

**INFRASTRUCTURE SERVICES FULL BUSINESS CASE**

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**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 Full Business Case proposals prior to these being presented to Cabinet for approval on the 16 June 2016. In particular the scrutiny should focus on:
  - The outcomes of the Infrastructure Services Full Business Case analysis undertaken on the Wholly Owned Company and Modified In-House alternative delivery models which were shortlisted as a part of the Outline Business Case presented to Cabinet on the 16 July 2015. This decision was later adopted following the call in meeting on the 26 August 2015;
  - The rationale behind the recommendations made in the Infrastructure Services Alternative Delivery Models – Full Business Case;
  - The next steps and other future actions to be taken to deliver the Modified In-House option which is endorsed in the Infrastructure Services Alternative Delivery Models – Full Business Case.

**Background**

2. The Infrastructure Services Alternative Delivery Model project has sought to identify ways to transform some of the Council's key frontline and support services, with the implementation of measures to improve service performance and deliver savings. Service delivery models have been evaluated with a view to delivering improvements for wider catalyst for wider change across the Council. The results of this exercise form the basis of the Infrastructure Services Final Business Case, which is attached to this report as **Appendix 1**.

The Infrastructure Services Alternative Delivery Model project is viewed within the Council as a positive process that has produced some service improvements; for example, the development of the Neighbourhood Services approach and an increase in revenue in areas like the Commercial Waste Service. During this process a variety of service delivery options have been explored; service changes have been evaluated and best practice approaches have been considered from across the United Kingdom.

### **Infrastructure Services – Objectives**

3. From the outset the objectives of the Infrastructure Services Alternative Delivery Model project have been to:
  - Reduce operating costs;
  - Improve outcomes to address current performance weaknesses;
  - Improved 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; and
  - Optimisation of income generation to support core funded services.

### **Cabinet Decisions**

4. 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*'. This report set out a number of critical challenges facing the Council and the need to move rapidly to new models of service delivery to enable the effective management of demand with significantly reduced resources.
5. One of the priority areas of work concerned alternative delivery arrangements for Infrastructure Services. The Infrastructure Services Alternative Delivery Model project comprises 14 service areas which are listed in **Table 1**. The cumulative gross and net expenditure budgets for these services for the 2016/17 financial period are approximately £72.2m and £26m respectively. The total Full Time Equivalents (FTEs) employed by these services is approximately 1255.

Table 1: Services within Scope of the Project

Directorate	Service Area(s)
City Operations	<ul style="list-style-type: none"> <li>• Waste Collections (Commercial and Residential)</li> <li>• Street Cleansing</li> <li>• Waste Treatment and Disposal</li> <li>• Waste Education and Enforcement</li> <li>• Pest Control</li> <li>• Parks Management and Development</li> <li>• Highways Operations</li> <li>• Highways Asset Management</li> <li>• Infrastructure Design and Construction Management</li> </ul>
Resources	<ul style="list-style-type: none"> <li>• Central Transport Services</li> <li>• Hard Facilities Management</li> <li>• Soft Facilities Management Cleaning</li> <li>• Soft Facilities Management Security and Building Management</li> </ul>
Economic Development	<ul style="list-style-type: none"> <li>• Projects, Design and Development</li> </ul>

6. On 20 November 2014, Cabinet was provided with an update on the project and approved further analysis of five alternative delivery models with the intention of identifying a preferred future service delivery model(s) for the services within scope. The five service delivery options were Outsourcing; Public / Private Joint Venture; Public / Public Joint Venture; Wholly Owned Arms Length Company and Modified In House. The five listed service delivery options were taken forward to the Outline Business Case (OBC) stage of the process.
  
7. On 16 July 2015, Cabinet considered an OBC which concluded that the most appropriate future delivery model for the services in scope was a Wholly Owned Company (with Teckal exemption). Cabinet agreed that a Full Business Case analysis be completed for the Teckal Exempt Wholly Owned Company (WOC) and Modified In-house models with the findings being reported back to Cabinet in 2016. As explained at the start of this report the decision taken at Cabinet on the 16 July 2015 was called in shortly after the meeting. A joint call in meeting involving the

Environmental and Policy Review & Performance Scrutiny Committees was held on the 26 August 2015 where the original Cabinet decision was upheld.

8. The OBC and FBC parts of the Infrastructure Services Alternative Delivery Model Project have been subject to independent review and challenge by Local Partnerships. They are a specialist company who are regularly involved in the review of similar public sector exercises across the United Kingdom. Local Partnerships is unique in this field as it holds public sector status as a result of being jointly owned by the Local Government Association and HM Treasury.

### **Previous Scrutiny**

9. There has been detailed scrutiny of 'Stage 1 – Set Strategy & Options Appraisal' and 'Stage 2 – Outline Business Case (OBC)' of the Infrastructure Services project, examples include:
  - The Environmental and Policy Review & Performance Scrutiny Committees' jointly ran a task & finish exercise titled 'Infrastructure Business Model & Alternative Delivery Options'. This was approved by the Environmental Scrutiny Committee on the 9<sup>th</sup> June 2015 and by the Policy Review & Performance Scrutiny Committee on the 7<sup>th</sup> July 2015. A copy of the recommendations and the Cabinet response are attached to this report as **Appendix 2**.
  - The Environmental and Policy Review & Performance Scrutiny Committees' held a joint meeting on the 9<sup>th</sup> July 2015 to scrutinise an item titled 'Infrastructure Services & Alternative Delivery Model Proposals'. This focused on 'Stage 2 – Outline Business Case (OBC)' and considered which of the five identified options should be taken forward to 'Stage 3 – Full Business Case (FBC)'. A copy of the letter written by the Chair following this meeting is attached to this report as **Appendix 3**. The Cabinet response to this letter is attached as **Appendix 4**.
  - A report titled 'Infrastructure Services – Alternative Delivery Model' was received by Cabinet at its meeting on the 16<sup>th</sup> July 2015. This report approved taking forward the Modified In House and Wholly Owned Company options from 'Stage 2 – Outline Business Case (OBC)' to 'Stage 3 – Full Business Case (FBC)'. This decision effectively eliminated the Public / Public Joint Venture, the Public Private

Joint Venture and Outsourcing options from the process. This Cabinet decision was later called in by a Member which resulted in a call in meeting being held on the 26<sup>th</sup> August 2015; a copy of the cover report for the call in meeting has been attached to this report as **Appendix 5**. The conclusion of the call in meeting was that the decision should not be referred back to Cabinet for reconsideration.

- On 1 December 2015, the Policy Review and Performance Committee considered a report entitled '*Alternative Delivery Model – Infrastructure Services. Building a successful local authority company – Governance Options*'. The purpose of this report was to present to, and seek feedback from, scrutiny regarding options regarding types of company and associated governance options that could be adopted in the context of a Wholly Owned Company if established. The letter from the Chair of the Committee dated 8 December 2015 and Cabinet's response of 13 January 2016 are attached to this report as **Appendices 6 & 7** respectively.
- On 15 March 2016, an Environment Scrutiny Committee meeting was held to consider an item titled 'Infrastructure Services – Full Business Case Strategy Briefing'. Members from the Policy Review & Performance Scrutiny Committee were invited to take a part in the item which included information on the draft future strategies for the services within scope of the project. The letter from the Chair of the Committee dated 11 April 2016 and the Cabinet Member's response of 19 May 2016 are attached to this report as **Appendices 8 & 9** respectively.

### **Stakeholder Engagement**

10. The views of various stakeholders, including unions, staff and Cardiff residents, have informed the evaluation of models. A summary of engagement activity and feedback will be made available for the meeting on the 6 June.

### **Business Case Methodology and Analysis**

11. The template used for the OBC has also been used as the basis for the FBC. This reflects the Office of Government Commerce's (OGC's) "Five Case Model" - the best practice standard recommended by HM Treasury for use by Public Sector Bodies when evaluating public sector proposals.

12. The FBC focuses on the development of five-year service strategies for each service area in scope, as well as an overarching strategy for the services as a whole. Once this is done it considers the impact of the two alternative delivery models against the strategies.

### **Overarching Service Strategy**

13. The overarching strategy for all the services in scope can be summarised as follows:
- To create appropriate service changes to maximise existing synergies and future opportunities;
  - To increase operational efficiency and service resilience;
  - To progress and improve the commercialisation of services through a better understanding of costs in relation to performance and resource capacity, and the provision of a clear pricing strategy for customers;
  - To develop an organisational brand;
  - To build capacity in the areas of social value and workforce development;
  - To collaborate where practicable with neighbouring authorities and public sector partners more broadly;
  - To continue with ongoing employee initiatives:
    - Improving the level of attendance;
    - Reducing the high reliance upon agency workers and overtime in some services;
    - Improving workforce planning;
    - Working within the corporate framework to further increase social value offered by the Council's employment opportunities, growing the number of apprenticeships, and positively supporting the ability of vulnerable groups to access work; and
    - To improve accountability for service delivery and customer satisfaction with council services.

## **Service Clusters and Opportunities**

14. A key theme which the Infrastructure Services Alternative Delivery Model evaluation has identified is the inconsistency of current management approaches to the delivery of related or inter-dependent services. It is suggested that the result of this approach is fragmentation with limited evidence of attempts to build synergies between similar services. The new approach being identified by the FBC is to cluster services to capitalise on opportunities for service improvement and income generation. The proposed new clusters are:

- **Recycling Waste Management Services:** This comprises Commercial Waste Collections, Domestic Waste Collections, Recycling Waste Treatment and Disposal. The new cluster reflects the substantial opportunities to grow the Cardiff Commercial Waste Service's business via connections with other treatment and disposal services;
- **Total Facilities Management:** This includes Hard FM (Building Management and Maintenance Services), and Soft FM (Cleaning, Building Support and Security Services) and the Pest Control Service. The clustering of these services provides the opportunity to create a Total Facilities Management business model with the ability to offer a menu of integrated services to both existing and future clients;
- **Fleet Services:** This focuses on the Central Transport Service. Following a two-year restructuring programme, there is the opportunity to realise substantial financial benefits using available workshop capacity, improved fleet management technology, and supporting internal service users to improve fleet efficiency;
- **Neighbourhood Services:** This area comprises Street Cleansing, Parks Management, Parks Development and Sport, and Education/Enforcement. The implementation of the Neighbourhood services is an ongoing project with notable service delivery improvement and resource efficiencies achieved to date. Further improvements and operational efficiencies will be achieved through the continued rollout of the project across the city.

- **Highways:** This cluster comprises Highways Operations, Highways Asset Management, and Highways Engineering. The continuation of highway services in a single business unit will help build on existing process efficiencies and develop a 'one Council' approach to highways asset management and maintenance across all council and public assets.
  - **Design Services:** This cluster comprises Highways Design and Delivery, and Landscape Design. Alignment of the two design functions provides the opportunity to increase capacity and achieve operational efficiencies, particularly in respect of increasing the amount of work secured by the teams. Opportunities exist to present a design services offer, particularly to other local authorities, with Projects Design and Development providing additional in-house expertise in the area of project management and construction.
15. The position facing these services is mixed. Some are able to trade immediately while others have the potential to become more commercial but require intensive support to increase their capacity to generate income. In relation to community-facing services like street cleansing the key issue relates more to the need to increase productivity and efficiency, and to bring about wider cultural change.

### **Collaboration**

16. Collaboration opportunities with neighbouring authorities exist for all services in scope. The creation of a platform for collaboration will enable the Council to choose whether to engage with other local authorities on a partnership or trading basis. The broader the scope of services, the larger the potential offer to other councils. But the complexity and risks of such wide ranging, multi-service collaborations are clear. More relevant to the Council in the short term are opportunities to explore relatively focused collaboration initiatives where there is an immediate potential to realise savings.
17. It is felt that Collaboration is more likely to happen following the establishment of a suitable partnership model. In this respect, the right environment needs to be created in which other councils will want to engage and work with Cardiff. Opportunities for potential collaboration are listed in section 2.4.2.7 of the FBC



**(Appendix 1)**. However, it needs to be recognised that collaborative models take time to establish. With this in mind, collaboration benefits in the FBC are profiled later in the five year business case period.

### **Commercialisation and Trading Function**

18. Commercialisation is critical in terms of understanding costs, controls and income and aligning these to the delivery outcomes of the Council's service requirements. An important aspect of this agenda is trading. It is felt that the ability and readiness to trade is different across services with variances in their ability to trade externally and, in certain cases, internally. Each service strategy has considered trading opportunities in respect of developing existing streams and potential new markets over a five-year period.
19. Trading, other than growing existing trading streams, is not the short term priority for many of the services given that operational change and retention of third party spend (insourcing) is within the control of the Council and hence the most secure route to achieving budget reductions. However, it is critical that all services in scope of the project to date become 'fit for purpose' to provide both sustainable and efficient services in the long term and grow their ability to trade. To do this it is felt that the Council will need to:
  - Complete a thorough review of budgets for the services in scope which ensures they are in alignment with future strategies to include clear income and cost analysis;
  - Ensure that branding is created that optimises dual brand of being public sector and commercial;
  - Develop a marketing strategy and website aligned with branding and business development strategy;
  - Map out common customers across services both internal and external;
  - Create a business development plan for each service and across the services in scope with differentiation between immediate opportunities and a longer-term strategy once services are fit to trade. A clearer understanding of target markets, sectors and customers' needs to be developed as well as sources of trading opportunities.

- Establish a pricing strategy which has clear commercial principles and ensures competitive pricing without subsidising the customer, ensuring that the Council demonstrates compliance with the State Aid principles and legislation;
- Increase the Council's commercial capacity;
- Consider the extent to which the Council should utilise the services in scope rather than promoting third party spend as long as value for money can be demonstrated and the specific services in scope are given sufficient time to become competitive.

### **Other Common Cross Cutting Opportunities**

20. There are a range of other benefits and opportunities that it is hoped will develop in line with the proposed changes, these include:

- **Increasing Attendance:** Whilst sickness absence levels in some services are above the APSE benchmark and best practice, the Council has been working on reducing these levels. The analysis of current sickness levels shows the potential to reduce sickness further.
- **Service Integration Savings:** There will be opportunities to secure efficiencies through the consolidation of management and back office services through the integration of services in the new delivery model.
- **Procurement:** The procurement work stream identified a number of improvement opportunities across the Infrastructure Services supply chains with the largest being in respect of Fleet and Building Services frameworks as they come up for renewal and in their operational application. Opportunities for efficiencies through the Agency Management framework are also being followed up.
- **Better Use of Technology:** There are major opportunities to improve operational efficiencies through the better use of industry wide technology. Examples include the use of mobile working technology, scheduling and rostering software and fleet management systems. The adoption and use of technologies are essential enablers to operational changes required to assure the financial benefits.

## Financial Analysis

21. Full details of the financial analysis undertaken including the assumptions made (where necessary) are provided in the FBC Financial Case section and in particular Appendix 3 of the FBC document. A summary of the financial analyses is provided in this section of the report.
22. To accompany the benefits identified in their service strategies, the services also completed a financial template to capture benefits, (which are in addition to the savings of c£5.2m identified across those services in scope for the 2016/17 budget), this is set out, across the 5-year period from 2016/17 to 2020/21.
23. The services were also required to identify any enablers or investments, including any dependency on other Council service areas required in order to secure these benefits. These benefits were enhanced by additional proposals suggested by Peopletoo and tested internally, based on their commercial and improvement experience of transformation programmes in other local authorities and their knowledge of the market.
24. The themes of enabling investments were common to a number of these service strategies, for example the application benefits of mobile working and scheduling, and these costs have been aggregated and shown in the tables below. Costs which are Service Strategy specific have netted-off the relevant benefit. **Table 2** illustrates the projected benefits over the four categories of benefits, i.e. operational, insourcing (external spend), collaboration or trading for income. The benefits identified and provided in **Table 2** were categorised on the basis that they are “model neutral”, in that they are achievable using either the Modified In-house (MIH) or WOC models, or whether the benefit is predominantly associated with the Teckal Exempt Wholly Owned Company (WOC) delivery model.
25. The aggregate enabling investments and other over-arching costs are also included in **Table 2** and, after deducting these, a net benefit of £4.767m for the model neutral position is projected over the five year period being considered. Further details can be seen in Appendix 3 of the FBC, but over the five year period being considered additional WOC specific benefits of £3.333m have been projected along with

additional costs of £0.787m – this produces a net benefits increase of £2.546m. Included in the additional benefits of £3.333m is projected collaboration income of £2.655m in later years.

**Table 2: Summary of Financial Model - Benefit Category by Service Cluster**

	BENEFIT CATEGORY				
AREA	Operational	Insource	Collaboration	Trading	Total
	£000s	£000s	£000s	£000s	£000s
<b>MODEL NEUTRAL</b>					
<b>BENEFITS</b>					
Recycling Waste Services	-867		-50	-689	-1,606
Neighbourhood Services	-350			-206	-556
Fleet Services	-1,020	-140		-330	-1,490
Total Facilities Management	-20	-1,000		-255	-1,275
Consultancy Design		-315		-30	-345
Highways	-301	-476			-777
<b>BENEFITS</b>	<b>-2,558</b>	<b>-1,931</b>	<b>-50</b>	<b>-1,510</b>	<b>-6,049</b>
<b>COSTS</b>					
One-off "Investment"					1,035
Recurring					247
<b>COSTS</b>					<b>1,282</b>
<b>NET BENEFITS</b>					<b>-4,767</b>
<b>WOC</b>					
<b>ADDITIONAL BENEFITS</b>	<b>-371</b>		<b>-2,655</b>	<b>-307</b>	<b>-3,333</b>

ADDITIONAL COSTS					787
WOC ADDITIONAL NET BENEFITS					-2,546

26. **Table 2** (above) indicates that the three areas of Recycling Waste Services, Fleet Services and Total Facilities Management are the most influential in terms of the delivery of the benefits, accounting for 72% of the Projected Benefits. In terms of the Benefit Categories **Table 2** highlights that Operational Efficiencies and Insourcing are the most significant categories for the delivery of the projected Benefits. This would support an immediate focus on those service clusters as well as the concentration on reshaping services utilising the Enterprise Architecture and Commercialisation investments to maximise the delivery of these operational and insourcing benefits.

27. To complement the Benefit Category analysis presented in **Table 2** (above) an alternative presentation of the financial analysis that brings together the costs and benefits over the 5 year time horizon considered, is provided in **Table 3** (below). This illustrates that there is a net cost in Year 1 before the pace of benefit realisation picks-up culminating in the Model Neutral projected net benefit of £4.8m over the 5 year period.

**Table 3: Summary of Financial Model Profiled by Financial Year**

	Yr. 1 (16/17)	Yr. 2 (17/18)	Yr. 3 (18/19)	Yr. 4 (19/20)	Yr. 5 (20/21)	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s
Recycling Waste Services	3	-266	-752	-363	-228	-1,606
Neighbourhood Services		-74	-174	-179	-129	-556
Fleet Services	-25	-440	-345	-350	-330	-1,490
Total Facilities Management	-24	-486	-531	-138	-96	-1,275

Consultancy Design		-5	-120	-110	-110	-345
Highways	-25	-351	-401			-777
BENEFITS	-71	-1,622	-2,323	-1,140	-893	-6,049
<b>COSTS</b>						
One-off "Investment"	562	473				1035
Recurring	85	148	15	0	0	247
COSTS	646	621	15	0	0	1,282
<b>Net 'Model Neutral' Benefits</b>	<b>575</b>	<b>-1,001</b>	<b>-2,308</b>	<b>-1,140</b>	<b>-893</b>	<b>-4,767</b>
<b>WOC</b>						
<b>ADDITIONAL BENEFITS</b>	<b>72</b>	<b>7</b>	<b>-1,155</b>	<b>-1,103</b>	<b>-1,155</b>	<b>-3,333</b>
<b>ADDITIONAL COSTS</b>	<b>413</b>	<b>365</b>	<b>10</b>			<b>787</b>
<b>NET ADDITIONAL WOC BENEFITS</b>	<b>485</b>	<b>372</b>	<b>-1,145</b>	<b>-1,103</b>	<b>-1,155</b>	<b>-2,546</b>

28. The costs and benefits which are specific to a Teckal based WOC model, and are shown in the bottom rows of **Table 3** have a similar financial profile in year 1 with a similar pattern of up-front “enabler” investment being required to ensure the operational and insourcing benefits are realised. The projection for a Teckal based WOC specific model is for net incremental costs of £0.787m for governance and finance systems in Years 1 & 2 with a net benefit of £2.546m over the five year period.
29. The upfront Year 1 “investment” requirements for the “Model Neutral” delivery option to enable in particular the early delivery of the projected operational and insourcing benefits can be split into a number of expenditure categories. These include:

- **Capital Expenditure – £350k:** External spend on acquiring the IT licences, hard and software to enable the productivity improvements to be delivered through the introduction of mobile working, scheduling, etc..
- **Set-up costs - £210k:** Costs of acquiring appropriate commercial expertise to develop commercialisation capacity and culture within the Council.
- **Recurring costs - £85k year 1:** This category includes the additional training and development costs as well as the running costs associated with the productivity enablers outlined above.

30. The funding for the investment costs in 2016/17 includes the ICT purchase and implementation for a fleet management system with a reserve value of £150K within the existing budget. It is proposed that the further ICT development for various needs of mobile and scheduling technology and implementation would be treated similarly to invest to save or earn principles. Where returns on investment exceed outlay, they would be subject to business cases for prompt decisions; this would need to include people resourcing costs.
31. The investment of external expertise to transfer commercial understanding and knowledge to the Council has been recognised since the OBC was agreed and provided to inform the FBC. During the FBC it has become clear that bespoke packages of work will continue to be needed to support any commercial and improvement programme. The funding can be supported through the Organisational Development revenue support.
32. Appendix 3 of the FBC aggregates the Category and Profile information presented in the above tables. This emphasises a number of the issues raised in the proceeding paragraphs in particular:
- The upfront investment cost and associated funding requirements;
  - The significance of the Services in delivering the overall quantum of projected net benefits;
  - The phasing of the benefits with the “internal” facing operational efficiencies and insourcing benefits being the first to be delivered;

- The additional benefits projected for a Teckal based WOC model but with these being heavily reliant on Collaboration and phased towards the back-end of the 5 year analysis period.

33. The financial model is built on a number of projections and assumptions. From a financial perspective the key risks are cost projections being exceeded along with income projections being reduced and or delayed. In this context large scale collaboration, although offering a significant financial prize, does present a higher risk of being able to realise these benefits early in the programme. It will rely on formal inter-organisation relationships to be established that would require political and operational, as well as commercial, agreements. The delivery of benefits through high levels of additional trading income also presents realisation challenges, to ensure services are enabled and are in a position to win external work in a competitive market place.

### **Implementation Resources**

34. The implementation of the proposals made in the FBC will require the allocation of appropriate resources to ensure the work is progressed in a focused and timely manner. This will continue to require the commitment of organisational development, human resources, financial services and ICT resources. It is felt that workforce development will help support the shift towards the new model. The FBC is predicated on the procurement of external support to further build commercial capacity.
35. In delivering the proposals in the FBC appropriate organisational development and training budgets will be deployed to support the change with specific proposals (such as the implementation of the new enterprise architecture proposals and commercial website detailed in the FBC) subject to the approval of invest-to-save business cases.

### **Proposed Delivery Model**

36. It is felt that the development of the business case has helped to define and instigate an agenda for change, while raising awareness of commercial opportunities across the organisation. It has challenged existing in-house services to improve and



engaged services on how these improvements could be made, including new ways of working for income. There has been a growing understanding of the need to do things differently and embrace commercial thinking, which will help generate better understanding of cost control and additional revenue, while leveraging investment in council assets more effectively to support traded income.

37. The financial assessment in the FBC report indicates that a Wholly Owned Company (WOC) could provide the Council with greater benefits over the full five-year period; although those additional benefits are mainly achievable in years 3 to 5. The report also states that the delivery of savings and additional income for 2016/17 and 2017/18 have to remain a key priority.
38. In addition to this there is a belief that the establishment of a company governance structure, financial, ICT and operating arrangements will bear heavily on resources in that critical two year period; this in turn would put at risk the delivery of the frontline changes needed to secure other immediate savings. The report adds that the proposals outlined in service improvement strategies need to be actioned with the key enablers identified and facilitated corporately to avoid delays.
39. The FBC report suggests that there is a significant variance of readiness in services to trade, with cost base analysis, ICT, staff training and marketing strategies in some inadequately developed. It identifies and details areas requiring improvements to productivity, insufficient technology, ineffective working and management practices that will all need to be prioritised and addressed in order to deliver the strategic benefits identified. All of these services need to improve cost control, optimise existing and new income streams and minimise external spend, i.e. deliver net financial benefits and savings within 2016/17 and 2017/18.
40. The FBC report states that the debate between in-house and WOC is less significant than the implementation of a single and consistent approach to improvement. Most important is the delivery of a concerted change programme that drives increases in net income and productivity of all services to improve visibly the effectiveness of key front-line services. Common requirements for success in either model are consistent management approaches to change, operational autonomy, the ability to trade and collaborate, flexibility, and the building of capacity and commercial skills.

41. The FBC explains that the modified in house approach will involve realigning in-scope infrastructure services as a matter of priority into two complementary programmes, these are:

### **1) Developing Cardiff's Commercial Services**

The FBC analysis has highlighted the need to build commercial understanding and capacity within the Council. This will require the embedding of a new commercial culture and mindset to ensure that managers and all employees have a thorough understanding of detailed service costs, with an appropriate pricing strategy put in place to facilitate targeted growth in income.

Additionally, in respect of those services where the potential to grow income is greater (as identified in the service strategies), it is important that a consistent management approach is developed to address fundamental issues around cost and supplier spend control, pricing, branding, marketing and performance. Important questions have also been raised about whether the Council is striking the right balance between services that are delivered by contractors and those that are delivered in-house.

It is proposed that Cardiff Commercial Services should consist of:

- **Recycling Waste Management Services:** Commercial Waste Collections, Domestic Waste Collections, Recycling Waste Treatment and Disposal (Recycling facilities, transfer stations and HWRC, depots);
- **Fleet Services:** Central Transport Service and Fleet Management;
- **Total Facilities Management:** Hard FM (Building Maintenance), Soft FM (Cleaning, Security and Building Management) and Pest Control;
- **Project Design & Development**

In effect, this will bring together services that are partially commercialised, or else have strong commercial or collaborative potential. It is proposed that a single management structure should be created, based in the Economic Development Directorate, to ensure consistency of approach, drawing on the commercial

capacity and expertise that already exists in the wider directorate, and links with services such as strategic estates.

## **2) Transforming Neighbourhood Services**

It is felt that the early successes achieved through the new Neighbourhood Services approach demonstrates that this approach should be continued and developed to the next level. This the FBC argues is to strengthen the ongoing operational changes and to accelerate the completion of the integration of the relevant services, in particular, Highway Operations, Parks Services, Street Cleansing and all environmental enforcement services.

To date, work has focused upon front line operations. However, there is now a need to concentrate resources and effort on the integration of management, back office and support services, bringing about much greater levels of operational collaboration across the city, improving outcomes in areas like street cleanliness, pot hole repairs and delivering savings outlined in the 2016/17 budget.

Implementation of the changes proposed in the service strategies will require a concerted drive to strengthen performance management arrangements; equip staff with the skills needed to work in multi-disciplinary teams; break down traditional silos between operational teams; the roll out of technology to facilitate the allocation of tasks; and much more effective analysis of data to ensure that resources are geared towards meeting customer demands.

It is proposed that the further transformation of Neighbourhood Services should continue to be led by the City Operations directorate, building on the service changes that have already taken place in 2015/16.

### **A One Council Approach**

42. At the heart of this approach would be intensive, high impact service improvement interventions overseen by a proposed Commercialisation & Accelerated Improvement Board (C&AI Board) comprising relevant Directors, as appropriate with external representatives, with a mandate to drive commercialisation and productivity across the Council as a whole. The Chair of the C&AI Board would report to relevant Cabinet Members and to Cabinet, as appropriate. The workstreams of the

Board would be integral components of the Council's wider Organisational Development arrangements. Officers would report to the Board and be responsible for the implementation of the relevant service improvement plans. A commercial brand, business development and marketing plans will be established and applied to services being transformed through the process to provide an identity for both internal and external trading.

43. Focused improvement and change management initiatives defined by clear performance targets, with closely monitored outcomes, would be undertaken. It is proposed that an independent review of performance would also be undertaken during 2017/18. In addition, workstreams would be agreed to embed commercial practices across the defined services, to embed commercial practices and management across a range of services where the case for change is demonstrable. A high level of staff engagement would need to underpin this approach.
44. The Board will also ensure appropriate oversight and support is given at a strategic level to all commercial projects in the Council, for example; the development of the Alarm Response Centre (ARC) project, commercial catering and bereavement services.

### **Key Enablers**

45. The FBC identified the 'key enablers' required for the successful implementation. A number of these cut across the organisation and need to be progressed promptly to deliver improved financial and service delivery outcomes. These include:
  - Implementation of a Fleet Management Information Technology (FMIT) package for the Central Transport Service;
  - Implementation of a new enterprise architecture including rostering, scheduling and mobile working technology to facilitate operational efficiencies and improve customer services;
  - Development of a commercial brand together with a commercial website;
  - Completion of a review of the Fleet and Building Services Frameworks;
  - Strong support for the introduction of apprenticeships and developing links with the NEETs agenda;

- Adoption of a ‘One-Council’ approach to asset management, investment, development and maintenance in respect of the Council’s infrastructure assets;
- A comprehensive review of the budgets of all the services in scope to develop a thorough understanding of the essential expenditure and income for control of budgets to support the future delivery model;
- On-going effective engagement of the Trade Unions and employees regarding the operational improvements identified within the service and ‘overarching’ strategies;
- Support to explore collaboration opportunities with other council’s and public bodies; and
- Appropriate internal and external resources to support the programme.

### Timeline

46. A more detailed implementation plan is attached to the FBC for each of the two change programmes. Service Improvement Plans will be provided to demonstrate the detailed change programme, outcomes and performance measures. The year 1 head line timeline is provided below:

Date	Timeline
June 2016	Cabinet approval of the Full Business Case
	Services move into Cardiff Commercial Services
	Establishment of the Commercialisation and Accelerated Improvement Board (C&AI Board)
July 2016	C&AI Board approval of Service Improvement Plans for Cardiff Commercial Services and Neighbourhood Services
July 2016	Agree performance measures for both workstreams
September 2016	Start commissioning of an Fleet Management IT system
September 2016 – January 2017	Prepare and approve 2017-2021 Business Plans for services in scope of Cardiff Commercial Services

March 2017	Complete commissioning of relevant enterprise architecture by 31 <sup>st</sup> March 2017
	Implementation of the approved business plans for commercial services in 2017/18
July – September 2017	C&AI Board to engage independent review of performance

47. Ongoing engagement with key stakeholders will continue throughout to ensure delivery and to generate a stronger performance lead approach.

### **Risk Management**

48. 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. The key risks in relation to the implementation of the service strategies and the commercial programme are included in the FBC.

### **Future Communications Strategy and Plan**

49. The FBC confirms that a high level of stakeholder engagement is retained as the project progresses and that the communications for the project will support all stakeholders. A variety of channels (i.e. enhanced social networking methods as well as ensuring strong verbal and written communications) will be used to communicate to all identified stakeholders and to continue to support the project through various phases.

### **Local Member Consultation**

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

### **Way Forward**

51. The Cabinet Members for Corporate Services & Performance and the Environment 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 trade unions and ask them any questions which they feel are appropriate.

### **Legal Implications**

52. 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**

53. 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 Committee is recommended to:

- i. Note the contents of the attached reports;

- ii. Consider whether it wishes to make any comments to the Cabinet to take into consideration when it receives the report titled 'Infrastructure Services Alternative Delivery Model: Next Steps'.

**David Marr**

**Interim Monitoring Officer**

**31 May 2016**

- **Appendix 1** – Infrastructure Services Alternative Delivery Models – Full Business Case.
- **Appendix 2** – Recommendations and Cabinet response to the joint scrutiny task & finish report titled 'Infrastructure Business Model & Alternative Delivery Models'.
- **Appendix 3** – Letter written by the Chair following the joint scrutiny meeting held on the 9 July 2015.
- **Appendix 4** – A response from the Cabinet Member for the Environment to the letter written by the Chair following the joint scrutiny meeting held on the 9 July 2015.
- **Appendix 5** – The joint scrutiny cover report to the call in meeting on the Outline Business Case held on the 26 August 2015.
- **Appendix 6** – Letter written by the Chair of the Policy Review & Performance Committee following scrutiny on the 'Alternative Delivery Model – Infrastructure Services – Building a Successful Local Authority Company – Governance Options'. This was held on the 1 December 2015.
- **Appendix 7** – A response by the Cabinet Member for the Environment to the letter written by the Chair of the Policy Review & Performance Committee following scrutiny on the 'Alternative Delivery Model – Infrastructure Services – Building a Successful Local Authority Company – Governance Options'.
- **Appendix 8** – Letter written by the Chair of the Environmental Scrutiny Committee to the Cabinet Member for the Environment following an item titled 'Infrastructure Services – Full Business Case Strategy Briefing' held on the 15 March 2016.



- **Appendix 9** – A response by the Cabinet Member for the Environment following the item titled 'Infrastructure Services – Full Business Case Strategy Briefing' held on the 15 March 2016.