Management and Development	275	305	390	395	375
Resources	Central Transport Service	285	315	390	385	330
	Soft Facilities Management - Cleaning (non schools)	300	320	385	380	330
	Soft Facilities Management - Security and Portering	360	340	380	350	270
	Hard Facilities Management	275	310	390	395	355
Economic Development	Projects Design and Development	410	400	400	370	230

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Appendix 3 – High Level Financial Analysis Assumptions

	Modified In-house		Teckal		Public Public JV		Public Private JV		Outsource	
	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Model Savings										
Efficiency Savings	-7,487	-10,622	-12,140	-14,942	-14,658	-17,379	-14,681	-17,399	-16,192	-19,508
Net Income Generation	-764	-2,402	-1,806	-6,479	-1,831	-6,736	-1,867	-6,767	0	0
S-T : Model Savings	-8,251	-13,024	-13,946	-21,421	-16,489	-24,115	-16,547	-24,166	-16,192	-19,508
Model Costs										
Overheads	0	0	0	0	12,912	22,775	11,768	21,620	10,201	19,181
Company related costs			1,577	2,827						
Taxation	0	0	0	0	0	0	0	0	0	0
S-T : Model Costs	0	0	1,577	2,827	12,912	22,775	11,768	21,620	10,201	19,181
Council Costs										
Procurement costs	0	0	0	0	500	500	750	750	625	625
Implementation / set-up costs	500	500	900	900	100	100	100	100	100	100
Client Management costs	0	0	330	605	1,230	2,255	1,025	2,050	1,500	3,000
S-T : Council Costs	500	500	1,230	1,505	1,830	2,855	1,875	2,900	2,225	3,725
Council Savings										
Support Services					-8,450	-16,131	-7,681	-15,363	-7,681	-15,363
Net (saving) / cost	-7,751	-12,524	-11,139	-17,089	-10,197	-14,617	-10,586	-15,008	-11,447	-11,964
Net Present Value (NPV) - Real		-10,513		-14,394		-12,296		-12,455		-10,463

The assumptions made in relation to the High Level Financial Analysis are detailed in the text below:

Evaluation Period

12 years to include a 2 year implementation and 10 years typical for a JV contract.

Implementation Timescale

To cover period required for procurement / negotiation if required and mobilisation.

Modified In-house 0 years, WOC 1 year, Public JV 18 months, Private JV and Outsource 2 years

Efficiency Savings

In-house : Yrs 1–3 = 5.3% based on Service improvement Plans (SIP), Yrs 4-6 = 4.5%, Yrs 7-12 = 6%

WOC : Yrs 1-3 = 8.5%, Yrs 4-6 = 8.5%, Yrs 7-12 = 6%

Public JV : Yrs 1-3 = 8%, Yrs 4-6 = 12.5%, Yrs 7-12 = 6.5%

Private JV : Yrs 1-3 = 5%, Yrs 4-6 = 14%, Yrs 7-12 = 8%

Outsource : JV : Yrs 1-3 = 5.5%, Yrs 4-6 = 15.5%, Yrs 7-12 = 9.5%

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Net Income Generation

Focus on margin / profit and benefit to Cardiff after any assumed gain share arrangements for the JV models

In-house : Yrs 1-3 = 0.4% (based on SIP), Yrs 4-6 = 0.2%, Yrs 7-12 = 0.5%

WOC : Yrs 1-3 = 0.5%, Yrs 4-6 = 0.6%, Yrs 7-12 = 1.4%

Public JV : Yrs 1-3 = 0.1%, Yrs 4-6 = 0.8%, Yrs 7-12 = 1.5%

Private JV : Yrs 1-3 = 0.1%, Yrs 4-6 = 0.8%, Yrs 7-12 = 1.5%

Outsource : No income assumed

Overheads / Council Support Services

No change for In-house and wholly Owned Trading Company with assumption that continue to use Council Support Services .

For the JV models 3.8% assumed for the charge from the Partner to the JV with a reduction of c£1.5m assumed for Council Services based on an analysis of fixed and variable costs. Similar assumption for the Outsource Model but with a reduction of 0.5%

Wholly Owned Trading Company Management Costs

£250,000 pa assumed for costs of recruiting (1) MD with appropriate commercial skillset, (2) Business Development post & (3) incidental company costs e.g. Audit.

Procurement costs for ADM's with External Partner

£500,000 assumed for Public JV negotiations, £750,000 for Private JV & £625,000 for Outsource.

Implementation / set up costs

Both In-house and WOC models include some enabling investment with further provision for IT development and external advice for the WOC

The assumption used for In-house model is = £500,000 with £900,000 for the WOC

An assumption of £100,000 for external advice has been included for each of the , Public JV, Private JV & Outsource models

Client Contract Management costs

Increased costs assumed over the models to reflect the decreasing control of the Council in the delivery of the services in scope

No cost for In-house, £55,000 pa for WOC, £205,000 pa for both Public & Private JV models, £300,000 pa for Outsource

Taxation

No costs assumed – VAT fully recoverable, Corporation Tax mitigated by rebates instead of dividend but highlighted as area for further analysis in FBC

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Appendix 4 – Financial Sensitivity Analysis

Figures quoted are Net Present Values (NPVs), highest ranking model is shown in bold font

Scenario	In-house	Teckal	Public JV	Private JV	Outsource
	£'000s	£'000s	£'000s	£'000s	£'000s
Base Case	-10,513	-14,394	-12,296	-12,455	-10,463
1 Public JV, Private JV & Outsource - Efficiency plus 5%	-10,513	-14,394	-13,092	-13,211	-11,366
2 Public JV, Private JV & Outsource - Additional Turnover plus 10%	-10,513	-14,394	-12,844	-13,005	-10,463
3 In-house / Teckal - discount savings by 25%	-8,378	-11,558	-12,296	-12,455	-10,463
4 In-house / Teckal - discount savings by 50%	-6,178	-8,588	-12,296	-12,455	-10,463
5 Public JV, Private JV & Outsource - reduction in Overheads to 3.5%	-10,513	-14,394	-13,770	-13,841	-11,875
6 50% increase in implementation costs - In-house / Teckal	-10,263	-13,944	-12,296	-12,455	-10,463
7 Combination of 1,2,3,5, & 6	-8,128	-11,108	-15,088	-15,145	-12,762
8 Combination of 1,2,4,5, & 6	-5,928	-8,138	-15,088	-15,145	-12,762
9 Combination of 1,2,5, & 6	-10,263	-13,944	-15,088	-15,145	-12,762
10 Combination of 1,2,& 5	-10,513	-14,394	-15,088	-15,145	-12,762

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Appendix 5 - Summary of 'Other Factors Considered in Assessment of Alternative Delivery Models

	Modified In-House	Wholly Owned Company with Teckal Exemption	Corporate Public JV with Teckal Exemption	Corporate Private JV	Outsourcing to a private operator
Commercialisation Opportunities	<p>Quantum of income growth included within Improvement Plans = c£?</p> <p>The Council can trade under its various local government powers. Growth will be dependent upon a number of factors including: market opportunities, competition, competitiveness of the Council, and entrepreneurial acumen of employees</p>	<p>Quantum of income growth assumed for Teckal model = c£?</p> <p>The Council has the power to trade through a Company, under section 95 of the Local Government Act 2003 in respect of anything which the Council is authorised to do for any of its functions.</p> <p>Company can trade up to 20% of the value of the 'passported' work, without causing the company to lose the right to do 'passported' work (however there is potential to set up another trading company if threshold is likely to be breached).</p> <p>Company structure allows for the implementation of more dynamic corporate governance arrangements more suited to commercial activities, at arms-length from the Council..</p> <p>All profit would benefit the Council as the company's only shareholder.</p>	<p>Quantum of income growth assumed for Public/Public JV model = c£?</p> <p>The Council has the power to trade through a Company, under section 95 of the Local Government Act 2003 in respect of anything which the Council is authorised to do for any of its functions.</p> <p>Company can trade up to 20% of the value of the 'passported' work, without causing the company to lose the right to do 'passported' work (however there is potential to set up another trading company if threshold is likely to be breached). Theoretically, commercial opportunities would be greater than for a Wholly Owned Company as the JV company could trade across its part owners portfolio and also benefit from its experience.</p> <p>Profits (or losses) will be shared according to the shareholders agreement .</p>	<p>Quantum of income growth assumed for Public/Private JV model = c£?</p> <p>The Council has the power to trade through a Company as part of a public/private JV.</p> <p>The Company would not be limited on how much it could trade, hence commercialisation opportunities are increased, whilst also benefitting from private sector trading experience.</p> <p>Profits will be shared according to the shareholders agreement.</p>	<p>No limitations on trading, with private sector incentivised to maximise income/profits.</p> <p>Profits (or losses) would be retained by the private sector operator.</p> <p>However, there are possibilities to benefit from a contractor increasing profits from procured services, if a windfall profit sharing mechanism is built into the contract.</p>

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Implementation Time	<p>Based on In-house Improvements proposed for each service, changes will be implemented on a phased basis.</p> <p>Many of the identified savings will require changes at the Corporate level and these may take 9-12 months to implement and then up to a further 12 months for some benefits to be achieved.</p>	<p>9 – 12 months would be required to set up a wholly-owned company and commence service delivery through a Wholly Owned Trading Company based on advice from Cheshire East. Required changes need to be planned during implementation period so benefits can start to be realised in year 1.</p>	<p>9 – 12 months would be required to set up a corporate public-public joint venture and agree the responsibilities and liabilities of the JV partners based on advice from Norse and Cormac. . Required changes need to be planned during implementation period so benefits can start to be realised in year 1.</p>	<p>18 – 24 months would be required to procure a private sector joint venture partner , negotiate the responsibilities and liabilities of the JV partners and establish a corporate JV.</p>	<p>12 – 18 months, assuming that a competitive dialogue or new negotiated procurement would be required for any major service outsourcing.</p>
Indicative Contract Period (if applicable)	<p>Not applicable but performance would need to be regularly reviewed</p>	<p>7-10 years minimum dependant on the specific investment requirements of each service (or bundle)</p>	<p>7-10 years minimum, dependant on the specific investment requirements of each service (or bundle)</p>	<p>7-10 years minimum, dependant on the specific investment requirements of each service (or bundle)</p>	<p>5-10 years minimum, dependant on the specific investment requirements of each service (or bundle)</p>

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Extent Adopted by Other Council's (and examples)	<p>*94% of Council's share a service with another Council. *25% of councils currently undertake entrepreneurial activities in respect of facilities and 50% are considering this. *46% of councils currently undertake entrepreneurial activities in respect of waste and 31% are considering this.</p> <p>APSE Data:</p> <p>Highways Services: 83% of 43 Council's responding to survey have services provided internally (APSE briefing: 14/34);</p> <p>Street Cleansing: 78.4% of 54 Council's responding to survey advised services are internally provided (APSE Briefing: 15/15).</p> <p>Waste Collection: 67.62% of 104 Council's responding to survey advised services are internally provided (APSE Briefing: 15/27).</p> <p>Parks: 73.8% of 91 Council's responding to the survey advised services are internally provided - (APSE Briefing: 15/28)</p>	<p>*58% of councils own a trading company.</p> <p>Recent examples of Council's that have set up Wholly Owned Trading Companies include in respect of the Services in Scope:</p> <p>E.g. Cheshire East Council – set up Ansa Environmental Services Ltd to delivers its waste, cleansing, parks and fleet management services.</p> <p>Cheltenham and Cotswold District Councils – set up Ubico Ltd to deliver their waste, cleansing, grounds maintenance and fleet management/maintenance operations.</p> <p>Cornwall established Cormac Ltd to provide highway and environmental design and maintenance services, design and construction of major highway schemes, and facilities services including property maintenance, cleaning and caretaking services</p>	<p>Many examples of model in respect of services in scope except Highways (but see note on Cormac below).</p> <p>Norse has formed Corporate Joint Ventures with over 20 different councils to deliver a variety of services including waste collections, street cleansing, parks/grounds and cemetery maintenance, facilities management, fleet management and public toilets.</p> <p>Examples of Councils that have set up JV's with Norse include:</p> <p>Newport Borough Council for the delivery of Property, Cleaning and Facilities Management Services.</p> <p>Suffolk Coastal District Council for the delivery of waste management, neighbourhood services, street cleansing, fleet management, grounds maintenance and engineering services.</p> <p>Cormac is currently completing due diligence ahead of forming a Corporate Joint Venture with Nottingham County Council for the delivery of its highway services.</p>	<p>*57% of councils operate a joint venture with a private partner.</p> <p>Many examples of this model exist for the Services in scope including:</p> <p>Capita Ltd working with the London Borough of Barnet to deliver its highways management, planning and development, regeneration and environmental health and trading standards services;</p> <p>Amey working with Liverpool City Council to deliver its: highways repair and maintenance; street lighting repair and maintenance; environmental services; refuse and recycling; grounds maintenance and capital investment works.</p>	<p>APSE Data:</p> <p>Highways Services: 12% of 43 Council's responding to survey have services provided externally (APSE briefing: 14/34);</p> <p>Street Cleansing: 19.6% of 54 Council's responding to survey advised services are externally provided & 2% internal/external mixed (APSE Briefing: 15/15).</p> <p>Waste Collection: 31.7% of 104 Council's responding to survey advised services are externally provided – 1.4% via joint waste authorities. (APSE Briefing: 15/27).</p> <p>Parks: 4.6% of 91 Council's responding to the survey advised services are externally provided. 3.1% delivered by a Trust and 15.4% through a mix of internal, trust and external, (APSE Briefing: 15/28)</p> <p>Many examples of this model exist for the services in scope including: :</p> <p>Sheffield Council – Veolia Ltd deliver its refuse collection and household waste recycling centre services;</p>
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Extent Adopted by Other Council's (and examples) Continued	<p>Examples of Council's that have successfully modified in-house service delivery include:</p> <p>Oxford City Council – improvements were made to delivery of front line environmental services. To test the improvements made, external bids were invited and the in-house was identified as being more cost effective;</p> <p>Barnsley Council – achieved savings by restructuring teams, redesigning and reducing services for Environment and Highways</p> <p>Numerous examples of such service provision across all service areas</p>				<p>Wiltshire County Council – in 2013, Balfour Beatty was awarded a £150m five year contract to undertake the Council's highway maintenance, grass cutting, grounds maintenance, litter collection and street lighting as well as dealing with winter weather, drainage and bridges</p>
Impact upon employees employment status	<p>No change to employment status</p>	<p>Council employees would transfer under TUPE</p>	<p>Council employees would transfer under TUPE</p> <p>Opportunities may exist for enhancements to terms and conditions, working practices and development</p>	<p>Council employees would transfer under TUPE</p> <p>Opportunities may exist for enhancements to terms and conditions, working practices and development</p>	<p>Council employees would transfer under TUPE)</p> <p>Opportunities may exist for enhancements to terms and conditions, working practices and development</p>

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Organisation governance	Current Governance and democratic accountability arrangements would continue	<p>Services would be delivered in accordance with contract specification.</p> <p>Council would own company and have representatives on the Board. The Board would have responsibility of the operation and control of the company.</p> <p>Service delivery requirements could be flexed subject to contractual arrangements between the Council and the Company. Required changes would be agreed between Council and Company as part of the annual business planning process.</p>	<p>Services would be delivered in accordance with contract specification.</p> <p>Council would have representatives on JV Company Board. Governance arrangements would have to be sufficient to enable the Council to have joint control over the company to comply with 'Teckal' criteria. Level of control would be reduced compared with the In-house model.</p> <p>Less flexibility and responsiveness to changes in service requirements compared with in-house provision, as interests of JV partners will need to be equally considered by the Board. Arms-length and shared</p>	<p>Services would be delivered in accordance with contract specification.</p> <p>Council would have representatives on JV Company Board. Governance arrangements would provide certain controls (e.g. reserved matters) as well as the JV Contract. Level of control would be reduced compared with the In-house model.</p> <p>Less flexibility and responsiveness to changes in service requirements compared with in-house provision, as interests of JV partners will need to be equally considered by the Board.</p>	<p>Services would be delivered in accordance with contract specification.</p> <p>Council's level of control over service delivery would be dependent on contractual arrangement.</p> <p>Less flexibility and responsiveness to changes in service requirements compared with in-house provision. Changes to service delivery levels would have to be achieved through contractual or funding leverage mechanisms. Business plan reviews, continuous improvement and value engineering mechanisms could also be used.</p>
Client Management	Separate client function within Council structure would not be required	With the Council being the owner, a high level of trust would exist. Therefore, only a 'thin' client management would be required. Some Council Officers and/or Members would also have Company Board responsibilities.	With the Council being a partner to the JV, a relatively high level of trust would exist. Therefore, only a relatively 'thin' client management would be required (likely to be larger than for a Wholly Owned Company). Some Council Officers and/or Members would also have Company Board responsibilities.	With the Council being a partner to the JV, a relatively high level of trust would exist. Therefore, only a relatively 'thin' client management would be required (likely to be larger than for a Wholly Owned Company). Some Council Officers and/or Members would also have Company Board responsibilities.	A Client Team would be required to manage a contract awarded to an external organisation
Political Support	High	High	Medium	Low	Low
Union Support	High	Medium	Low	Low	Low

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Cardiff Residents Support	Preferred Model (36.7%)	Second Preferred Model (12%)	Third Preferred Model (11.7%)	Fourth Preferred Model (6%)	Least Preferred Model (6.8%)
Financial and contractual flexibility	High	High	Medium	Medium	Low
Strategic Control	High	High	Medium	Medium	Low
Flexibility for Collaboration agenda and other Council engagement for services	Medium	High	Low	Low	Low

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Appendix 6 – Soft Market Testing Summary

Infrastructure Services Alternative Delivery Model – Soft Market Testing

Introduction

Following Cabinet approval on 20th November 2014, a Prior Information Notice (PIN) was published in the European Journal on the 21st November 2014. The stated purpose was to

“help the Council ensure that:

When appraising the short list of potential options for the delivery of its Infrastructure Services, it has all relevant information concerning:

- the benefits that each option is able to realistically deliver;*
 - the level of interest from third parties there would be in taking forward certain options/in helping to realise those benefits, where applicable;*
 - other market perceptions pertaining to any options;*
- it does not directly, indirectly or unintentionally create a strategy for the delivery of these Infrastructure Services that is not deliverable, either from an operational or value for money perspective, and*

it does not create barriers or obstacles for any potential procurement process, should it decide on progressing down the route of commencing a procurement exercise for all or any of these Infrastructure Services.”

Organisations were invited to inform the Council’s thinking on the potential options, solutions and models that exist for the provision of the services in scope.

The PIN also invited organisations who may be in a position to assist developing the modified in-house solution (or indeed help assist the Council prepare for the procurement of any subsequent delivery model) to also respond.

The PIN identified that the key objective of the Council is to significantly reduce the net operating costs of its Infrastructure Services, whilst at the same time improving service delivery; reducing failure demand; increasing customer satisfaction, and ensuring the continued and sustainable delivery of these services for years to come. The PIN also made it clear that its publication did not in any way constitute a commitment by the Council to undertake a procurement exercise in the future.

PIN Open Day 8th December 2014

Organisations interested in informing the Council’s thinking were invited to attend an open day on 8TH December 2014, which was held at the Council’s offices at County Hall. A Memorandum of Information regarding the project was provided for all organisations that expressed an interest in attending this open day.

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The PIN also advised that Officers had reserved Monday 15th December, Tuesday 16th December, Thursday 18th December and Friday 19th December 2014 for the purpose of holding individual meetings for further discussion to inform the process. Organisations were offered the opportunity to pre-book these before the open day, or to make a booking following the open day.

The open day suggested that there was a lot of market interest in the Infrastructure Services Alternative Delivery Model project with a total of 39 attendees representing 25 organisations requesting attendance. Following the open day there was a total of 12 organisations that took up the opportunity to have individual meetings in the week of 15th December to further inform the process.

Summary of Individual Meetings with Organisations

A total of 12 meetings were held during the week commencing 15th December 2014, these were held with companies that had expressed an interest in the PIN and that had attended the open day on 8th December 2014. From the Council's side, to ensure consistency, the same set of officers was present at all of the individual meetings.

Details of the organisations that attended the individual meetings along with the date and time of their meetings are summarised in the table below.

Date	Organisations Present	Meeting Time
Monday 15 th December	Veolia	10:00-11:00
	Kier	11:15-12:15
Tuesday 16 th December	iMPower Consulting Ltd.	09:00-10:00
	Mitie	10:15-11:15
	CH2M Hill & Costain	13:00-14:00
Thursday 18 th December	Norse	09:00-10:00
	Amey	11:30-12:30
	Egnida*	14:15-15:15
Friday 19 th December	Capita	09:00-10:00
	New Networks & Eversheds	10:15-11:15
	Balfour Beatty	11:30-12:30
	CORMAC	12:45-13:45

* Although Egnida attended the PIN meetings, their interest was in providing energy solutions related to solar panels for the Council. As a result of this the information discussed with them has not been included as it was considered to be out of scope for the Infrastructure Services ADM project.

In the hour long scheduled meetings, a period of 10 minutes was allowed at the start for the organisation's representatives to provide information regarding their organisation's profile and

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experience, as well as the potential benefits it could deliver. Organisations were requested to submit this information by the end of the day immediately before the meeting with Council Officers.

The remaining 50 minutes of each meeting was used to address a standard list of questions which had been prepared by the project team. There were a total of 8 questions developed, which were closely aligned with the alternative delivery model evaluation criteria statements.

The 8 questions posed to the organisations that attended the individual meetings were:

1. What experience has your organisation had in delivering, or assisting in delivering, some or all the services in scope of this project with or for other local authorities, what cost savings (quantum and percentage) and other benefits were achieved and over what timescale?
2. The key objectives of the project are to reduce operating costs, improve service delivery performance, improve customer satisfaction and develop income opportunities. If you were the Council, how would you:
 - 'Incentivise' the achievement of these objectives;
 - Secure appropriate assurances regarding the achievement of the objectives;
 - 'Bundle' the services within scope of the project to maximise the achievement of the objectives and also market attractiveness, and
 - Allow the market to offer the most cost effective solution?
3. In your view, what would be the key risks in managing and delivering this scope of services and what would be the most effective apportionment of risk (and control) between the Council and organisation responsible for delivering the services?
4. What flexibilities would you offer in terms of the Council needing to achieve future budget reductions and service delivery changes?
5. What is your view on the level of risk associated with generating additional income in respect of the services within scope? Which particular markets do you think should be targeted for increasing income and what magnitude of increase do you feel would be reasonable over the next 5 years? What mechanism would you recommend for sharing profits from an increase in income with the Council?
6. What length of contract would you recommend for the scope of services identified?
7. How long would it take you to complete the necessary due diligence for this scope of services, and how/when would you recommend this be done? What information would you expect to be delivered as part of any procurement pack?
8. Are there any other points you think the Council should take into account when considering the alternative delivery options for this scope of services?

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To maximise the use of time in the meetings, the questions were forwarded to each organisations attendee's in advance. Some of the organisations provided a written response to the questions before, during or following their meeting.

Summary of Findings from Soft Market Testing

The individual meetings with organisations provided the project with a lot of useful information, which has been utilised to inform various aspects of the project. Across the organisations present there were themes in the answers given to the presented questions, the common themes that became evident were focused on

- Bundling of services
- Procurement/Cost Effective Solution
- Risks and Issues
- Income generation opportunities
- Governance
- Due diligence
- Phasing/Mobilisation/Implementation

More specific statements and ideas related to these themes are captured in the table below.

Theme	Specific Information/Ideas
Bundling of services	<ul style="list-style-type: none"> • If all the services were put out for procurement/contract negotiations there should be no more than three lots, with a forth to cover all services • Greater savings and risk transfer may be achieved with the above approach as best of class can be achieved • The more services that are in scope of a contract the more opportunity it affords the market to achieve the Council's targets • Bundled services should allow economies of scale, with as many vertically integrated services as possible • Due to the Teckal limit, if the lots are small then the 20% allowance will be of a smaller value • Might need to consider a mixed market model with some services retained in house, and others being delivered by a different model(s)
Procurement/ Cost Effective Solution	<ul style="list-style-type: none"> • Too many lots will result in excessive procurement costs for all parties • OJEU and CPV codes used for procurement should cover other Local Authorities and service areas, to reduce future procurement costs and barriers if the scope of services change (this would also allow other authorities to join at a later date) • Specifications should be defined as outputs/outcomes with KPI/PIs for each • Cardiff needs to challenge the market to be innovative with solution and test its own political constraints • Dividend arrangements are taxable, rebates are non-taxable

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Risks and Issues	<ul style="list-style-type: none"> • Market would be willing to take on responsibility for achieving statutory targets/KPIs, however in most instances they would need control/input into policies • Further budget reductions whilst in contract, could be accommodated by using measures such as increasing contract length or by the removal of some performance management targets • Measured KPIs are negative as are guards against failure but would be in place as a matter of course, more appropriate approach would be to use a business improvement programme with milestones and proving points related to hard and soft objectives • A judicial review could come from anywhere, it needs to be ensured citizens are adequately consulted • There are no cheque or penalty mechanisms available to the Council if the in-house model does not deliver • Need to ensure back office and corporate centre impacts are properly understood and represented
Income generation opportunities	<ul style="list-style-type: none"> • Services need to be delivering for the Council before any commercialisation and income generation is pursued • Could cross charge other Council services if solution contributes to other Council objectives i.e. health, social care, education etc. • Income generation does not necessarily mean that profit will be made for money to come back to the Council • Contracts can be tailored to offer income guarantees, however exclusivity might be required • Risk transfer for income generation could be achieved by licensing opportunities in exchange for reduced fees
Governance	<ul style="list-style-type: none"> • Contracts should have an exit strategy controlled with performance triggers, with penalties for under performance. There should not be an automatic extension clause. • Costs of governance and involvement of members needs to be captured • Veto rules can be offered in Joint Venture contracts, these should be recorded in the reserved matters • Need to ensure that Council representatives whether officers or members have the required level of power, skill and expertise to be board members
Due diligence	<ul style="list-style-type: none"> • General consensus was that due diligence should take a minimum of 3 and a maximum of 6 months • Data needs to be as accurate and detailed as possible to obtain best price contracts and to avoid inflated costs due to unknowns • Joint ventures tend to require more due diligence than Outsourced contracts • The critical path is the time taken to supply information and not how long it takes the contractor to process it • Biggest issues are TUPE and ICT information, a clear scope and specific details about assets are also beneficial

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	<ul style="list-style-type: none"> • Need to consider how much Council resource will be required, and how long it will take this resource to gather and collate required information, as this is critical
Phasing/Mobilisation/Implementation	<ul style="list-style-type: none"> • Should consider if the supplier is large enough to provide enough resource for mobilisation • Need to establish the Council's preferred employee transfer model • The level of service performance from the Outline Business Case to transition needs to be recorded, this is to ensure KPIs are kept up to date for calibration • Savings achieved are dependent on the people delivering them and not necessarily the systems in place

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Appendix 7 – 'Changes for Cardiff' 2015/16 Budget Consultation: Questions and Responses

'Changes for Cardiff' 2015/16 Budget Consultation: Questions and Results

From 21st November 2014 until 12th January the Council undertook an extensive consultation exercise called 'Changes for Cardiff' regarding the 2015-16 budget proposals.

Within the consultation, details were provided regarding the Infrastructure Services Alternative Delivery Model project and three questions were posed based on the information that was provided. These questions were:

- Do you agree that the Council should consider alternative ways of delivering the services identified?
- Of the five delivery models already shortlisted, do you have a preferred option?
- What factors do you believe are most important in the delivery of service and should be taken into account in choosing a preferred delivery model for the services detailed?

With regards to the first question the report advises on page 89 that 65.7% of respondents agreed that the Council should consider alternative ways of delivering the services in scope of the Infrastructure Services Alternative Delivery Model project.

The second question posed is dealt with on page 90 of the consultation report, which shows how the five delivery models in scope of the project ranked in terms of the respondents 1st-5th choice for delivery. A summary of these results are provided below

First Choice Rankings				
1 st	2 nd	3 rd	4 th	5 th
Modified in-house service delivery (36.7%)	Establishment of a wholly owned arms length company (12%)	Public/Public Joint Venture (11.7%)	Outsourcing (6.8%)	Public/Private Joint Venture (6%)
Second Choice Rankings				
1 st	2 nd	3 rd	4 th	5 th
Public/Public Joint Venture (18.9%)	Establishment of a wholly owned arms length company (18.1%)	Public/Private Joint Venture (9.2%)	Modified in-house service delivery (8%)	Outsourcing (3.5%)
Cumulative Rankings of First, Second and Third Choices				
1 st	2 nd	3 rd	4 th	5 th
Modified in-house service delivery (16.9%)	Public/Private Joint Venture (15.9%)	Establishment of a wholly owned arms length company (14.1%)	Public/Private Joint Venture (9.3%)	Outsourcing (6.4%)

The table above shows that the wholly owned company and public/public joint venture options are the only models that consistently appear within the top three for the First Choice Rankings, Second

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Choice Rankings and the Cumulative Rankings for First, Second and Third Choices. This suggests that the residents would prefer that the risks of delivering services and operating in an external market are retained by the Council at least to some extent. The fact that modified in house is also the top choice in two of the table's categories also shows that there is a strong preference to keep delivery of the services as close to the Council as possible.

These sentiments are echoed in an analysis of open comments received on page 89 where 39.2% of comments received stated opposition to private sector involvement due to fears service delivery would primarily become profit driven. 32.2% of the comments also expressed fears that there would be negative implications to cost and quality if delivery of the services be moved beyond Council control. In addition, One in ten (11.6%) commented on the need to improve the existing Council management and move toward the employment of a business model whilst retaining overall control.

Details of the results for the third question are provided on page 92 of the consultation report. This question asked the public to choose (by picking up to three) which factors they believed to be most important in the delivery of service and should be taken into account in choosing a preferred delivery model for the services detailed.

The results of this showed that, by far the most important factors for consideration was

- Quality of service (90.3%)

This was followed by three factors within a close range of each other

- Implementation costs at a minimum (49.0%)
- Frequency of service (48.2%)
- Certainty of achieving budget savings (43.0%)

Whereas the least two important factors were

- Who delivers the service (24.8%)
- Speed of delivery (20.7%)

This suggests that despite the indications of the preferred model of delivery for services (as discussed above) that there are a number of factors deemed more important than this. With quality and frequency of service, certainty of achieving savings and minimum implementation costs seen as being more important than who actually delivers the service.

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Appendix 8 – Project Programme

Project Governance Throughout the Full Business Case Stage			
Task/Milestone	Dates	Stakeholder Management	Modified In-House Model
Phase 3 – Project Setup	20/07/15-31/07/15	Stakeholder Planning Workshop 27/07/15-31/07/15	Development of Modified In-House Improvements 20/07/15-
External Project support identified and appointed	20/07/15-21/08/15	Development of Communication Plan 03/08/15-07/08/15	Implementation of identified and approved Modified In-House improvement actions
PHASE 3 Project Brief – Signed off	10/08/15	Constant Engagement and Communication with all Stakeholders Throughout the Full Business Case stage	
Full Business Case Governance established	01/08/15-30/08/15		
Full Business case Board Setup	31/08/15		
Due Diligence	27/07/15-30/10/15		
Due Diligence Completed	31/10/15		
Develop Full Business Case Considerations	03/08/15-31/10/15		
Develop Modified In-House Improvement Plans	03/08/15-31/10/15		
Comparison of In-House Improvements with Wholly Owned Company considerations	01/10/15-31/10/15		
Draft Full Business Case	14/10/15-29/11/15		
Draft Full Business Case Completed	30/11/15		
Forward plan for cabinet produced and submitted	01/09/15-16/09/15		
Draft Cabinet Report	02/11/15-29/11/15		
Draft Cabinet Report Submitted	30/11/15		
Cabinet Report and Full Business Case considered by Key Stakeholders and amended	01/12/15-18/12/15		
Final Full Business Case and Cabinet Report Submitted	21/12/15		
Cabinet Approval of Full Business Case	13/01/16		
Initiate Transition/Mobilisation (if WOC Approved)	14/01/16		
Establishment of Wholly Owned Company (if approved)	Quarter 4 (15/16)- Quarter 1 (16/17)		

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Business Case Approval

Project Executive Comments:			
Project Executive:		Date:	

Programme Manager Comments:			
Programme Manager:		Date:	

Approval to Proceed to Next Stage			
<i>Date approved – Investment Review Board</i>		<i>Decision Ref:</i>	
<i>Decision</i>	Request Amendment <input type="checkbox"/>	Refer to Organisational Development Board Decision <input type="checkbox"/>	
	Approval to Proceed <input type="checkbox"/>	Reject & Cancel <input type="checkbox"/>	
<i>Comments</i>			

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