CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD

CABINET MEETING: 16 JULY 2015

INFRASTRUCTURE SERVICES - ALTERNATIVE DELIVERY MODEL

REPORT OF DIRECTOR OF CITY OPERATIONS

AGENDA ITEM: 8

PORTFOLIO: ENVIRONMENT (COUNCILLOR BOB DERBYSHIRE)

Reason for this Report

1. To advise Cabinet on the outcomes of the Outline Business Case undertaken to evaluate the short list of alternative delivery models approved by Cabinet on 20 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 a number of critical challenges facing the Council and the need to move rapidly to a new model of service delivery that enables the effective management of current and future demand with vastly reduced resources. This would involve a consideration of a full range of service delivery models and providers.

5. The report established an Organisational Development Programme which involves two principle portfolios of work: (i) Enabling and Commissioning Services and (ii) Reshaping Services. One of the priority areas of work identified within the Enabling and Commissioning Services portfolio was 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	Service Area(s)
City Operations (Previously Environment)	• Waste Collections (Commercial and Residential) • Street Cleansing • Waste Treatment and Disposal • Waste Education and Enforcement • Pest Control
City Operations (previously Culture, Leisure and Parks)	• Parks Management and Development • Landscape Design
City Operations (previously Strategic Planning, Highways, Traffic and Transport)	• Highways Operations • Highways Asset Management • Infrastructure Design and Construction Management
Resources	• Central Transport Services • Hard Facilities Management • Soft Facilities Management Cleaning • Soft Facilities Management Security
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.

On 20 November 2014, Cabinet was provided with an update on the work undertaken to date across infrastructure services to improve the efficiency and effectiveness of services delivery. Cabinet also received an overview of 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.*

7. The work undertaken in response to these recommendations is summarised in this report and full detail is provided in the Outline Business Case attached as Appendix 1.

8. 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. Local Partnerships were appointed to undertake this work because of its unique public sector status, being jointly owned by the Local Government Association and HM Treasury. Local Partnerships are therefore well positioned relative to both national and local government and capable of providing unique insight into current best practice and market intelligence from across the UK. Local Partnerships also offer extensive experience in supporting the public sector, particularly local authorities, in matters relating to the delivery and transformation of infrastructure type services.

Infrastructure Services – Project Objectives

9. The objectives of the Infrastructure Services Project, which are consistent with those identified in the Organisation Development Cabinet Report approved on 15 May 2014, are as follows:

    - reduce operating costs;
    - 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, and
    - optimise income generation to support core funded services.

10. At the outset of the project, it was established and understood that the responsibility for determining the strategy and service requirements

relevant to each service would be retained by the Council. Regardless of the arrangements established for the delivery of the services in scope, whether in-house or otherwise, the Council would retain responsibility for setting the Authority's requirements and performance management arrangements of the selected model, delivering the regulatory role and protecting the Council's interests.

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. Undertaking Full Business Case (FBC) process represents the next step and would contain full details of the way forward. The FBC would then form the basis of a detailed business plan for any of the models moving forward and would be the subject of a further report to Cabinet. This report seeks approval of the Outline Business Case (OBC) only and is the 'gateway' to the next detailed stage.

Service Reviews

13. An important step in preparing the OBC was the completion of the Service Reviews for each service within the scope of the project. As noted 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, summaries of 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 cohere 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 20 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. 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. This project has led to improved land and street scene service, whilst delivering cost efficiencies, improved customer satisfaction and maintaining resilience to service performance during a period of 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 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. Furthermore, 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, engagement with key stakeholders including Members, Unions, staff and Cardiff residents, was identified as an important factor in the success of the project. A Stakeholder Engagement Plan was therefore developed and implemented at an early stage which 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. Ongoing consultation has focused particularly on Service Reviews and the development of the Corporate Alternative Delivery Model methodology. Relevant staff have been regularly engaged with the Partnership Board and a number of other meetings providing important opportunities to do so.

22. Engagement work has been undertaken ahead of all critical decision points, including Cabinet's consideration of this report, the report in November 2014, and also the release of Scrutiny's Task and Finish Group report in June 2015. Staff have been kept updated on progress through the individual Directorate Service Area Joint Committees (SAJC's). Articles have also been included in the Council's 'In-box' , the Core Brief as well as shared during 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. Member 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 responses, 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 work is effectively communicated with all stakeholders. In view of this a stakeholder mapping exercise will be undertaken to identify the ‘audiences’ that 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 representing each service area are involved. Communicating the Business Case will also be essential if staff if they are to understand the reasons for the work being undertaken.

27. The Communications Strategy and Plan will therefore ensure that information is provided in a timely and effective way, and through a variety of appropriate 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

28. 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 established 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

29. A further 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.

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30. 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 responding to any change in local authority boundaries and for working with other authorities or public sector partners; how supportive would stakeholders be, and what would be the likely impact upon staff and young people. Risk management was also considered throughout this work.

31. A summary of the soft market testing and the evaluation work described above is summarised in the following sections and fully detailed within the Outline Business Case attached as Appendix 1.

<u>Soft Market Testing</u>

32. 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 met separately 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.

<u>Corporate Alternative Delivery Model Evaluation Methodology</u>

33. 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.

34. 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.

35. 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.

36. The scores for each alternative delivery model for each service in scope were determined by multiplying the models scores by the service area weightings. These are detailed within section 2 of the Outline Business Case. In summary, the alternative delivery models with the majority of the highest values using the new corporate alternative delivery model evaluation methodology are the Public/Private Joint Venture and the Public/Public Joint Venture models. This evaluation tool is a method for Cabinet to consider its appetite for retaining a level of risk, or control and level of flexibility the models offer, which may differ from that provided by the Joint Venture models. This is further discussed in the Summary and Proposed Way Forward section later in the report.

<u>High Level Financial Analysis</u>

37. 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 28 above, were informed by 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 been the subject of further discussions with Local Partnerships. Nevertheless, as with all financial modelling, there is an inherent risk with the assumptions made, which 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.

38. Information regarding the assumptions made in respect of each of the headings in paragraph 28 are enclosed in Appendix 3 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.

39. 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. 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

40. 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 assavings arising

from changes to the current pay enhancements. For legislative reasons, the changes to Pay enhancements could 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).

41. It is important to emphasise that the total value of savings identified in Table 2 were identified as opportunities in the Councils Medium term Financial Plan 2015-18 and formed part of the Budget setting for 2015/16. This is reflected in the Council’s proposed Budget Strategy for 2016/17 and the Medium Term.

42. It should be noted that going forward the services in scope may be subject to further budget reductions and thus to consequential reductions in service. The detail of which will be subject to full negotiation with staff and Trade Unions as part of the FBC stage and would be also subject to approval of the recommendations of this report and Budget Council.

43. It should be noted that in the high level financial analysis, it has been assumed that the Modified In-House saving proposals would also be fully implemented for the Wholly Owned Company alternative delivery model.

44. 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 Wholly Owned Company (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 4 of the Outline Business Case attached to this report as Appendix 1 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 Ranking Model	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 to 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 5 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**
Commercial 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 services in scope	Numerous examples for services in scope	Numerous examples for 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. In summary, 11 of the recommendations are accepted, 14 partly accepted and 2 not accepted.

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. It is also recognised that the quantum of work undertaken meant that the internal research focused upon the 2013/14 financial period. This is recognised as a factor of influence in some of the recommendations of the report not being accepted or only partly accepted.

Summary and Proposed Way Forward

55. The alternative delivery models with the majority of the highest values using the new corporate alternative delivery model evaluation methodology were the Public/Private Joint Venture and Public/Public Joint Venture model. An examination of the model scores in the Outline Business Case shows that critical factors in determining the higher values for these models include the transfer of risk in relation to the achievement of cost reductions, exploiting income opportunities and also the transfer of risk in relation to the improvement of service delivery performance and capacity. This methodology in assessing appetite for risk and control will therefore be heavily influenced by how the current stakeholder views their current operating environment according to the resources, commercialisation, technology and governance in place at the time of the weighting assessments.

56. However, the Cabinet are requested to consider that, on the basis of the high level financial analysis undertaken and discussions with Senior Management, 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 public or private contractual partner. Consequently the Cabinet may be minded to accept retaining a level of risk greater than a public public/ private JV would offer. Notwithstanding, it is also recognised that developing a Modified In house model leading to a Council Wholly Owned Company would still be reliant on the necessary decisions being made with additional early commercial and business support to embed into the services 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 the delivery of the benefits associated with the models are driven through.

57. The financial analysis work undertaken indicates that the Wholly Owned Trading company model is most likely to deliver the greatest financial benefit for the Council as noted in Table 3. Overall, this model is considered the best opportunity for the Council going forward.

58. In respect of other factors, key issues from a Cabinet perspective include: the required speed of delivery of change, allowing more operating freedom for the company whilst retaining overall control, innovation, diversification and commercialisation, maintaining the support of key stakeholders and improved employee ownership and commitment.

59. Having undertaken a balanced consideration of the options appraisal, it is concluded that the most appropriate future delivery model to be assessed in detail for the FBC for all the services within scope, is a Wholly Owned Company (Teckal), with the modified in house being delivered, and compared to in the meantime. The key reasons for identifying this option as the preferred future delivery model are provided below:

- 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 to 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 the Council/Company contract, which would 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 for the Cabinet to consider;

- 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, innovated by the directorates, 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, whilst also controlling and carrying the risk of failure;

- 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. access to funds to invest in such would be the subject of the company business plan and negotiations with the Council;

- Whilst not perhaps the 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 by other councils that have established Wholly Owned Trading Companies under Teckal exemptions, it is believed that most staff will be motivated by the new culture created within the new organisation, will see it as a means to protect and grow jobs through new work, 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 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.

62. In addition, commercial and performance experience is available in the market to the Council to aid in establishing a WOC. It will be important to quickly make available this specific experience and advice to the FBC Board and Project Director. Similar skills and business experience would ultimately be embedded in a Company Board of Directors, Non executive Directors should reflect appropriate experiences, however, this would be subject to the later Full Business Case decisions.

63. 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. Some of these lessons are provided below:

- Being over optimistic on growth 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.

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

Proposed Next Steps

65. 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 and baseline from which to grow.

66. 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

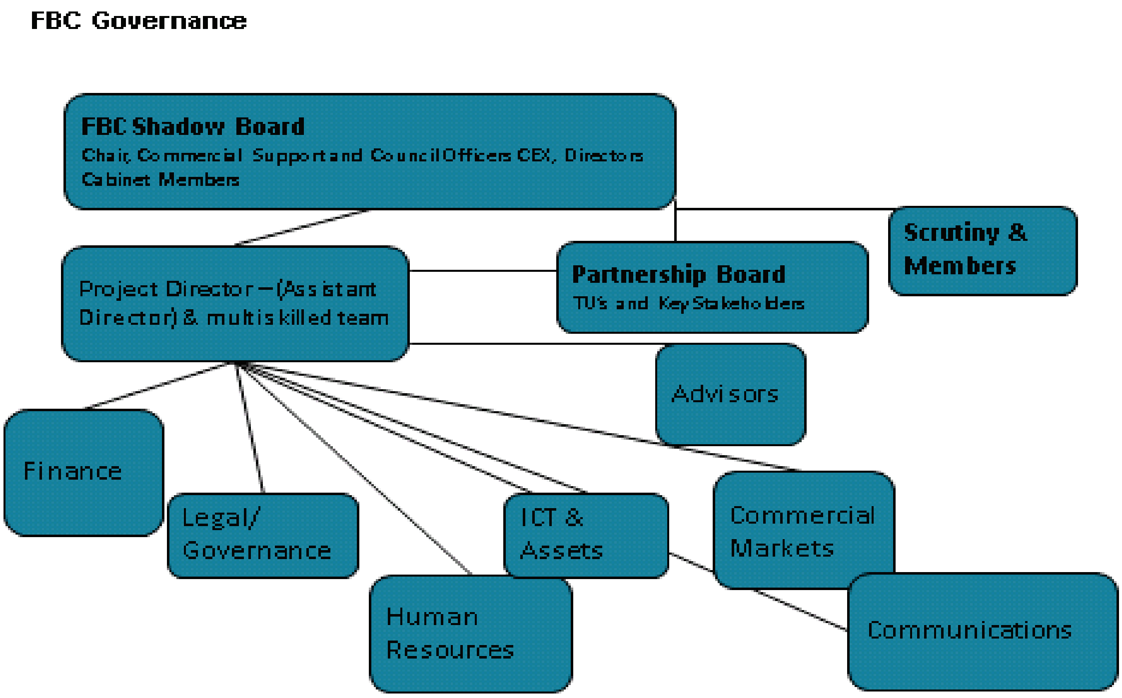
the High Level Financial Analysis work referred to earlier in this report.

Next Stage: Final Business Case, Resources and Governance

67. 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.

68. 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). The work will also require ongoing challenge from appropriate external stakeholders, 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.

69. The governance of the team, such as the example shown below, should be established immediately:



70. The Project Shadow Board would be accountable to the Cabinet and Scrutiny, supported by the Project Team leader the Project Director (Assistant Director Environment).

71. 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 2016. 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.

72. 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.

Current Timescales

73. The draft project plan high-level time frames are attached in Appendix 4. The time table is designed to deliver a robust final business case by December 2015 to inform the Budget setting processes in January/ February 2016, optimise the savings delivery potential whilst meeting current governance timeframes for decisions. As noted above, a key risk to project delivery is a lack of investment in internal resources and access to commercial expertise and experience in establishing a WOC. It is therefore important that the funding allocation is made, internal resources prioritise sufficient allocations of their time, that services are brought together for reshaping at the earliest opportunity, that staff champions are identified and made available and that external advice is appointed swiftly.

74. Should the Cabinet and Council consequently resolve to establish a WOC, the Transition stage would commence in February 2016 with a view to company Start-up in quarter 1 of 2016/17. Further refinement of timetables will continue throughout the project stages. Stakeholder Engagement will continue throughout.

Local Member Consultation

75. 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

76. To enable the most appropriate future service delivery model for the services in scope to be determined and thereafter enter the Final Business Case Stage.

Legal Implications

77. There are no direct legal implications arising from recommendations in the report.

78. 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.

79. 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.

80. 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.

81. 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 the below is understood, verified and documented:
        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)

82. 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.

83. 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.

84. 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

85. 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.

86. The Outline Business Case (OBC) financial projections are high level and assumption driven. In this context the associated sensitivity analysis included (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.

87. Pre-Operational implementation costs comprise two separate elements which again will be developed further during the FBC stage:

- Costs included in the financial model, projected at £900,000, both revenue and capital, required to set up the new company and get it into a position to trade e.g. review and possible acquisition of IT systems, staff development, specialist professional advice.

- Costs projected at £175,000 to acquire external advice etc. that is required to complete the 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.

- 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.

88. 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.

89. 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.

90. 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 includes 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.

91. 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.

92. 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.

93. It is expected that the WOC will operate under the "Teckal" exemption which allows the Council to passport the delivery 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 :-

- There must be no private investment in the company which is the case here with 100% ownership of the company

- 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

- 80% of the turnover of the company is with the Council so maximum turnover with External Third Parties would be 20%. Paragraph 47 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 recycled products.

94. The key distinctive financial characteristics between the delivery models are outlined in detail in the OBC but in summary these include:-

- Outsourcing
  The model scores the highest for efficiency savings with its focus on securing year on year improvements. No income growth assumed. Procurement required but set-up costs funded by contractor. More formal, traditional client higher contract management costs required and included. Overhead payment to contractor reflects the provision of services to outsourced activities with Council Support service saving limited due to mix of fixed and variable costs.

- Private JV
  Efficiency savings slightly diluted compared to outsource with focus on income growth and joint ownership. Best performing in terms of additional external income in total but this is subject to a gain sharing arrangements, where not all gains flow back to the Authority. Procurement required but set-up costs funded by contractor. Client contract management role required but lighter than outsource to reflect part ownership of the JV delivering the contract. Overhead payment to JV partner reflects provision of services to JV activities with Council Support service saving limited due to mix of fixed and variable costs.

- Public JV
  Similar characteristics to the Private JV although Procurement not required it will be replaced by detailed negotiation of the contract between Council and JV partner.

- Wholly Owned Company (WOC)
  Efficiency saving in excess of in-house arising from commercial focus and cultural change from new organisational structure but not to the full extent of the more experienced JV partners.
  Income growth also modelled as lower than with JV models but benefits fully retained by Council.
  No procurement required but implementation costs fully borne by council as not sharing with a partner and using their existing structures.
  Contract Management costs included but lighter touch compared with the models with an external partner.
  Provision is made for recurring costs of acquiring and retaining commercial and business management skills.
  No change assumed for support services.

- Modified In-house
  Lower efficiency saving assumed than the other models with less commercial focus or economies of scale which is also a factor along with local authority trading restrictions on income growth.
  No procurement costs necessary, but implementation costs will be required to secure some of the savings identified, although not to the same extent as with the WOC.
  No changes are assumed for support services.

95. With the scale and scope of this Project there are a number of Financial risks to highlight:

- As is expected with an Outline Business Case the assumption driven nature of the Financial Model has been made clear. In this context the results of the sensitivity analysis scenarios that highlight the impact of a reduction of in-house savings is especially significant. The risk remains that any non-delivery of savings or delays in implementation would impact on the ability of the preferred delivery model to deliver the projected benefits required for the council to deliver its budget strategy.

- The financial assumptions and projections included in the OBC will be developed during the preparation of the FBC. This may result in movement in the underlying assumptions with the risk that both costs may increase and benefits reduce with the detrimental impact for the financial performance of the WOC and subsequent achievement of the Council's budget strategy.

- With the preferred option of a WOC the Council will retain 100% ownership of the company and will not have the benefit of a partner to share liabilities and risks as would be the case with the JV and outsource models. The WOC model does bring a greater degree of flexibility compared to the JV and Outsource models in terms of changing delivery model direction which could involve the council incurring significant liabilities if it wished to purse early termination of the long term JV or Outsource model.

- The FBC will include a wider assessment of the risks facing the Council including operational risks associated with the preferred model as well as programme risks.

Human Resources Implications

96. 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. A full Equality Impact Assessment will be needed for future decisions.

97. 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.

98. 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,

2. Agree the conclusion of the report that the most appropriate future delivery model for the services in scope is a Wholly Owned Company (Teckal);

3. Agree to the establishment of a Full Business Case and Shadow Board to govern the company establishment and delegate 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 Directors and Non Executive Directors to the Shadow Board;

4. Agree to the completion of a Full Business Case for the Wholly Owned Company model and also the Modified In-House Model and report the findings back to Cabinet early in 2016 together with recommendations as appropriate regarding:

   a) The detailed financial analysis for delivering a full range of efficiency and income benefits against cost complete with sensitivity analysis.

   b) The appropriate legal vehicle for the proposed trading company, for example, a company limited by shares or by guarantee;

   c) The proposed governance of the company, including possible alternatives for the composition of the company Board;

   d) 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;

   e) 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;

   f) Opportunities for increasing external trading and local market analysis;

   g) Whether or not it would be appropriate to remove some services currently in scope due to robust business alternatives and reasoning, or parts thereof due to strategy setting roles, and whether some other services should be included at this stage or set out phases in the following year(s);

h) 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;

i) Financial implications in respect of pensions, day to day management of the Wholly Owned Trading company, and taxation;

j) The transfer of relevant assets, for example, relevant accommodation, vehicles and equipment, and;

k) The initial investment required to fully establish the proposed Wholly Owned Company.

5. Approve the allocation of resources as identified in paragraph 68 of this report for the completion of Recommendations 3 and 4 above and delegate authority to the Chief Executive in consultation with the Cabinet Member for Corporate Services and Performance and the Corporate Director Resources to authorise amendments to these resources as necessary for the satisfactory completion of the Full Business Case, and;

6. Agree that consultation commence on and thereafter implement the saving opportunities identified for the Modified In-house and Wholly Owned Company Trading options to allow the financial benefits to be achieved within the timescales identified.

ANDREW GREGORY
Director
10 July 2015

The following appendices are attached:
Appendix 1– Infrastructure Services Alternative Delivery Models. Outline Business Case. July 2015.
Appendix 2- A Joint Report of the Environmental and Policy Review and Performance Scrutiny Committee's. Infrastructure Business and Alternative Delivery Options.
Appendix 3- Response to Environmental and Policy Review and Performance Scrutiny Committee's Task and Finish Group Report Recommendations
Appendix 4 - Project Programme – FBC Stage
Appendix 5 – Statutory Screening Tool

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

Appendix 1

Infrastructure Services

Alternative Delivery Models

Outline Business Case

CARDIFF
CAERDYDD

Revision History

Summary of Changes	Author of Changes	Date	Version

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.

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.

Contents

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 Outline Business Case 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.

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.

The Council will retain responsibility for determining the strategy and service requirements relevant to each service, irrespective of the delivery model.

Economic Case

A structured Service Review, using a methodology developed by the Council, was completed for each service in scope, including an assessment 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 correlate with the project objectives, are 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 efficiency;

- 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 systems for staff to report, improved 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 operational matters related to 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 in order to increase capacity and improve outcomes for communities

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 development and 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 - WOC (Teckal) i.e. a trading company set up and wholly owned by the Council which is able to trade with other organisations across the public and private sector, subject to such trading activity not exceeding 20% of the company's turnover, thus enabling the Council to 'passport' work to the company without following a formal procurement exercise.

The key reasons for identifying this option as the suggested future delivery model include:

- Whilst the financial projections in this Outline Business Case are high level, these indicate 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. 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 navigate with the company to secure changes regarding budget and service delivery;

- It should 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 achieved 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 the Trade Unions and employees have a preference for maintaining in-house provision, feedback provided from other councils that have established Wholly Owned Trading Companies, suggest that most employees will be motivated by the new culture created within the new organisation, whilst enjoying key protections as a company of the Council;

- It fits with the general principles identified by residents as interpreted from the responses received to the Cardiff Debate survey;

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 activities such as zero based budgeting, defining service specifications, defining volumetric data, recording asset and system registers, employee transfer, 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 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 Wholly Owned Company 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.

In addition, 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 and to support implementation. In addition, similar to the process adopted for the Outline Business Case, it is recommended that the Full Business Case be subject to appropriate independent review and robust external challenge. The estimated cost for the provision of this external advice is £175k.

The key risks identified for the Full Business Case stage of the project are included in the table below

Risk Description	Risk Assessment Information				Risk Response Information				
	Risk Type	Proximity	Likelihood	Consequence	Inherent Risk	Likelihood	Consequence	Residual Risk	Future Action Required
There is a risk that the Council and/or project team lacks the skill and capacity to identify and implement the suggested 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 full resourcing and specific advice is provided. Ensure sufficient levels of challenge and advice are sought from outside of the project.
Changes to the cabinet could take place during the project lifecycle and result in a loss of appetite for any change to the model of service delivery.	Political	No Time Period	B	1	High Priority	C	1	Medium/High Priority	Ensure that there is continuous engagement and briefings with the cabinet and all members, 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 Members
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.

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	Communication, Organisation, Stakeholders	No Time Period	B	2	High Priority	C	2	Medium/High Priority	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.
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 communications plan advises of potential impacts to current levels of service delivery.
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.

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.

Risks that relate specifically to the operation of a Wholly Owned Company and achievement of its operational objectives will be identified and presented as part of the Full Business Case process.

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. It is estimated that this will be in January 2016. 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 fully established 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 was produced. 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 ensuring strong verbal and written and verbal communications) to all identified stakeholders, to support the project through each future phase of its development.

Conclusion

In summary, it is recommended that a Full Business Case be undertaken to appraise Wholly Owned Company model in further detail.

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

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

- 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

- 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:

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 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.£4.3mwas 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 a high level summary of those 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 a high level overview of the in-house service improvements relevant to the services in scope;
- Provides a summary of the alternative delivery models being considered;

- 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.

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.

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	• 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	• Bulky waste collection • Hygiene waste collection • Assisted lifts			
Customers and Volume of Demand	• 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)	• 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**
• 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 • Operating surplus delivered in 2014/15	• 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**
• 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	• 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

2.2.2 Street Cleansing

Service Title	• Street Cleansing
Service Description	• Cleansing of adopted highway areas across the city (except Lloyd George Avenue and The Hayes) • Removal of fly-tipping
Statutory Services Provided	• Street cleansing • Bin emptying • Removal of fly-tipping
Non-Statutory Services Provided	• n/a
Customers and Volume of Demand	• 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)	• 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**
• 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 • Operating surplus delivered in 2014/15	• 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**
• 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	• Ongoing Council budget reductions in the short/medium term • Forecast demographic growth and resultant increase in demand on the service

2.2.3 Waste Treatment and Disposal

Service Title	Waste Treatment and Disposal			
Service Description	• 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	• 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	• Provision of more than 1 HWRC • Provision of Waste Transfer Stations • Provision of a Materials Recycling Facility			
Customers and Volume of Demand	• 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)	• 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**
• 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 avoids adverse external contractor rates e.g. MRF external gate fees are significantly less than external market rates	• 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 • Significant operating deficit in 2014/15

Opportunities	Threats
• 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	• 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 recyclate prices • Increased contamination levels from waste collections and low participation • Changing legislation which could result in a failure to meet targets and fiscal penalties

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	• Enforcement activities in relation to fly-tipped waste			
Non-Statutory Services Provided	• 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	• 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)	• 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**
• 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%	• 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**
• 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	• Ongoing Council budget reductions in the short/medium term • Forecast demographic growth and resultant increase in demand on the service

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	• 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	• 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	• 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)	• 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**
• High levels of customer satisfaction, based on complements 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	• 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**
• 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	• Competition with private sector companies

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

2.4.1 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	• 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	• 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	• 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)	• 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**
• 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	• 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
Opportunities	**Threats**
• Grow the service to become more commercially viable, however this would require significant investment and for productivity levels to improve	• Ongoing Council budget reductions in the short/medium term • Forecast demographic growth and resultant increase in demand on the service

2.3.2 Highways Asset Management

Service Title	Highways Asset Management			
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). • 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	• 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	• 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	• 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)	• 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**
• AMX software for Asset Management • Highway Asset Management Policy • Knowledge, experience and flexibility of employees	• 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**
• Improve commercial viability • Delivery of services in collaboration with neighbouring authorities or partner organisations	• 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

Service Title	Infrastructure Design and Construction Management			
Service Description	Delivery of all civil engineering projects on behalf of the Council			
Statutory Services Provided	• None of the functions provided are a statutory responsibility for the Council			
Non-Statutory Services Provided	• Feasibility / Concept Design • Detail Design • Project Management • Contract Management • Site Supervision • Construction, Design and Management services			
Customers and Volume of Demand	• In 2013/14 service delivered £15 million worth of work, which equated to around 45 individual projects			
No. of FTEs (01/04/15)	• 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**
• 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	• 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**
• 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	• 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

2.5 Sport Leisure and Culture Directorate As-is Summary

2.5.1 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	• 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	• Grounds maintenance activities i.e. grass cutting, litter clearance • Arboriculture • Sports pitch management • Plant production
Customers and Volume of Demand	• 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)	• 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**
• 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	• 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**
• Change the delivery model or make internal changes to the service • Grow the service to become more commercially viable (however investment would be required)	• Forecast demographic growth and resultant increase in demand on the service • Expectations of all stakeholders exceeding what the service can realistically provide

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	• Fulfilment of statutory obligations placed against all vehicles i.e. MOT testing, HSE compliance			
Non-Statutory Services Provided	• 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	• 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)	• 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**
• 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	• 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**
• 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	• 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

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	• 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	• All functions carried out are non statutory in nature but are necessary to satisfy legislative responsibilities as detailed above			
Customers and Volume of Demand	• 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)	• 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**
• 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	• 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 • 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**
• 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	• 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

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	• 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	• All functions carried out are non statutory in nature but are necessary to satisfy legislative responsibilities as detailed above			
Customers and Volume of Demand	• 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)	• 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**
• 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	• 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 • 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**
• 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	• 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

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	• 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	• All functions carried out are non statutory in nature but are necessary to satisfy legislative responsibilities as detailed above			
Customers and Volume of Demand	• 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)	• 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**
• 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	• 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
• 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	• 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

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	• None of the services provided are a result of any statutory obligation			
Non-Statutory Services Provided	• 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	• 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)	• 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**
• 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	• 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**
• 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	• Improving market conditions could result in a loss of employees, due to more attractive employment opportunities elsewhere which the Council can not compete with

2.7 Summary of Service Improvements Required

2.7.1 Following completion of the Service Reviews, the Operational Managers were requested to prepare Improvement Plans 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 improvement plans address issues that were identified in the Service Reviews.

An indication 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 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. Additionally 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 was 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 can be found on the CIS system under Commissioning and Procurement/Procedures/Alternative Delivery Model (ADM)/002 - Assessment Panel Pack - Part 2.

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 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.

<u>Examples of Councils that have adopted an In-House Model</u>

- 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.

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 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.

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.

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

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.

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

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 contact 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 Councils 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 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".

<u>Examples of Council's that have Outsourced Infrastructure Type Services</u>

- 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.

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 a cumulative value of 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:

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 is 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 a cumulative value of 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.

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 3below:

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

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 (as summarised in Appendix 6 – Soft Market Testing summary) , 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.

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

	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,	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

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).

It is important to emphasise that the total value of savings identified in Table 2 were identified as opportunities in the Councils Medium term financial Plan 2015/16-2017/18 as part of the Budget setting for 2015/16. The proposed Budget Strategy for 2016/17 (subject of a separate report), reflects this over the period covered. Therefore this alternative delivery model is a means to securing those benefits projected. 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. The detail of which will be subject to full negotiation with staff and Trade Unions as part of the Full Business Case stage 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.

Table 5: Summary Financial Appraisal over a 12 year period

	Cash benefit		**NPV benefit**	
Model	£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 4 – Financial Sensitivity Analysis with a summary being provided in Table 6 below:

Table 6: Sensitivity Analysis – Summary of Results

SENSITIVITY	Highest Ranking Model	NPV Benefit £000's
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 (c. 60%) 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;
- 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 November 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	18-24 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 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
Flexiblity 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.

This is reliant on the necessary decisions being made and additional support to 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, external commercialisation expertise and company set up expertise are established and maintained to ensure that the delivery of the benefits associated with the model are taken and 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 suggested future delivery model include:

- Whilst the financial projections in this Outline Business Case are high level, these indicate 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 should 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 the Trade Unions and employees have a preference for maintaining in-house provision, feedback provided from other council's that have established Wholly Owned Trading Companies, suggest 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;

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;

- 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.

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, employee transfer considerations, undertaking market analysis. The one year mobilisation period also allows time for the preparation of the Full Business Case (FBC) and the Wholly Owned Company Business plan, as well as the subsequent preparation of the Contract between the Council and the Wholly Owned Company. 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 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. These assumptions are outlined in Chapter 2 – The Economic Case with more detail in Appendix 3 – High Level Financial Analysis. 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 Wholly Owned Company 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 Wholly Owned Company.

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.

Table 8: Phasing of savings over 12 years for the Wholly Owned Company and Modified In-House models

		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	£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 Wholly Owned Company option is that it avoids procurement or negotiation with a third party. However, as the Wholly Owned Company 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 Wholly Owned Company 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.

3.2.2 The implementation costs associated with the Wholly Owned Company 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 Wholly Owned Company 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 Wholly Owned Company. This is an arrangement that has been adopted by a number of other Wholly Owned Companies/Teckals. The Full Business Case will include consideration of the Payment Mechanism to be included in the Contract between the Wholly Owned Company and the Council which will determine if this proposed arrangement is appropriate. Full Business Case 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

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 Wholly Owned Company (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 WOCs (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.

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.

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.

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.

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 Priority	C	3	Medium/Low Priority	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 and implement the suggested 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 full resourcing and specific advice is provided. Ensure sufficient levels of challenge and advice 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.

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.	Communication, Stakeholders	< 3 Months	C	2	Medium/High Priority	C	3	Medium/Low Priority	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.
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.	Political	No Time Period	B	1	High Priority	C	1	Medium/High Priority	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
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.
Loss of project team members due to changes in staff or re-prioritisation of resources	Resource	No Time Period	C	2	Medium/High Priority	C	3	Medium/Low Priority	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.
Legal implications mat not be fully understood and result in a preferred model being identified which is legally unable to deliver what is required.	Legal	No Time Period	C	1	Medium/High Priority	D	1	Medium/Low Priority	Maintain legal input at all stages of the project and seek external counsel as and when required.

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	Communication, Organisation, Stakeholders	No Time Period	B	2	High Priority	C	2	Medium/High Priority	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.
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.	Governance	< 6 Months	C	2	Medium/High Priority	C	3	Medium/Low Priority	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.
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 plan advises 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.
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.
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	Governance, Partnership, Stakeholders	< 1 Months	C	2	Medium/High Priority	D	3	Low Priority	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.

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.

Risks that relate specifically to the operation of a Wholly Owned Company and achievement of its operational objectives will be identified and presented as part of the Full Business Case process.

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 8 – 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
- 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 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 will 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 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.

References:

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

Budget Proposals 2015/16. Council Meeting. 26th February 2015

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

Appendix 4 – Financial Sensitivity Analysis

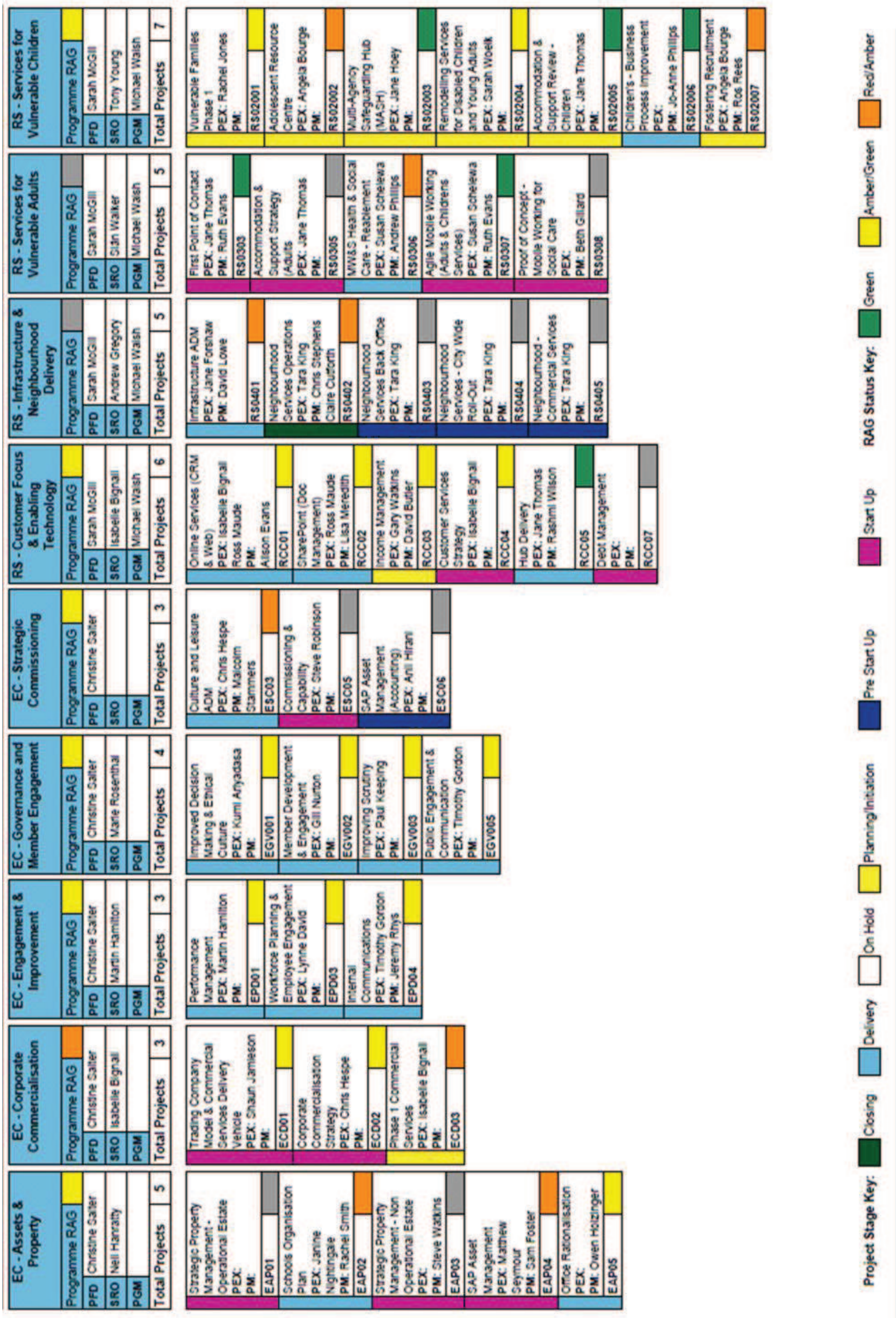
Appendix 5 – Summary of 'Other Factors' Considered in Assessment of Alternative Delivery Models

Appendix 6 – Soft Market Testing Summary

Appendix 7 – 'Changes for Cardiff' 2015/16 Budget Consultation: Questions and Responses

Appendix 8 – Project Programme

Appendix 1 – Organisational Development Structure



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 How Important is that the chosen model for the service delivery will allow the Council…
Reducing Operating Costs	1	… to transfer risk is respect of cost reductions
	2	… to exploit income opportunities for its benefit
Improved Customer Satisfaction and Demand Management	3	… to maintain influence and control over day to day decision making
	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 and Disposal	10	20	10	15	5	10	10	20
	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
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

Appendix 3 – High Level Financial Analysis

	Modified In-house		Teckal		Public Public JV		Public Private JV		Outsource	
	Yrs 1 - 7 £'000	Yrs 1 - 12 £'000	Yrs 1 - 7 £'000	Yrs 1 - 12 £'000	Yrs 1 - 7 £'000	Yrs 1 - 12 £'000	Yrs 1 - 7 £'000	Yrs 1 - 12 £'000	Yrs 1 - 7 £'000	Yrs 1 - 12 £'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%

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

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

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	The Council can trade under its various local government powers. Growth will be dependent upon a number of factors including: market opportunities, competition, competiveness of the Council, and entrepreneurial acumen of employees	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. 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). Company structure allows for the implementation of more dynamic corporate governance arrangements more suited to commercial activities, at arms-length from the Council.. All profit would benefit the Council as the company's only shareholder.	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. 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. Profits (or losses) will be shared according to the shareholders agreement .	The Council has the power to trade through a Company as part of a public/private JV. 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. Profits will be shared according to the shareholders agreement.	No limitations on trading, with private sector incentivised to maximise income/profits. Profits (or losses) would be retained by the private sector operator. 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.

Implementation Time	Based on In-house Improvements proposed for each service, changes will be implemented on a phased basis. 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.	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.	12 - 18 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.	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.	18 - 24 months, assuming that a competitive dialogue or new negotiated procurement would be required for any major service outsourcing.
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)	5-10 years minimum, dependant on the specific investment requirements of each service (or bundle)

Extent Adopted by Other Council's (and examples)	*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. APSE Data: Highways Services: 83% of 43 Council's responding to survey have services provided internally (APSE briefing: 14/34); Street Cleansing: 78.4% of 54 Council's responding to survey advised services are internally provided (APSE Briefing: 15/15). Waste Collection: 67.62% of 104Council's responding to survey advised services are internally provided (APSE Briefing: 15/27). Parks: 73.8% of 91 Council's responding to the survey advised services are internally provided - (APSE Briefing: 15/28)	*58% of councils own a trading company. Recent examples of Council's that have set up Wholly Owned Trading Companies include in respect of the Services in Scope: E.g. Cheshire East Council – set up Ansa Environmental Services Ltd to delivers its waste, cleansing, parks and fleet management services. Cheltenham and Cotswold District Councils – set up Ubico Ltd to deliver their waste, cleansing, grounds maintenance and fleet management/maintenance operations. 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	Many examples of model in respect of services in scope except Highways (but see note on Cormac below). 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. Examples of Councils that have set up JV's with Norse include: Newport Borough Council for the delivery of Property, Cleaning and Facilities Management Services. Suffolk Coastal District Council for the delivery of waste management, neighbourhood services, street cleansing, fleet management, grounds maintenance and engineering services. Cormac is currently completing due diligence ahead of forming a Corporate Joint Venture with Nottingham County Council for the delivery of its highway services.	*57% of councils operate a joint venture with a private partner. Many examples of this model exist for the Services in scope including: 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; 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.	APSE Data: Highways Services: 12% of 43 Council's responding to survey have services provided externally (APSE briefing: 14/34); Street Cleansing: 19.6% of 54 Council's responding to survey advised services are externally provided & 2% internal/external mixed (APSE Briefing: 15/15). 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). 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) Many examples of this model exist for the services in scope including: : Sheffield Council – Veolia Ltd deliver its refuse collection and household waste recycling centre services;

Extent Adopted by Other Council's (and examples) Continued	Examples of Council's that have successfully modified in-house service delivery include: 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; Barnsley Council – achieved savings by restructuring teams, redesigning and reducing services for Environment and Highways Numerous examples of such service provision across all service areas				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
Impact upon employees employment status	No change to employment status	Council employees would transfer under TUPE	Council employees would transfer under TUPE Opportunities may exist for enhancements to terms and conditions, working practices and development	Council employees would transfer under TUPE Opportunities may exist for enhancements to terms and conditions, working practices and development	Council employees would transfer under TUPE) Opportunities may exist for enhancements to terms and conditions, working practices and development

Organisation governance	Current Governance and democratic accountability arrangements would continue	Services would be delivered in accordance with contract specification. Council would own company and have representatives on the Board. The Board would have responsibility of the operation and control of the company. . 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.	Services would be delivered in accordance with contract specification. 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. 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	Services would be delivered in accordance with contract specification. 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. 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.	Services would be delivered in accordance with contract specification. Council's level of control over service delivery would be dependent on contractual arrangement. 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.
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

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

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 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.

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 15th December	Veolia	10:00-11:00
	Kier	11:15-12:15
Tuesday 16th December	iMPOWER Consulting Ltd.	09:00-10:00
	Mitie	10:15-11:15
	CH2M Hill & Costain	13:00-14:00
Thursday 18th December	Norse	09:00-10:00
	Amey	11:30-12:30
	Egnida*	14:15-15:15
Friday 19th 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 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?

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	• 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	• 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

Risks and Issues	• 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	• 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	• 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	• 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

	• 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	• 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

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				
1st	2nd	3rd	4th	5th
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				
1st	2nd	3rd	4th	5th
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				
1st	2nd	3rd	4th	5th
Modified in-house service delivery (16.9%)	Public/Public 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

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.

Appendix 8 – Project Programme

Project Governance Throughout the Full Business Case Stage

Task/Milestone	Dates
Phase 3 – FBC Project FBC Transition Board	20/07/15-31/07/15
External Project support identified and appointed	20/07/15-21/08/15
PHASE 3 Project Brief – Signed off	10/08/15
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
GATEWAY REVIEW	
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	Dec 15
Cabinet Approval of Full Business Case Recommend to Council	Jan 16 Jan/ Feb 16

Stakeholder Management
Stakeholder Planning Workshop 27/07/15-31/07/15
Development of Communication Plan 03/08/15-07/08/15
Constant Engagement and Communication with all Stakeholders Throughout the Full Business Case stage

Modified In-House Model
Development of Modified In-House Improvements 20/07/15-
Implementation of identified and approved Modified In-House improvement actions

GATEWAY REVIEW		
Initiate Transition Board & Mobilisation (if WOC Approved)	Feb /16	**Constant Engagement, staff TUPE Consultation and Communication with all Stakeholders Throughout the Transition and Mobilisation Phase**
Establishment of Wholly Owned Company (if approved)	Quarter 1 (16/17)	

Business Case Approval

Project Executive Comments:			
Project Executive:		**Date:**	

Programme Manager Comments:			
Programme Manager:		**Date:**	

Approval to Proceed to Next Stage					
Date approved – Investment Review Board			***Decision Ref:***		
Decision	Request Amendment	☐	Refer to Organisational Development Board Decision		☐
	Approval to Proceed	☐	Reject & Cancel		☐
Comments					

Appendix 2

scrutiny

A Joint Report of the Environmental and Policy Review & Performance Scrutiny Committees

Infrastructure Business Model & Alternative Delivery Options

July 2015

CARDIFF
CAERDYDD

City and County of Cardiff Council

CONTENTS

CHAIR'S FOREWORD

Since 2012 Cardiff Council has faced a series of cuts to its grants which are set to continue. The Assembly can no longer protect Welsh councils from these austerity measures and so Cardiff's non – statutory services (other than schools & social services) are taking the brunt of the cuts. Tripling council tax to make up the shortfall is not an option so our cross party task group was asked to look at alternative delivery models as a way of protecting as many jobs and services as possible – something that we hope employees, unions and Members will appreciate and understand.

We have spent seven long months looking in detail at how other councils have implemented a range of models being used to address financial pressures and help maintain service delivery. In doing this we have reviewed a range of models including in house modification, wholly arms length company, public / public joint venture, public / private joint venture and outsourcing. As the evidence was gathered we undertook several site visits and spoke with councillors, staff, trade union representatives and management delivering services using the different models. I would like to thank these witnesses for their honesty and hospitality.

We have also looked at the Cardiff Council service areas within the scope of the Infrastructure Business Model and based largely on information provided by the service areas and staff interviews we then reviewed the suitability of these service areas for the range of alternative delivery options. Again I would like to thank all of the internal witnesses who took part in the exercise; their contribution has been very valuable. The hard work and effort that Cardiff's staff put into delivering these services is recognised and hugely appreciated by all of the Members of the task group.

The Council and its officers should be congratulated for their willingness to recognise problems and their determination to improve services to make the final delivery model work for everyone in Cardiff. At the end of the day it must be recognised that this far reaching report is merely the collective opinion of scrutiny Members in a task & finish group, however, we hope that it will contribute to a key debate about how this Council can function in such unprecedented financial circumstances.

Councillor Paul Mitchell
Chairperson – Environmental Scrutiny Committee

INQUIRY METHODOLOGY

The Joint Scrutiny Inquiry looked at the range of alternative delivery options and how they could be used to deliver the services within the scope of the Infrastructure Business Model. In pursuing this aim, the task group drew upon a number of information sources including:

- Analysis of a series of ‘Fundamental Service Review Documents’ produced by managers in the services. These set out perceived service risks, budgetary issues, opportunities for commercialisation, culture / staffing issues and performance / benchmarking arrangements. Each of the documents was supported by a SWOT analysis that provided a summary of strengths, weaknesses, opportunities and threats relating to the service. Some of the content within this report, including the phrasing of the findings, is drawn from these documents which are summarised in this report.
- Information that the Infrastructure Services Project Team kindly agreed to share with the task group.
- 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.
- Verbal or written evidence from a wide range of Council Members, Cardiff Council officers, trade union representatives and other third party witnesses.
- It should be noted that the financial data included in the service-specific issues section of the report has been based on the 2013-14 Outturn (Month 14) position and, therefore, provides a snapshot of the financial position of the relevant services at that point in time. Subsequent to that snapshot these services would have incorporated the 2014/15 and 2015/16 savings into their revenue budgets.

- In the ‘Background’ section of the report there is a reference to a saving of £4.3m to be delivered from the Infrastructure Business Model by the end of 2017/18. At this stage this is an indicative potential saving opportunity which will be developed during the preparation of the 2016/17 Budget, and associated MTFP.

From this body of evidence the Members drew key findings and the 27 recommendations listed in this report. The Joint Inquiry will report through its two committees in June and July 2015, and commend their recommendations to the Council’s Cabinet for consideration.

INQUIRY TERMS OF REFERENCE

The aim of the inquiry is to review the range of available alternative delivery models that could be used by the City of Cardiff Council to deliver front line services. In doing so the inquiry will focus on:

- The potential range of services that could be delivered using alternative service delivery models;
- The range of potential operating models currently being considered by the City of Cardiff Council.

When evaluating alternative delivery models and the services that they could be used to deliver the inquiry will explore a number of key factors including the:

- Impact on 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 form other local authorities on the implementation of alternative delivery models.

SUMMARY KEY FINDINGS & RECOMMENDATIONS

Infrastructure Business Model & Alternative Delivery Options – Key Findings & Recommendations

Background

The Infrastructure Business Model is a project which aims to identify a suitable alternative delivery model for the following outdoor services:

- Waste - Education & Enforcement
- Waste – Collections
- Waste - Street Cleansing
- Waste - Treatment & Disposal
- Highway Asset Management
- Highway Maintenance
- Pest Control
- Central Transport Services
- Soft Facilities Management
- Parks & Sport
- Hard Facilities Management
- Projects, Design & Development
- Infrastructure Design and Construction Management
- Telematics

The approximate cost of running all of these services is £55 million per annum. The services employ just over 1,330 City & County of Cardiff Council employees.

The 20 November 2014 Cabinet paper titled 'Infrastructure Services – Alternative Delivery Model' identified five potential alternative delivery model options, these were:

- Modified In-house;

- Wholly Owned Company;
- Public/Public Joint Venture;
- Public/Private Joint Venture;
- Outsourcing.

A presentation titled 'Organisational Development Programme – Infrastructure Services – Alternative Delivery Model' was delivered by Cardiff Council's Director for the Environment on Friday 19 September 2014. This identified a number of critical issues facing the services within the scope of the model, these were:

- Significant savings required over Medium Term Financial Plan period – c£13m estimated for Services in Scope based on Directorate targets;
- High sickness absence in some services;
- High level of unwanted demand in some services, for example, a high number of unwanted calls through C2C;
- Need to change/service modification/adoption of new technology for improving efficiencies/customer service;
- Shortfalls in performance management;
- Ongoing silo approach to service delivery;
- Low level of external trading.

In concluding the presentation the Director set out a series of bullet points to indicate what success for the project would look like, these were:

- Savings achieved;
- Minimal impact upon front line FTEs;
- Improved morale;
- Improved service delivery performance;
- Improved productivity and operational flexibility;
- Reduced failure demand;
- Healthy income stream.

It was stressed to the Members of the task & finish exercise that the key drivers of the project were to help address the overall £123 million in savings required in the financial years 2015/16, 2016/17 and 2017/18; the indicative value allocated to the Infrastructure Business Model is approximately £4.3 million by the end of 2017/18. In doing this the Council needs to do all it can to maintain service standards, improve efficiency of service delivery, improve commercialisation of the services and improve performance management.

Based on the evidence received at the task group meeting and Member learning visits arranged during the inquiry period, the Members reached key findings to support the 27 Recommendations listed below:

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.

What are the main ingredients for creating a successful alternative delivery model for the delivery of outdoor services in Cardiff?

The task & finish exercise reviewed and visited examples of all five of the potential alternative delivery options. Visits were made to:

- **In House Modification** – The group visited Oxford Direct Services on Thursday 19th February 2015.
- **Wholly Owned Arms Length Company** – The Chair of the Committee visited Cheshire East Council on the 24th April 2014. The group also received a presentation from Cormac Solutions Ltd, a wholly owned arms length company which was set up by Cornwall County Council.
- **Public / Public Joint Venture** – The group visited Wellingborough Norse on the 25th November 2014 to review a Public / Public Joint Venture set up between Norse Commercial Services and the Borough Council of Wellingborough.
- **Public / Private Joint Venture & Outsourcing** – The group visited Amey at their offices in Birmingham to discuss how they have created Public / Private Joint Ventures and Outsourcing contracts with public bodies.

The examples / providers listed below were reviewed as case studies by the task & finish group:

- **In House Modification** – The City of Edinburgh Council.
- **Wholly Owned Arms Length Company** – Cormac Solutions Ltd.; UBICO (Cheltenham Borough Council & Cotswold District Council).
- **Public / Public Joint Venture** – Cormac Solutions Ltd; Medway Norse; Norwich Norse.
- **Public / Private Joint Venture –** Kier; Amey; Capita; Balfour Beatty; CH2M Hill / Costain.
- **Outsourcing** – Lincolnshire County Council (contracted out to multiple suppliers via a framework arrangement); Bristol City Council (with several contractors including Kier (formerly May Gurney); Mitie; Veolia).

The 6 key elements for a successful alternative delivery model (ADM)

It was clear from the visits and case studies that all five models are options which could be and have been used to deliver successful alternative delivery models. During the visits and evaluation process it was apparent to the task & finish group that all of the successful options shared six qualities or traits which appear to be the cornerstone of success in this field. These six traits are detailed below, and explained in greater detail on the following pages.

- *Implementation of Systems & Technology (pages 13 – 14)*
- *Multi Skilling & Training (pages 15– 18)*
- *Income Generation & Commercialisation (pages 19 – 23)*
- *Performance Management (pages 24 – 26)*
- *Managing Cultural Issues (pages 27 – 32)*
- *Financial Control (pages 33 – 38)*

At the end of each section, recommendations are made for the way forward.

The remainder of the report considers the range of overarching and service-specific ADM options for Cardiff, again with recommendations are made for the way forward.

Trait One: Implementation of Systems & Technology

All of the best practice models that were studied put modern technology & systems at the heart of their operation. They tend to identify established industry technology & systems and then pay the providers to install them into their business. The systems & technology if properly used and managed make services more efficient, improve communication and improve productivity. Improved productivity equates to savings. For example, Oxford Direct Services and Amey both implement mobile scheduling systems across all of their services. They also both use established fleet management systems to control their fleet and have bought in Customer Management Systems for Waste Collection Services. In addition to this they use in cab tracking systems to monitor vehicle routes and assist with driver performance and safety. The systems work and provide a significant return on investment for both parties. It is crucial to note that both of these organisations operate at different ends of the alternative delivery model spectrum but recognise the importance of proper systems and technology in driving their business forward.

At the time of reviewing the Cardiff services nominated for the Infrastructure Business Model none of them used mobile scheduling systems; the Central Transport Services did not have an established fleet management system; the Waste Management Service did not have a customer management system and no in cab tracking systems were being used in vehicles which would be used to deliver work within the Infrastructure Business Model (although many of the waste vehicles had in cab technology which was not being used).

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.

Trait Two: Multi Skilling & Training

Multi skilling is the process of providing staff with additional skills training so that they are able to work across an organisation covering a wider range of tasks; this should not be confused with multi tasking which is the process of delivering a variety of tasks at the same time. All of the successful models studied felt multi skilling and training were essential elements for creating improvement, efficiency and savings in a service. They were also important in increasing job satisfaction levels and allowing personal development. Oxford Direct Services, Amey, Norse and Cormac were all advocates of this approach. For example, an employee from Wellingborough Norse explained that when he worked for the Borough Council of Wellingborough he had been a street sweeper. Following transfer to Wellingborough Norse he was immediately offered additional training opportunities including a course which allowed him to become a mechanical sweeper driver. This benefited him because it improved his skills base, introduced more variety into his role and increased his income. Wellingborough Norse benefited because it provided them with a more flexible workforce – this created operational efficiencies and savings as they longer needed to bring in agency or third parties to undertake the work. Oxford Direct Services took a similar approach. They calculated in 2011 that to maintain staff wages at their current rate they would need to increase productivity by 15%. A large part of this increase was achieved through multi skilling of staff which was only possible as a result of their training programme.

The other strong argument for multi skilling was to reduce the use of 'job & finish'. For example, staff at Wellingborough Norse explained that when they worked for the Borough Council of Wellingborough they were only responsible for delivering one role or task and that when this was complete they were allowed to go home, i.e. 'job & finish'. This often meant that they worked two or three hours less a day than they were paid. The multi skilling approach implemented at Wellingborough Norse meant that if staff finished a task earlier than anticipated then they could, if relevant training had been provided, be transferred across to other work for the remainder of the day. This increases productivity and produces savings.

Oxford Direct Services saw investment in staff as essential. They explained that “we invest in our staff because they make us money”. In addition to their training budget they had a transformation budget (approximately £750,000) which could be used to fund additional capital & training resources, i.e. good equipment and well trained staff were viewed as an essential investment.

All of the best practice providers were very keen on increasing the use of apprenticeships and graduate placements. They helped ensure long term continuity of skills and service; provided opportunities for younger people in a challenging labour market and allowed the employer the opportunity to develop staff to meet their requirements. If supported by an effective training programme and on the job training apprenticeships and graduate placements are on the whole very cost effective. Amey, Norse, Cormac, Oxford Direct Services and most of the other examples studies all widely use apprenticeships and graduate placements. The task group was told that Norse has the highest paid apprenticeship scheme in the United Kingdom which for many school leavers makes them a very attractive potential employer.

In recent years training budgets at Cardiff Council have reduced. At a time when the best performing local authorities and private organisations are continually investing in new training Cardiff Council has because of budget pressures had to reduce spend. Cardiff Council does have apprenticeships and graduate placements; however, these are not used in all of the services within the scope of the Infrastructure Business Model.

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.

Trait Three: Income Generation & Commercialisation

Reducing internal budgets mean that it has now become essential for local authorities to look to increase external income to help maintain services. Oxford Direct Services, Norse, Cormac and Amey all looked to generate additional external income across the range of alternative delivery options. Oxford Direct Services felt that being able to generate external income was the strongest indicator that the service was competitive, for example, they only agreed to keep the Waste Collection Service in house once they could prove that it was as competitive as all other options in the market. An Oxford City Council officer explained that "Oxford City Council believes in in house services, but not at any cost".

During the visits it was on several occasions explained that external income generation was a three step process:

- **Step 1:** Make the service efficient & competitive – this can take time to achieve but is essential as the private sector and other third parties probably won't buy into an expensive, inefficient process.
- **Step 2:** Insourcing - once the service is efficient & competitive try to win back all externally contracted work. To do this the service needs to illustrate that it provides value for money.
- **Step 3:** Once you have proved that you are efficient develop a business plan and start prospecting for external business.

It was explained several times that the expectation of simply transferring to a new alternative delivery model and expecting to generate lots of external income in the first year was naïve – efficiency must be achieved first. Once efficiency was achieved some key elements were highlighted which seem to be essential for generating new business, these were:

- Understanding from the outset where and how you need to prospect for new business. For example, Oxford City Council quickly realised that they didn't want to compete for lots of smaller contracts at the lower / cheaper end of the market. Instead they looked to target medium sized contracts for work with other public sector / quasi public sector bodies.

- Creating a clearly defined business plan which reflects the type of business that you are looking for and how you are going to go about finding it. Once the business plan is established then stick to it. For example, Norse has a standard approach for generating income from a Public / Public Joint Venture. It does this by determining a geographically defined boundary around the partnership area. Next it lists the services to be provided by the partnership and forwards them to a Central Business Support Team. The partnership and the Central Business Support Team then agree on a frequency for trawling for new business opportunities through a range of commissioning and procurement data bases. Once the opportunities are agreed then the partnership works with the Central Business Team to develop a bid for the work.

- If you don't have the necessary commercial or sales experience for the service then buy it in. Both Oxford Direct Services and Norse employ sales people to drive in new business. Oxford Direct Services also employed marketing consultants to develop their brand and image at the outset. Employing sales and marketing staff seems to add a proactive commercial edge to the business which the traditional local authority arrangement has not required in the past.

- If you are competing for new business and developing new ideas to generate external income then you cannot afford to be risk adverse. Officers at Oxford City Council felt that the legal trading restriction applied against local authorities when compared against private sector companies shouldn't necessarily hold a Council back as long as the supporting legal and financial services were creative and flexible in their outlook. Failure to accept and deal with risk creates its own risk, i.e. the opportunity cost for failing to take any action.

- Regardless of which alternative delivery model you adopt the body should always try to trade on the Council's established brand. Most people regard local authorities as trusted brands. Bringing in new business via a trusted brand is far easier than the alternative. Norse, Oxford Direct Services, Cormac and Amey all agreed with this approach. Oxford Direct Services for example, used the local authority brand to increase commercial waste income from £1.6 million in 2011/12 to £2.8million 2014/15. Oxford has a population of approximately 150,000; this is compared against Cardiff which has a population in excess of 340,000 and a commercial waste income of slightly over £3 million per annum. One of the key messages that they used to sell the service was that supporting their local business meant that the income was recycled directly back into the local economy; this in turn had a positive impact on local businesses.

  The majority of the income currently generated by the Cardiff Council services within the scope of the model was internal. Some external income targets were produced, however, in the most part the services failed to meet the targets. The fundamental service review documents almost all cited a lack of commercial experience and ability as a weakness.

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.

Trait Four: Performance Management

Having a clear understanding of exactly what the model will deliver and manage is essential. Once this is understood then it needs to be defined in a contract or agreement. The contract or agreement needs a clear set of performance indicators which measure the success of the business; it is also vitally important to agree how and when these indicators are measured and the implications of success and failure. Benchmarking of the services is essential as it allows the service to compare itself against the best in the industry enabling continuous development.

Oxford City Council faced significant difficulties in 2008 when the current ruling group took over the running of the authority. Things were so bad in 2008 that the then Audit Commission refused to sign off the Oxford City Council accounts. At this point the authority took a decision that they had to do things very differently; one of the action points was to thoroughly benchmark themselves against the APSE (Association of Public Service Excellence) best performance. This allowed them to identify how good they were when compared to other authorities and identify where they needed to improve. Over a six year period the improvement was so significant that APSE awarded Oxford City Council the ‘Best Service Team’ for Transport & Fleet and Sport, Leisure & Culture.

Norse is also very strong on performance management. Once the performance measures are agreed in the partnership agreement they schedule quarterly performance reports which are received at the regular board meetings. The performance indicators are risk rated using a RAG (Red, Amber, Green) status similar to that used by Cardiff Council. Action points are agreed at the end of each meeting and progress is then reviewed at the next meeting.

The technology & systems used by the best performing alternative delivery model providers also help provide quick and accurate performance management information. For example, Oxford Direct Services, Amey and Wellingborough Norse are all able to produce accurate fleet management reports with minutes; similar reports in Cardiff are processed through a complicated set of spreadsheets and it can take over a month for an individual to produce a similar report. Having the best technology and systems means that the required management information is always available – not having this quality and speed of information makes management very difficult.

The Council is currently going through a performance management improvement exercise. This involves bodies such as the Cabinet and scrutiny committees reviewing performance reports on a quarterly basis. The quarterly performance reports provide important information and indicator results for a wide range of important front line services. The fundamental service review documents indicated that some benchmarking does take place, but not for all services. The approach adopted is not consistent, for example, some services such as Parks benchmark with APSE, others only benchmark against other Welsh local authorities and some do nothing. Developing a consistent approach seems sensible. The lack of technology and systems for supporting many of the services within the scope of the Infrastructure Business Model seems to make it difficult to generate quick and accurate performance information which is very important for management. Introducing a wider range of systems & technology would improve performance management for Cardiff.

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.

Trait Five: Managing Cultural Issues

The alternative delivery model providers reviewed saw developing close working relationships with both staff and trade unions as essential. Amey and Norse have both established collaborative working agreements with the major trade unions and look to consult with them on most aspects of their work. During the visits the providers allowed access to trade union and front line staff who were able to speak freely about their transfer / working for the new alternative delivery model. A common theme was that before, during and shortly after the transfer staff were naturally apprehensive about the prospect of moving across to another service delivery model. In particular rumours typically circulated that after the TUPE transfer wages and other benefits would be reduced and that staff would be asked to work far harder than they had previously done. In reality this didn't happen. Norse worked well with trade unions and staff, for example, they arranged coach trips to Suffolk so that they could meet their counterparts and discuss potential problems and issues. This approach significantly reduced any apprehension of the transfer. During the task group the Members came across four main areas where managing cultural issues were seen as an issue, these were:

- **Sickness** - Sickness rates in Cardiff are exceptionally high when compared against local authority and private sector averages, for example, in 2013/14 staff working in Waste Collections had an average of 23.7 days of sick leave each; staff working in Waste Street Cleansing had an average of 20.35 days of sick leave each and staff working in Central Transport Services had an average of 15.3 days of sick leave each. These were all well above the local authority average (almost double in some instances) and significantly higher than the private sector average. Cormac Solutions Limited (a Wholly Owned Arms Length Company) had an average of 2.2 days of sick leave per employee in 2013/14; Wellingborough Norse has a sickness rate of 2.7% (approximately 4.5 days of sick leave per employee per annum – the Norse Group run at a similar rate) while Amey typically has a sickness rate of 4.5 days per annum per employee.

The Council's sickness rate has a large impact on budget and service delivery; this is particularly true of Waste Collections where any sickness has to be backfilled with agency staff due to statutory and health & safety requirements. In effect for almost 24 working days of 2013/14 the Council was paying twice for waste operatives on collection rounds.

As a part of the exercise the task & finish group looked at a number of best practice providers who applied a wide range of techniques and policies to manage sickness. Many of these were different in approach; however, all delivered a similar result. Examples included:

- Oxford Direct Services used a partnership bonus which is partially based on attendance;
- Cormac Solutions Ltd did not pay any sick leave for the first two days of the sickness period;
- Norse applied a relaxed and informal approach to managing sick leave, for example, they placed the emphasis on informal conversations and early support to address underlying problems;
- Amey and Norse applied the Bradford Factor to manage out regular short term sickness absences.

It should be noted that the sickness absence information was based on the 2013/14 financial year as this was the only information available at the time. Officer comment has been made that the sickness absence figures improved for many of the services during 2014/15, however, this data has not been provided to and verified by the task group.

- **Improving the working relationship between staff & management** – A consistent theme across many of the Fundamental Service Review documents was that the relationship between staff and management had to be improved. Several of the best practice providers who had delivered improvements explained that the main cultural issues, for example, the staff and management working relationship, was only possible because of a transfer to another model, i.e. the transfer acted as a huge catalyst for change. It was felt that acknowledgement of the problems and transparent dialogue was the key to improving the working relationship between staff and management. The message which came back was that all parties had to understand what their responsibilities were and the standards which were expected. Proper engagement with staff and trade unions during the transitional period was seen as essential and the earlier that this could be achieved the better. 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.

- **Embracing new systems & technology** – All of the best practice providers studied during the task & finish exercise were keen to embrace new systems and technologies to develop and improve their operations. Good systems and technology are vital for improving productivity and efficiency; they also make the gathering of information for performance management easier. In contrast the Council does not have the same appetite for investing and implementing the latest systems and technology; this poses the risk of Council services becoming less competitive over time.

- **Improving efficiency & productivity –** During the task & finish exercise it became clear that in future Council services need to be able to compete with the best local authorities and private sector providers. Providers like Oxford Direct Services quickly realised that productivity and efficiency had to increase to make the service affordable in the medium to long term - before setting up Oxford Direct Services Oxford City Council calculated 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.

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.

Trait Six: Financial Control

Ultimately the key driver for delivering a successful Infrastructure Business Model is to help the Council save money. The Council has to save £123 million by the end of the 2017/18 financial year. This is a huge task and the services within the scope of the Infrastructure Business Model have to make a contribution – the project has for the years 2016/17 and 2017/18 been allocated a savings target of £4.3million. Failure to achieve this saving and make greater efficiencies would in the medium and long term probably result in far more posts being lost and savings which are urgently required would have to be taken in a less structured approach. When reviewing the performance of the best practice providers a number of sensible financial approaches emerged which the Council would do well to follow, these were:

- The Council has 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 around the actual tasks undertaken by front line staff upwards. This would mean that services are completely focused on service delivery. Providers such as Norse and Amey take this approach. When budgets are reviewed in Cardiff it is only against a historical base budget figure, i.e. we calculate savings as a percentage of the overall historical budget without questioning the validity of the historic base budget as a value which is required to deliver the required service.

- The finances of each of the services have to be independent of each other in accounting terms, i.e. they each need a transparent set of accounts which are readily available. The public / private partnerships, the public / public partnerships and the outsourcing options all do this. The in house modification and wholly owned arms length companies are capable of delivering this; however, some of the services within the Infrastructure Business Model would require significant change to achieve this. With the volume of internal trading and in some cases poor financial control some of the Council services struggled to provide clear and concise financial information for the task group to consider. For example, instead of providing a detailed set of numbers some of the fundamental service review documents provided comments such as “the service is being delivered broadly within budgetary limits”. Clear, transparent and standalone accounting structures will make it easier to accurately monitor the services. This in turn will mean that financial issues are quickly identified and allow swift 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 or change of alternative delivery model 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. Failing to understand this could mean that the Council unintentionally transfers profits to a third party that it doesn’t have to; it also means that it doesn’t understand its true cost base. When looking at the fundamental service reviews it was not apparent that all of the services understood their budget position in enough detail, for example, matching the service actually delivered to actual costs wasn’t always possible.

- 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 provide a reasonable estimate. The soft market testing event identified some suggested savings that the public / public;

public / private and outsourcing models would be able to achieve. When looking at public / public Norse has suggested after an initial review of the services involved that they could generate an 18% saving over a five year period; Cormac Solutions Ltd didn't provide a percentage figure but stated that they were on track to return £22.979 million back to Cornwall Council as a profit in the first four years of operation. Other public / private joint venture and outsourcing estimates typically ranged between 20% and 30% (Amey – 20%; Mitie 20% to 25%; Balfour Beatty 30%); it should be noted that these were estimates based on previous experience and in some cases they were only estimated against specific services and not the whole range of services set out in the Infrastructure Business Model. When looking at in house modification Oxford Direct Services paid a surplus of £750,000 back to the Oxford City Council budget in 2013/14. This equated to 2.46% of overall turnover.

- To help achieve greater confidence for achieving savings the new alternative delivery model (where possible) should include some form of guaranteed savings – this, particularly in the short term, would help the Council reduce risk. The public / public joint venture, public / private joint venture and outsourcing options all had contracts where guarantees could be provided during the term of the contract. These options included a guaranteed price for delivering the contract – paid in advance or at the end of the financial year; a front loaded investment into a contract where the partner or contractor invests in capital to support the operation and collects a return in investment over the term of the contract; a cash injection to the local authority at the start of the contract which is then clawed back by the private contractor or partner over the term of the contract.

- 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 public / public, public / private and outsourcing providers almost all agreed that flexibility needed to exist within any contract; particularly in the current financial climate. Most of them agreed that you had to negotiate the way through difficult times; however, the partner would still need to recover any investment that they had made. Contract extensions were seen as one way of increasing financial flexibility.

- The new alternative delivery model has to be structured on a service based agreement and not an itemised delivery approach. Itemised delivery contacts tend to be very bureaucratic and expensive to manage. One of the Norse public / public joint ventures entered into an itemised delivery contract with Norse. This resulted in a huge overspend for the partnership which caused financial difficulties for the local authority.

- 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.

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 it 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 contacts 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.

Considering the range of alternative delivery model options for Cardiff: High-level and over-arching issues

When reviewing the evidence it was clear that all of the potential alternative delivery models identified for the Infrastructure Business Model were capable of managing the services proposed by Cardiff Council. However, in reality there are a range of factors which dictate the practicalities of delivering each option. These are discussed below:

- **Public / Private Joint Venture & Outsourcing** – Members were agreed that most important factor dictating which of the options to be delivered was timescale. The fact that the Council has to manage a budget reduction of £123 million by the end of the 2017/18 financial year and that £4.3 million needs to be achieved from the services within the Infrastructure Business model in 2016/17 and 2017/18 creates a clear time cap. Both the public / private joint venture and outsourcing options would require substantial procurement exercises which would take at least two years. The majority of the public / private and outsourcing providers who attended the 'Soft Market Testing' exercise held in December 2014 stated that as a minimum they felt that a procurement exercise of this scale would take two years (including a six month mobilisation period). This does not take into account any delays for processes like a judicial review or the period between the decision to go down a procurement route and the start of the actual procurement exercise. In reality it seems more sensible to allow a period of three years for the procurement process. Based on this view and assuming a procurement route was agreed in July 2015, then in reality we could not expect to complete such a process until July 2018, i.e. within the 2018/19 financial year. This is outside the current financial savings window. As the requirement to deliver savings before this date is essential it not possible to proceed with this option.

- **In House Modification verses Wholly Owned Arms Length Company –** In House Modification and a Wholly Owned Arms Length Company are very similar. They would both require 100% Council management and new investment in resources from the existing budget. The main difference is the legal status and positioning of the company. The In House Modification option would legally remain within the same public body – i.e. the Council. All cultural changes would have to be managed as they have been before and the commercial and trading powers would remain the same – i.e. they would have to rely on the Local Authorities (Goods and Services) Act 1970 (LA(GS)A 1970) and certain other powers which limit trading to other ‘public bodies’. They may not use their powers under that Act to trade with an individual or the private sector. Local authorities are able to trade with individuals or the private sector, but to achieve this they need to set up a company and conduct business under the Local Government Act 2003 (LGA 2003). This is where the creation of a Wholly Owned Arms Length Company provides the Council with a trading benefit – i.e. it expands the trading abilities of the Council. Instead of simply trading with other public bodies the Wholly Owned Arms Length Company allows the Council to trade like any other private sector company and, therefore, opens up more potential opportunities. As a consequence, when assessing In House Modification against a Wholly Owned Arms Length Company the trading ability of a new company removes In House Modification from the selection process.

- **Public / Public verses Wholly Owned Arms Length Company –** Having discounted In House Modification, Public / Private Joint Venture and Outsourcing the task & finish group were left to compare the competing merits of a Wholly Owned Arms Length Company and a Public / Public Joint Venture. In reviewing these two options the Members considered the following factors:

    - **Control** – The Council would retain 100% control of a Wholly Owned Arms Length Company. Management and all decisions taken by the new company would be controlled by the Council. This contrasts to the Public / Private Joint Venture where the Council would share ownership of the company with another public sector partner and, therefore, have to share the control. Management decisions would be shared – these decisions would need to be agreed through a partnership board. Share ownership varied between the examples studied; however, the partner would probably expect to control at least 51% of the shares. Some witnesses commented that the actual percentage of shareholding held by either party was academic because neither of them would be able to trade the shares. For example, Cormac Solutions Limited would look to hold 51% of the shares in the public / public joint venture company, however, they would include a golden vote into their model giving the Council partner the right to 'veto' any decision; this improves the Council's control over the partnership.

- **Financial Risk** – A Wholly Owned Arms Length Company (and, therefore, the Council) would retain 100% of the profits that it created. The Wholly Owned Arms Length Company along with its Council owners would also be 100% responsible for any losses generated. In contrast the Public / Public Joint Venture parties would share any profits or losses. The typical profit share for a Public / Public Joint Venture is 50%: 50%, i.e. equally shared. Norse and Cormac Solutions Limited both operate on a 50%: 50% profit sharing agreement. In summary the basic Wholly Owned Arms Length Company provides greater risks and reward. The Public / Public Joint Venture reduces the potential risks and reward. The Public / Public Joint Venture can also provide a financial guarantee which can greatly assist when setting new budgets and savings targets, for example, guaranteeing a savings level or profit amount for a number of years. This reduces short term risk and adds certainty to the process.

- **Resources & Experience** – The service reviews consistently indicated that the Council needs to invest in new systems and technology to improve productivity and efficiency. Without these systems the Council services will become less competitive and find it very difficult to generate new external income. The same can be said of experience; for example, the fundamental service reviews highlighted that the Council has very little in the way of commercial experience. In order to make the Council commercially competitive it needs to invest in new staff and commercial experience. If the Council decided to create a Wholly Owned Arms Length Company it would need to invest heavily in new systems, technology and experience. All of the funding for these new resources would initially need to come from the Council budget. Sufficient time would also need to be put aside to procure any of the new ICT systems or technology required to deliver services within the new model. In contrast an established Public / Public Joint Venture partner could be selected (without the need of going through a procurement exercise) on the basis that it would bring established systems, technology and commercial expertise to the contract. This would substantially reduce any implementation timescales and costs for the Council. They would also provide management experience from having worked with the systems and technology in the past. As a partner they would share the costs of introducing the change which would help the Council in this financially difficult time.

- **Managing Cultural Change** - The service reviews highlighted significant cultural issues in many of the services within the scope of the Infrastructure Business Model. These included sickness; improving the working relationship between staff & management; embracing new systems & technology and improving efficiency & productivity. The Wholly Owned Arms Length Company would need to address these cultural issues by using Council resources. Any required change would have to be funded from the Council budget. In addition to this the same management would still be negotiating with the same staff and trade unions – apart from a change in legal status very little would be different and Members on the task group believe that the change would not be significant enough to make the required difference. Bringing in a Public / Public Joint Venture partner would mean a significant cultural change for management, staff and trade unions. Working relationships would need to be redefined with a new third party that would be asked to implement cultural change. Addressing cultural difficulties such as the high sick rates and implementing new systems and technology would increase efficiency and generate savings. In summary, the Members felt that the Council either tries to resolve the cultural issues on its own through a Wholly Owned Arms Length Company or it brings in a Public / Public Joint Venture partner with an established track record in this area. Based on the required speed of change and scale of the problem the Public / Public Joint Venture would appear to be the best approach.

- **Performance Management** – Good benchmarking and performance management are important ingredients for managing cultural change. The Council has in recent years taken steps to improve corporate performance management; however, the service reviews revealed that the approach taken is not consistent across the Council. All services need to be benchmarked against market leading comparators, targets set and performance then reported on a regular basis. The Wholly Owned Arms Length Company could achieve this through in house provision; however, the ability to do this effectively would rely on the implementation of modern systems & technology. A carefully selected Public / Public Joint Venture company would have the systems and technology required to quickly gather the data required to improve performance management. This information would then be reported and analysed to assess progress. To improve performance management to the same standards as an efficient Public / Public Joint Venture the Council would have to invest in new systems and technology; this would take time and money.

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.

While reviewing the range of services within the Infrastructure Business Model the task group attempted to structure the services into an operating model based on service delivery themes. They felt that three obvious themes fell out of the structure, these were:

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

To reflect the scale of these services and the fact that they need to be properly managed the task group felt that each of the three service streams should be split into two parts; client and contractor. The client side should be used to design policy, manage performance and contract manage service delivery. The contractor side would deliver the front line services. It should be noted that this structure could be adopted by each of the five alternative delivery model options.

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.

Evidence gathered during the inquiry consistently pointed at the need to have a strong and effective client function to manage the new alternative delivery model. For example, staff at Norwich City Council stressed the importance of an effective client function to manage the Public / Public Joint Venture set up in the city. Many of the Public / Private Joint Venture and Outsourcing providers who attended the Soft Market Testing event in December 2014 also stated that an effective client function was important as it helped ensure that the partnership or contract was working properly and that it created a vital communication point for both parties. A client should be able to contract manage, analyse performance, develop policy and generally manage relationships between the client and contractor. Members were of the opinion 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.

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.

Considering the range of alternative delivery model options for Cardiff: Service-specific issues

a) Waste - Education & Enforcement

Risks - the review of Waste Education & Enforcement identified the following service risks:

- There appears to be a training need within the service as it is felt that not all officers are trained to the same standard of capabilities.
- The adoption of new technology & systems has been slow. Such technology & systems could be used to improve productivity and reduce costs.
- There sometimes appears to be a low focus on external environment and commercial opportunities.
- The cost of vehicles provided by the Central Transport Service has been exceptionally high, contributing to a 'vehicles and equipment' overspend of £33,364 within the service in 2013/14. This is unaffordable for the future and has to be addressed. The vehicle overspend is also a common theme for other services within the Infrastructure Business Model.
- The service is exceptionally reliant on income from the Welsh Government Waste Grant; particularly as this is set to reduce in future.
- There are significant ongoing pressures from recycling targets, reducing budgets and future demographic growth.

Budget - the review of Waste Education & Enforcement made the following budgetary findings:

- The service appears to be managing its budget within the allocated amount and enforcement income is coming in above target. The largest area overspend against budget during 2013/14 was for vehicles & equipment.

Income - the review of Waste Education & Enforcement made the following income generation and commercialisation findings:

- The customer is not always seen as being the focus of the service. It was felt that customer care standards have driven commercial customers away. This poor customer care has in the past led to a loss of commercial customers.
- There is a low focus within the service on the external environment and commercial opportunities. These are very important areas to develop as budgets are reducing along with grant funding from the Welsh Government.
- The total of enforcement fines generated 2013/14 were circa £150,000. There is potential to make further income from issuing fines.

Culture / Staffing - the review of Waste Education & Enforcement made the following culture and staffing findings:

- Employee turnover rate is very low. The average sickness rate for the service in 2013/14 was 8.44 days per annum. This is below the Council average of 10.18 days per annum for 2013/14 and 10.11 in 2014/15.
  The customer is not always seen as being the focus of the service. It was felt that customer care standards have driven commercial customers away. This poor customer care has in the past led to a loss of commercial customers.
  There sometimes appears to be a low focus on external environment and commercial opportunities.

Performance Management & Benchmarking - the review of Waste Education & Enforcement made the following performance management & benchmarking findings:

- Data is collected on a wide number of services provided by Waste Education & Enforcement, for example, fine income; FPNs issued; fly tipping incidents and number that led to enforcement activity; education visits and enforcement activities – proactive and reactive. It was not clear how this information is benchmarked against other local authorities.

Regular ongoing benchmarking is an essential part of performance management and can help drive improvements in a service.

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.

b) Waste – Collections

Risks - the review of Waste Collections identified the following service risks:

- High sickness rates place significant pressure on the service budget – the service sickness level during 2013/14 was twice that of the APSE UK local authority waste collections average.
- There was evidence to suggest that the relationship between management and front line staff needs to improve. This it seems has slowed the adoption of new technology which is driving forward improvement of service and efficiencies in the best performing waste collection services.
- There are concerns around how the Council will collect recycled materials in future. The debate around 'kerbside sort' verses 'co-mingled' approach has created uncertainty and needs to be resolved so that the service can be properly designed for the future.
- The cost of vehicles provided by the Central Transport Service has been exceptionally high, contributing to a 'vehicles and equipment' overspend of almost £100,000 within the service in 2013/14. This is unaffordable for the future and has to be addressed. The vehicle overspend is also a common theme for other services within the Infrastructure Business Model.
- The service needs to implement new systems and technology to improve efficiency and service delivery standards. GPS vehicle tracking technology and customer management systems are commonly used by the best performing local authorities and private sector companies. Failure to embrace this market leading technology creates a future service delivery risk for the Council.
- The service is exceptionally reliant on income from the Welsh Government Waste Grant; particularly as this is set to reduce in future.
- There are significant ongoing pressures from recycling targets, reducing budgets and future demographic growth.

Budget - the review of Waste Collections made the following budgetary findings:

- The service seems to be able to manage the expenditure budget but is failing to achieve income targets. It is also very reliant on grant income which appears to be reducing year on year.
- The service overspent on its budget in 2013/14 by £186,377. They managed to reduce expenditure against the allocated budget; however, the external income shortfall of £394,316 ultimately meant that the service overspent against budget.
- The largest income shortfall was for external income – a figure of £394,316; this figure mainly comprises commercial waste targets.

Income - the review of Waste Collections made the following income generation and commercialisation findings:

- There is an estimated commercial waste market of £12.5 million per annum in Cardiff; the Council has a market share of £3.4 million (approximately 27%). There is scope to grow this income figure; for example, Oxford City Council takes in £2.8m per annum in commercial waste income from a city with a population half the size of Cardiff.
- In 2013/14 waste collections had an income shortfall of £394,316 for external income. Most of this amount represents commercial waste income.
- The Council's commercial waste collection pricing structure is viewed as too rigid. It is felt that a more flexible pricing structure is required to make the service more competitive.
- The waste collection service is heavily reliant on grants. In 2013/14 it received £4,412,900 – most of this came from the Welsh Government Waste Grant. The Welsh Government Waste Grant is set to reduce in future years, therefore, the Council needs to do what it can to make the service less reliant on this income source.

Culture / Staffing - the review of Waste Collections made the following culture and staffing findings:

- The service has very high sickness levels – in 2013/14 23.7 days per employee were lost as a result of sickness (this equates to 10.58%). This has a large financial impact as staff shortages due to sickness have to be back filled using temporary agency cover. The APSE UK local authority average for waste collections is almost half of the Council figure at 5.3%, while the private sector average is 2.3%. Reducing sickness levels to a UK local authority average level or better would release significant budget savings.
- Employee turnover in the service is very low, i.e. staff seem to want to remain within the service. The average age of the staff working at the service is high; the experience that this adds is seen as a strength.
- The public are broadly satisfied with the waste collection service in Cardiff; although there are some concerns with customer care.
- The service has been slow to introduce new technologies. Other local authorities and private companies view these as essential to drive improvement and efficiency, for example, GPS vehicle tracking technology and customer management systems.
- Not all frontline staff swipe in and out at the start and end of the day. This must make it very difficult to accurately monitor staff attendance and sickness rates.
- The management of driver performance is seen as an issue which isn't effectively managed and which incurs a cost for the Council. New in cab technologies could be implemented to address this problem.

Performance Management & Benchmarking - the review of Waste Collections made the following performance management & benchmarking findings:

- The service is consistently measured against all other Welsh local authorities in terms of waste management performance.

- An APSE report undertaken during 2010/11 identified that the average cost of the refuse service per household was £157 in Cardiff; the UK average was £74.
- The APSE average for all staff costs as a percentage of overall spend in 2012/13 was 43.79%. The Cardiff figure for the same period was 57.41%.
- The APSE average for transport costs as a percentage of overall spend in 2012/13 was 24.76%. The Cardiff figure for the same period was 32.57%.

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.

c) Waste - Street Cleansing

Risks - the review of Waste Street Cleansing identified the following service risks:

- High sickness rates place significant pressure on the service delivery and budget – the service sickness level during 2013/14 was 20.35 days per employee (this equates to 9.09% of overall working time). This has a direct impact on service delivery. It should be noted that sickness rates fell in quarters two and three in 2014/15.
- The service does not have a customer management system for recording customer requests and complaints. Such a system would allow the Council to more accurately monitor cleansing hotspots and better react to litter / waste issues as they arise.
- The cost of vehicles provided by the Central Transport Service has been exceptionally high, contributing to a 'vehicles and equipment' overspend of £360,239 within the service in 2013/14. This is unaffordable for the future and has to be addressed. The vehicle overspend is also a common theme for other services within the Infrastructure Business Model.
- There are significant ongoing pressures from reducing budgets and future demographic growth.
- The Service does not currently use industry standard technology which would enable the street cleansing service to be improved and comply with recognised health and safety good practice.
- Cardiff remains one of the lowest performing Councils in respect of street cleansing when compared to other Welsh local authorities.
- Evidence was presented which suggests that the relationship between management and front line staff could be improved. This has resulted in resistance to the adoption of new technology to improve performance in line with industry standards. The resistance in addressing custom and practice issues have a direct impact on the attainment of efficiencies/reductions in costs.
- Evidence suggested that there was a need for staff to consider a more flexible approach in terms of service delivery. For example, cleansing

operatives not picking up waste bags because the task wasn't identified on their job description form.

- Difficult to generate income as the service is not competitive when compared against the private sector.

Budget - the review of Waste Street Cleansing made the following budgetary findings:

- The service has managed its finances within the allocated budget and has significantly outperformed its external income target – although large parts of the external income are for carrying out cleansing work for the housing service. The service was underspent on its net budget by a figure of £908,370 in 2013/14. It has predominantly done this by reducing staff costs by £654,841 and exceeding its external income target by £458,789. The largest budget pressure was an overspend of £360,239 for vehicles & equipment.

Income - the review of Waste Street Cleansing made the following income generation and commercialisation findings:

- There has been a low focus on external environment and commercial opportunities.
- There are opportunities to increase income through offering cleansing services to both private and public organisations. No significant research has been done to date on this matter. Work needs to be done here and there could be a need to introduce more commercial experience to the service.
- The service exceeded its income target by £484,982in 2013/14; this was mainly due to an external income surplus of £458,789. It should be noted that a large proportion of the income was work carried out for the Council's Housing Revenue Account.

Culture / Staffing - the review of Waste Street Cleansing made the following culture and staffing findings:

- High sickness rates place significant pressure on the service budget – the service sickness level during 2013/14 was 20.35 days per employee (this equates to 9.09% of overall working time). This has a direct impact on service delivery. It should be noted that sickness rates fell in quarters two and three in 2014/15.
- Evidence was presented which suggests that the relationship between management and front line staff could be improved. This has resulted in resistance to the adoption of new technology to improve performance in line with industry standards. The resistance in addressing custom and practice issues have a direct impact on the attainment of efficiencies/reductions in costs.
- Evidence suggested that there was a need for staff to consider a more flexible approach in terms of service delivery. For example, cleansing operatives not picking up waste bags because the task wasn't identified on their job description form.
- It has been difficult to generate income as the service is not competitive when compared against the private sector.

Performance Management & Benchmarking - the review of Waste Street Cleansing made the following performance management & benchmarking findings:

- The performance of the street cleansing service is primarily measured through LEAMS surveys. However, as stated above, that these surveys do not necessarily measure the performance of the street cleansing service as the timing of the street surveys is not related to when the streets are cleansed.
- The performance of the fly-tipping removal service is measured by the time taken to remove the fly-tipping.

- With reference to the latest All Wales Report (2012/13) Cardiff was ranked joint 20th out of the 22 Welsh Councils in respect of the Cleanliness Index measured through the Keep Wales Tidy surveys; in terms of the % of street of Grade B and above, Cardiff was ranked 22 out of 22 Council's; for Zone 1 areas, Cardiff was the 5th highest Council; for Zone 2 and 3 areas, Cardiff was the 2nd lowest; the percentage of streets with dog fouling was 15.9. The average across the Welsh Council's was 13.8.
- For 2013/14 the APSE survey identified that the UK average cost of street cleansing per household was £32.13. The equivalent figure for Cardiff was £52.

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.

d) Waste - Treatment & Disposal

Risks - the review of Waste Treatment & Disposal identified the following service risks:

- The average sickness across the service in 2013/14 was 10.82% (24.24 Days per FTE). This high sickness rate is significant problem as it places pressure on the budget and service delivery.
- During 2013/14 the service spent £8,584,881 which was £673,468 above the budgeted amount. At the same time the service was £638,857 below its income target; this was mainly due to an external income shortfall of £648,597 (mainly due to recyclable material income). Overall the service was overspent by £1,312,325.
- Evidence suggested that the relationship between management and front line staff could be improved. This resulted in the slow adoption of new technology which would improve service performance.
- There is resistance to addressing custom and practice issues that currently adversely affect service delivery performance and attainment of efficiencies.
- The cost of vehicles provided by the Central Transport Service has been exceptionally high, contributing to a 'vehicles and equipment' overspend of almost £268,025 within the service in 2013/14. This is unaffordable for the future and has to be addressed. The vehicle overspend is also a common theme for other services within the Infrastructure Business Model.
- The service needs to implement new systems and technology to improve efficiency and service delivery standards. GPS vehicle tracking technology is commonly used by the best performing local authorities and private sector companies. The risk for the service is the failure to embrace this market leading technology.
- There are significant ongoing pressures from recycling targets, reducing budgets and future demographic growth.

Budget - the review of Waste Treatment & Disposal made the following budgetary findings:

- The service has not managed its finances within the allocated budget and has significantly underperformed against its external income target. The service was overspent on its net budget by a figure of £1,312,325 in 2013/14. This was predominantly due to overspends against vehicles & equipment (£268,025); supplies, goods & services (£280,366) and employee costs (excluding overtime) - £269,653.
- The service is very reliant on the waste grant - in 2013/14 they received £2,630,160 which was £11,640 more than they thought that they would receive.

Income - the review of Waste Treatment & Disposal made the following income generation and commercialisation findings:

- There was an opinion that current procurement timescales often slow down or delay the income generating process and; therefore, result in a loss of income.
- The service is constantly exposed to fluctuations in the market for recycled materials. This in recent years has resulted in a large loss of income for the service.
- The service failed to meet its income target of £638,857 in 2013/14; this was mainly due to an external income shortfall of £648,597 (mainly due to recyclable material income).
- The service expects to generate £1.48 million from the sales of recycling materials. The projected income from the Bessemer Close commercial waste transfer station is £60k per annum.

Culture / Staffing - the review of Waste Treatment & Disposal made the following culture and staffing findings:

- Evidence suggested that the relationship between management and front line staff could be improved. This relationship contributed to the slow adoption of new technology which would improve service performance.
- There is a reluctance to address custom and practice issues that currently adversely affect service delivery performance and efficiencies.
- The service has an average of 24.24 days of sickness per employee per year. This is an exceptionally high level which places pressures on both service delivery and budgets.

Performance Management & Benchmarking - the review of Waste Treatment & Disposal made the following performance management & benchmarking findings:

- The service is consistently measured against all other Welsh local authorities in terms of waste management performance.
- The service has very little benchmarking information although they do understand that the out turn recycling performance is slightly lower than some of Cardiff's neighbouring local authorities.
- In general, a comparison can be made against the open market by comparing the cost per tonne of material processed at the Materials Recycling Facility; the cost of disposing at landfill and cost per tonne of handling materials through the Household Waste Recycling Centres.

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.

e) Highway Asset Management

Risks - the review of Highway Asset Management identified the following service risks:

- Routine repairs targets being missed by the service.
- There is a low focus on external environment and developing commercial opportunities.
- Customers are not satisfied with the quality of repair and the overall condition of the highway asset.
- There was evidence to suggest that the relationship between management and front line staff could be improved. This has lead to a slow adoption of new technology to improve performance in line with industry standards.
- There appears to be a reluctance to address custom and practice issues that currently adversely affect performance delivery and the attainment of efficiencies/reductions in costs.
- There are ongoing demographic and budgetary pressures placed onto the service.

Budget - the review of Highway Asset Management made the following budgetary findings:

- The service has managed its finances within the allocated budget and has exceeded its income target. The service was underspent on its net budget by a figure of £56,764. The cost of premises was substantially lower than forecast at £206,923. Both supplies, goods & services (£202,399) and support services (£319,390) were overspent.

Income - the review of Highway Asset Management made the following income generation and commercialisation findings:

- Highway Asset Management generates the income from Highway Enforcement (2013/14 - £252,795); Street Works Notices (2013/14 - £216,290); Street referencing (2013/14 - £22,285) and Legal searches (2013/14 - £24,920).

- The service was £6,691 above its income target; this was mainly due to additional grant funding becoming available.
- There is a low focus on external environment and developing commercial opportunities.

Culture / Staffing - the review of Highway Asset Management made the following culture and staffing findings:

- Employee turnover is very low. Staff sickness appears to be well below the 2013/14 Council average of 10.18 days per employee per annum.

Performance Management & Benchmarking - the review of Highway Asset Management made the following performance management & benchmarking findings:

- The service plays a key role in monitoring the state of the Highway Asset and contract monitoring the external contractors who carry out work on the highway asset.
- Various Key Performance Indicators are utilised across the service. For example, highway repairs, inspection and street lighting.
- 2013-14 APSE data currently being compiled so that the service can compare itself against other services. The APSE Performance Indicators currently being used measure against all other Welsh local authorities.

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.

f) Highway Maintenance

Risks - the review of Highway Maintenance identified the following service risks:

- Routine repairs targets being missed by the service. Missing these repairs could result in reputational damage for the Council in terms of the quality of the highway asset.
- Customers are not satisfied with the quality of repair and the overall condition of the highway asset.
- There was evidence that the relationship between management and front line staff could be improved. This has lead to the slow adoption of new technology to improve performance in line with industry standards.
- There seems to have been a reluctance to address custom and practice issues that currently adversely affect performance delivery and the attainment of efficiencies/reductions in costs.
- There are ongoing demographic and budgetary pressures placed onto the service.
- The service has been slow to accept that best value must be provided and, therefore, performance management and other associated changes have not happened as quickly as required.
- There is a reluctance to accept responsibility and take ownership at different levels of line management resulting in too many decisions being forced ‘up the line’.
- Fleet and fleet management costs and inefficiencies. Vehicle breakdowns are frequent, new fleet procurement is too slow, the current fleet is ageing and maintenance costs are rising.
- The Service does not currently use industry standard technology which would enable the service to be improved and comply with recognised health and safety good practice.
- There is a low focus on external environment and commercial opportunities. The requirement to compete with the external delivery service is not always appreciated.

Budget - the review of Highway Maintenance made the following budgetary findings:

- During 2013/14 the service has managed its finances within the allocated budget and has not managed to achieve its income target. The service was underspent against its overall net budget.
- In 2013/14 employee costs and supplies were by far the highest cost elements of the service.
- Failure to meet performance standards for highway repairs results in very large insurance claims against the Council. These run at approximately £2 million per annum and place a significant pressure on the Council's overall budget.

Income - the review of Highway Maintenance made the following income generation and commercialisation findings:

- There is a view that enforced financial reductions which have resulted in a diminished service mean that the service is unable to undertake any additional work and, therefore, exploit potential income streams.
- There is a low focus on external environment and commercial opportunities. The requirement to compete with the external delivery service is not always appreciated.
- In 2013/14 the service had an income shortfall.
- In the medium term there is potential scope to insource highways capital work which is currently being contracted out to third parties. This would in effect increase internal income for the service. To achieve this the service would need to prove that it is competitive when compared to private sector contractors.

Culture / Staffing - the review of Highway Maintenance made the following culture and staffing findings:

- There was evidence which suggested that the relationship between management and front line staff could be improved. This has lead to the slow adoption of new technology to improve performance in line with industry standards.
- There has been a reluctance to address custom and practice issues that currently adversely affect performance delivery and the attainment of efficiencies/reductions in costs.
- The service has been slow to accept that best value must be provided and, therefore, performance management and other associated changes have not happened as quickly as is required.
- There is a reluctance to accept responsibility and take ownership at different levels of line management resulting in too many decisions being forced 'up the line'.

Performance Management & Benchmarking - the review of Highway Maintenance made the following performance management & benchmarking findings:

- Various key performance indicators are utilised across the service, highway repair, inspection, street lighting.
- The 2013-14 APSE data is currently being compiled so that the service can compare itself against other services. APSE performance indicators are measured against all other Welsh local authorities.

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.

g) Pest Control

Risks - the review of Pest Control identified the following service risks:

- An ICT data base needs to be introduced to improve the management of service calls.
- The cost of vehicles provided by the Central Transport Service has exceeded budget, contributing to a ‘vehicles and equipment’ overspend for the service in 2013/14. This is unaffordable for the future and has to be addressed. The vehicle overspend is also a common theme for other services within the Infrastructure Business Model.
- Increased competition from the private sector could challenge some of the existing contracts that the Council currently holds, i.e. this could result in a loss of income for the service and Council.
- It is felt within the service that the loss or retirement of older staff could impact on the ability of the service to become cost neutral and / or generate a profit. The staff experience within the service was seen as an asset.
- There are significant ongoing pressures from reducing budgets and future demographic growth.
- Failure to adopt a more commercial approach and increase flexible working practices could prevent the service from growing its income levels.

Budget - the review of Pest Control made the following budgetary findings:

- The majority of service expenditure is covered by the through income generation. This leaves a net cost of approximately £64,000 for the Council to cover so that the service can continue. This could be eliminated through additional income generation.
- The task group have been informed that the service generated a surplus in 2014/15 and that improvements have been made in service delivery. They note these comments, however, given the timescales have not been able to independently verify the information.

Income - the review of Pest Control made the following income generation and commercialisation findings:

- There are currently high levels of customer satisfaction for the income generating work carried out by the service.
- Developing an improved ICT solution could make the business more profitable and in the medium term reduce costs.
- The loss or retirement of older staff could impact on the ability of the service to become cost neutral and / or generate a profit. The staff experience within the service was seen as an asset.
- A steadily growing pest control market means that there are opportunities for growth for the service in Cardiff.
- Not being able to offer the customer evening or weekend calls or timed appointments which may result in them going elsewhere.
- There has been a low focus on commercial opportunities and ways to promote service.
- Increased competition from the private sector could challenge some of the existing contracts that the Council currently holds, i.e. this could result in a loss of income for the service and Council.
- Failure to adopt more flexible working practices could prevent the service from growing its income levels.

Culture / Staffing - the review of Pest Control made the following culture and staffing findings:

- Failure to adopt more flexible working practices could prevent the service from growing its income levels.
- In 2013/14 the service had an average of 18.42 FTE days sick leave per employee. Employee turnover is described by the service as very low.

Performance Management & Benchmarking - the review of Pest Control made the following performance management & benchmarking findings:

- The service doesn’t benchmark against other authorities or the private sector to establish how efficient or productive they are within their market.

This makes it difficult to assess how competitive they are and can hold back efficiency improvements.

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.

h) Central Transport Services

Risks - the review of Central Transport Services identified the following service risks:

- The service lacks experience in terms of managing large vehicle operations; this results in poor decisions being taken which supports failure in service delivery, and cost management.
- No suitable industry standard software is used to manage the service, for example, a FMIT package would allow for better management of costs and productivity. Unless action is taken supporting technology and software is likely to advance and leave the service further behind the times.
- Labour costs are high when compared with the private sector.
- The current in house structure of the service limits the wider external income opportunities.
- Internal demand for service is decreasing and the service is not currently in a state to effectively compete in the external market.
- There is limited communication and collaboration between the directorates; this means that there is little understanding of the operational requirements of the service areas.
- There is a poor visibility of spend, income and overheads within Central Transport Services. These need to be effectively monitored and reported.
- There is a lack of measures of customer satisfaction within the service.
- The service finds it difficult to adapt to change as a result of Council policies and processes.

Budget - the review of Central Transport Services made the following budgetary findings:

- The service had a budget overspend of £1,766,391 in 2013/14; this equates to a 19.7% overspend in the 2013/14 financial year which is a significant issue. At the point of the assessing the service in November 2014 the projected 2014/15 overspend for the service was £392,000; this illustrates a large improvement but remains a concern which in the face of ongoing budget reductions needs to be resolved in the short term.

- The budget allocated for all Central Transport Services service delivery for 2014/15 is £8,052,950.

Income - the review of Central Transport Services made the following income generation and commercialisation findings:

- Only 6% of income generated by the service is from external sources. At the time of reviewing the service work was underway to develop new income opportunities. This work urgently needs to be progressed.
- It is anticipated that internal demand for the service will reduce over time; therefore, it is essential that new external income opportunities are identified to fill the shortfall. Failure to achieve this would result in either a reduction of the service provided or complete closure with alternative options being explored.
- The Council's ability to generate additional income is limited by its legal status. By moving the service to a third party outside of the Council it would be able to trade in the same way as a private company. The only limitation to this would be where the teckal principle is used to transport work to the new body; this limits the percentage of new business that can be generated by the teckal company. This can be overcome by creating a commercial trading company which works alongside the teckal company – such a company is not restricted by percentage for the level of new business that it can generate.
- There is insufficient commercial experience which makes competing with private sector competitors for new business exceptionally difficult. To address this individuals or partners with commercial experience need to be introduced to the service – this will have a resource implication.
- New resources and systems will need to be introduced to the service to make it efficient and commercially viable. The new resources and systems will either need to be provided by the Council from its reducing financial resources or obtained by working with a partner organisation or contractor.

- There appear to be potential local market opportunities for income generation. The staff skills are deemed to be more than adequate to undertake this work; in particular they seem to be well placed to target certain niche markets, for example, private sector waste collection vehicles.

Culture / Staffing - the review of Central Transport Services made the following culture and staffing findings:

- The sickness rate is high at an average number of days lost at 15.3 days per annum; the 15.3 days per annum is above Council average of 10.18 days per annum in 2013/14. High levels of sickness impact on productivity and, therefore, the Council's budget.
- A better understanding of the operational requirements of the services that Central Transport Services supports urgently needs to be established. This should focus on improved communication and clearly defined service level agreements / contracts. Where adequate service level agreements and contracts exist they should be adhered to at all times.

Performance Management & Benchmarking - the review of Central Transport Services made the following performance management & benchmarking findings:

- The service does not have an adequate financial management system or fleet management system in place. Such systems are an essential management tool for running a service of this type. It is estimated that a suitable fleet management system would cost the Council approximately £20,000 per annum. A potential partner or contractor could already have an established financial system or fleet management system which could be adopted by the Council.
- At the time of reviewing the service there were no effective key performance indicators in place so it was impossible to compare the performance of the Central Transport Service against other local authorities. During the review process it was suggested that productivity

and operating costs were high, and therefore uncompetitive when compared against the private sector.

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.

i) Soft Facilities Management

Risks - the review of Soft Facilities Management identified the following service risks:

- Currently there is a lack of knowledge in critical areas such as security management.
- The end to end processes need to undergo 'Lean Review' to drive efficiencies.
- The technology used for collecting building information, mobile working and security management needs to be updated / implemented.
- It is anticipated that there will be a reduction in Council staff due to agile working and downsizing which means that in future fewer buildings will be required. If the Council building stock reduces there will be less demand and internal income for the service.
- There is not enough focus within the service on identifying and developing commercial opportunities. This means that there is a lack of ability to compete commercially in the private market. The Living Wage makes the service uncompetitive with private sector.
- Performance not currently adequately benchmarked and overall performance monitoring is insufficient.
- There is a lack of customer engagement to ensure that standards are being met.
- The service has a high sickness rate which places a financial burden on the service.

Budget - the review of Soft Facilities Management made the following budgetary findings:

- The expenditure budget for 2013/14 was £3,182,536 (£1,570,291 for Security & £1,611,549 for Cleansing). The services produced income to the value of £3,266,950 (£1,544,352 for Security & £1,722,598 for Cleansing). This means that service provided an overall surplus of £85,110. The Security part of the service runs at a loss of £25,939 and the Cleansing section of the service generates a profit of £111,049.

- The Security and Cleaning parts of the service spent approximately 96% and 81% of their budgets on staffing in 2013/14.
- At the time of writing this report the 2014/15 outturn figures were not available.

Income - the review of Soft Facilities Management made the following income generation and commercialisation findings:

- This service generated a surplus of £85,110 in 2013/14. The Security part of the service runs at a loss of £25,939 and the Cleansing section of the service generates a profit of £111,049.
- There is not enough focus within the service on identifying and developing commercial opportunities. This means that there is a lack of ability to compete commercially in the private market. The Living Wage makes the service uncompetitive with private sector.

Culture / Staffing - the review of Soft Facilities Management made the following culture and staffing findings:

- There is a lack of customer engagement to ensure that standards are being met.
- The service has a high sickness rate which places a financial burden on the service.
- The end to end processes need to undergo ‘Lean Review’ to drive efficiencies.
- The technology used for collecting building information, mobile working and security management needs to be updated / implemented.

Performance Management & Benchmarking - the review of Soft Facilities Management made the following performance management & benchmarking findings:

- Performance not currently adequately benchmarked and overall performance monitoring is insufficient. At the time the information was presented data had been submitted so that benchmarking against the APSE performance framework could begin.

- No data has been input for security as APSE does not offer benchmarking for this service.
- The service understands the need to benchmark against the private sector and are looking to do this in future.

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.

j) *Parks Services*

Risks - the review of Parks Services identified the following service risks:

- The Parks Services budget was overspent in 2013/14 by £292,510. It managed to exceed its income target by £151,604; however, this was mainly due to large amounts of 'external income' from the Harbour Authority and Housing (via the Housing Revenue Account). These are in effect internal sources of income and could potentially reduce as a result of internal and Welsh Government budget pressures. This places financial pressure on the service going forward and increases the need to raise additional income from genuine third parties.
- The cost of vehicles provided by the Central Transport Service has been exceptionally high, contributing to a 'vehicles and equipment' overspend of £232,242 in 2013/14. This is unaffordable for the future and has to be addressed. The vehicle overspend is a common theme for other services within the Infrastructure Business Model.
- The service is quite reliant on grant income which has a tendency to fluctuate.
- There is a lack of performance / management information in many areas of the service. This is compounded by an absence of 'operational' performance indicators.
- There is a lack of trading focus and commercialisation within the service.
- There has in recent years been a lack of investment in plant, machinery and vehicles. This leaves the service with an ageing vehicle, machinery and equipment fleet.
- There are significant ongoing pressures from reducing budgets and future demographic growth.
- The service needs to invest in technology & systems to improve efficiency and generate additional savings; for example, significant investment would be required to introduce mobile scheduling to the service.

Budget - the review of Parks Services made the following budgetary findings:

- The service exceeded its allocated budget for 2013/14 by £292,510. At the same time it exceeded its income target by £151,604; mainly due to an external income surplus of £211,211. Employee costs are by far the highest element of the budget. The largest service overspend against the budget during 2013/14 was for vehicles & equipment (£232,242) and premises costs (£57,282).
- The service is fairly reliant on grant income which registered an income shortfall of £59,459 in 2013/14; this is a concern.

Income - the review of Parks Services made the following income generation and commercialisation findings:

- There is a lack of trading focus and commercialisation within the service.
- The service is quite reliant on grant income which has a tendency to fluctuate.
- The service is heavily reliant on internal sources of income which could potentially reduce as a result of internal and Welsh Government budget pressures. This places financial pressure on the service going forward and increases the need to raise additional income from genuine third parties.

Culture / Staffing - the review of Parks Services made the following culture and staffing findings:

- Sickness absence levels for the 2013/14 financial year were high with an average of 15.3 days lost through sickness per employee. Employee turnover is relatively low throughout all areas of the service as conditions of employment are more favourable than private sector comparators.
- The service has been slow to adopt new technology and systems to improve efficiency and productivity; for example, there has been no implementation of mobile scheduling technology.
- There is a lack of trading focus and commercialisation within the service.

Performance Management & Benchmarking - the review of Parks Services made the following performance management & benchmarking findings:

- The service benchmarks against APSE, Core Cities and Green Spaces Wales. APSE named Cardiff as runner up for most improved Parks & Horticultural Services 2014.
- There is a lack of performance / management information in many areas of the service. This is compounded by an absence of 'operational' performance indicators.
- It has been historically difficult to identify all works carried out by the Parks Service. Without fully understanding all work undertaken it is very difficult performance manage and benchmark accurately.

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.

k) Hard Facilities Management

Risks - the review of Hard Facilities Management identified the following service risks:

- Improved management of productivity of trade workforce to reduce time taken on jobs needs to happen to increase efficiency. In doing this the overall end to end process needs to be reviewed to streamline and make activity more efficient (especially income recovery). Achieving this would include the implementation of supporting technology.
- There is a gap between resources and customer demand.
- There is a lack of visibility around productivity of the unit across the board leading to incorrect and over charging of customers.
- There are no further opportunities to generate income internally and no experience of generating income externally. Failing to improve commercialisation and generate additional income opportunities will result in a shrinking service.
- The service has access to very little performance management information. This is essential to measure performance and enable benchmarking against market leading providers.
- Customer satisfaction measures and communication need to be improved.

Budget - the review of Hard Facilities Management made the following budgetary findings:

- The total spend for 2013/14 was £12.1 million (£442,000 of which was for non statutory spend). 17.5% of the overall spend was on internal employee costs, while 74.5% was allocated to ‘Buildings and / or asset rentals’ which is mostly for monies paid to third parties for contractor work on Council properties.
- The 2013/14 budget for building maintenance was £3.75 million; this figure included a non schools responsive maintenance budget of £1.6 million. It in addition to this there was an external contractor spend of £6.5million.

Income - the review of Hard Facilities Management made the following income generation and commercialisation findings:

- There are no further opportunities to generate income internally without insourcing work which is currently contracted out. There is no experience of generating income externally within the service.
- Failing to improve commercialisation and generate additional income opportunities will result in a shrinking service.
- The service charges a 10% management fee for client related services on asset / capital work, i.e. this is an internal income based the value of work carried out on Council buildings.
- Sub-contractors will charge a typical uplift of between 7.5% - 12.5% on top of the cost of any buildings maintenance work carried out.

Culture / Staffing - the review of Hard Facilities Management made the following culture and staffing findings:

- The service has recently been through a restructure which has led to the deletion of a number of posts; therefore, staff turnover outside of the restructure has been negligible.
- Sickness & Staff Persistency Rate - the service currently has an average of 11.89 days sick leave per employee. Trades staff used to have pay reduced if they were sick. This element of their terms & conditions changed in April 2014 - they are now on the same terms as all other Council employees.
- Improved management of productivity of trade workforce to reduce time taken on jobs needs to happen to increase efficiency.

Performance Management & Benchmarking - the review of Hard Facilities Management made the following performance management & benchmarking findings:

- The service has access to very little performance management information. This is essential to measure performance and enable benchmarking against market leading providers.
- Customer satisfaction measures and communication need to be improved.

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.

l) Projects, Design & Development

Risks - the review of Projects, Design & Development identified the following service risks:

- Better communication with the client – the service needs to better educate the client to ensure that better briefs are provided; that adequate funding is available and that sufficient time is allocated towards the work. Improvement in this area would enable projects to run more smoothly and avoid costly variations and delays.
- Staff leaving the service to work for private sector companies. For example, several younger staff have left because they believe that there are better opportunities for them in private sector organisations. This creates a loss of experience and talent which has to be replaced through training or recruitment.
- Council budget reductions could impact on the volume of projects coming forward.
- Failure to capitalise on the income generating potential of the service, for example, insourcing some of the work currently contracted out by the service.

Budget - the review of Projects, Design & Development made the following budgetary findings:

The budget for Projects, Design & Development is nil. The £1.9m operational costs will be entirely funded from fees generated from the capital budget. It is estimated that the 2014/15 spend of the service will be:

- Employee costs - £1,683,000;
- Supplies, goods and services -£ 82,000;
- Equipment and vehicles - £25,000;
- Buildings and/or asset rentals - £110,000.

Income - the review of Projects, Design & Development made the following income generation and commercialisation findings:

- Each year the service charges the capital programme for the costs of the work that it manages, i.e. capital fee income covers operational costs.
- Council budget reductions could impact on the volume of projects coming forward.
- Failure to capitalise on the income generating potential of the service, for example, insourcing some of the work currently contracted out by the service.
- A comprehensive, professional technical service is provided. End user and service area client feedback is strong and illustrates that Projects, Design & Development provides a good and competitive service.

Culture / Staffing - the review of Projects, Design & Development made the following culture and staffing findings:

- Sickness & persistency - the service currently has a sickness rate of 1.39% which is very low. Staff turnover until recently has been very low and most members of staff are long served.
- Between May and December 2014 the service lost six members of staff who left the Council to take on better external opportunities. There is a view that financial restrictions are being placed on the Council and that the market demand for designers and engineers is strong.

Performance Management & Benchmarking - the review of Projects, Design & Development made the following performance management & benchmarking findings:

- The benchmarking of the service has been limited. The only available data for 2014/15 is for CIPFA Project Fee Benchmarking which in June 2014 placed the service in the top quartile.
- A benchmarking exercise against private sector providers was carried out a few years ago and showed that the service to be the most economical route on schemes up to a value of £3 million.

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.

m) Infrastructure Design and Construction Management

Risks - the review of Infrastructure Design & Construction Management identified the following service risks:

- The service does not always have sufficient resources to fully manage and deliver all projects. For example, additional CAD technicians, quantity surveyors and project managers are often required to help complete work. This normally means bringing in external expertise and it can be a challenge to bring in the right people.
- Failing to commercialise the service to take on additional private projects and work for other public bodies.
- Staff exodus due to the Council changes that have been going on over the last two years along with growing opportunities in the private sector.
- Over reliance on in house work; in the long term a reduction of in house capital projects could result in less funding being available for the service.

Budget - the review of Infrastructure Design & Construction Management made the following budgetary findings:

- The estimated value of the contracts managed by the service in 2014/15 was approximately £15 million. The service has no impact on the Council revenue budget as it is fully funded from charges on capital funded projects. This makes the service cost neutral in terms of Council finances. 80.5% of the costs of running the service were ‘employee costs’. 2% of the 2013/14 spend was for overtime.

Income - the review of Infrastructure Design & Construction Management made the following income generation and commercialisation findings:

- Most of the income generated by the service is from internal clients, although some work is carried out for the Welsh Government. There is currently a high internal demand for designs, contract management and also onsite delivery schemes. This has consistently increased over the last four years. It is anticipated that this internal income stream will continue to rise over the next three years. The service does not currently prospect for external private work which could provide the Council with an additional income.

Culture / Staffing - the review of Infrastructure Design & Construction Management made the following culture and staffing findings:

- The service staff are professional and highly skilled. They are able to deliver a very diverse range of construction, design and project management services for the Council.
- At the point of completing the fundamental service review Infrastructure Design & Construction Management had 20 members of staff – it should be noted that this staffing level was in advance of a proposed service area restructure. The sickness level for the service in 2013/14 was 1.19% which is very low.

Performance Management & Benchmarking - the review of Projects, Design & Development made the following performance management & benchmarking findings:

- The service benchmarks customer satisfaction on its projects against the other Welsh local authorities via the CSS Wales Benchmarking Club Feedback performance measure; they currently achieve 7 out of 10. A score of 7.8 or above would move them into the top quartile. Service fees are also benchmarked through the same scheme which is externally audited by the Wales Audit Office. It should be noted that this measure is limited as many Welsh local authorities have limited programmes of work. The best comparators from this scheme are Swansea and Newport. Swansea has been reluctant to submit data in recent years and Cardiff generally performs well when compared to Newport.
- Benchmarking of the service against the private sector does not happen.

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.

Task group feedback on the evaluation matrix document and methodology

The task group spent some time looking into how other local authorities had designed, implemented and used evaluation matrices to select an alternative delivery model for the delivery of services. The task group commissioned a Scrutiny Research report titled '*Phase 1: Evaluate the priorities for the selection of an alternative delivery model through a review of selection matrices*'. This looked at how a number of local authorities had designed, implemented and used a range of evaluation matrices. Some were very short and simple; others were very long and complex. They all, however, were used as a guidance tool and not a decision making tool, i.e. they can suggest a direction of travel but there are far too many variables involved for it to be the only factor.

During the inquiry the Infrastructure Business Model project team shared the draft evaluation matrix with the task group. The Members on the task group were satisfied with the structure and content of the document. They were happy for it to be used as a guidance tool in the alternative delivery model evaluation process.

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.

The Williams Report

The Welsh Government has commissioned the Williams Report to review 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 as they could have extended regional implications. As a consequence it would seem sensible for the Council to keep all interested parties updated on any proposed Council service changes, for example, Welsh Government, other neighbouring authorities and any prospective partners.

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.

Creation of Service Specifications & Division of Duties

In creating the new service specifications the Council should ensure that adequate division of duties are placed between those staff transferring to a new service and those designing the new service. It is important to obtain feedback from staff involved in running the service; however, it is also sensible to prevent them from having a completely open hand in creating a service that they might manage. Any proposals put forward from staff involved with running the service should be robustly challenged.

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.

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 would have an impact on services. This clearly means that the transitional period has to be managed to maintain morale and service standards.

Full consultation on the proposed model needs to take place 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 prosed model. The whole process needs to be managed through a transition plan which is designed so that people are properly informed and ensure service continuity.

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 prosed 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.

WITNESSES TO THE INQUIRY

The Joint Task & Finish group of the Environmental and Policy Review & Performance Scrutiny Committees undertook a scrutiny inquiry titled “Infrastructure Business Model & Alternative Delivery Options”. This exercise looked at the range of alternative delivery options and how they could be implemented in Cardiff across a wide range of services. The task group also evaluated the strengths and weaknesses of the services within the scope of the Infrastructure Business Model.

During the inquiry the task group was grateful to the following witnesses who provided verbal evidence or written contributions:

City and County of Cardiff Council witnesses

- Jane Forshaw – Director for the Environment
- Tara King – Assistant Director for the Environment
- David Lowe – Waste Operations Manager
- Pat McGrath – Operational Manager, Infrastructure & Projects
- Claire Cutforth – Operational Manager, Recycling Services
- Jane Cherrington – Operational Manager, Strategy & Enforcement
- Gary Brown – Operational Manager, Highway Maintenance
- Andy Greener – Principal Engineer – Inspection & Assessment
- Steve Robinson – Operational Manager, Commissioning & Procurement
- Chris McLellan – Senior Category Manager
- Kerry Barley – Business Analyst
- Lesley Ironfield – Operational Manager, Facilities Management
- Neville Lord - Cleaning & Support Services Manager
- Clive Riches – Building Services Manager
- Emyr Williams and Tom Foreman – Principal Research Officers
- Paul Manley - Central Transport Services
- Shaun Jamieson – County Solicitor
- Tracey Thomas - Operational Manager, HR People Partner
- Phil Dee – Operational Manager, Design & Construction Management

Trades Union Colleagues

- Angie Shiels – Cardiff GMB
- Ken Daniels – Cardiff Branch Secretary, GMB
- Robert Collins – Cardiff UCATT

External Witnesses

- Oxford City Council
    - Graham Bourton, Head of Direct Services
    - Tim Sadler, Executive Director Community Services
    - Lyn Barker, Finance Business Partner
    - Jeff Ridgley, Business Development & Fleet Manager
    - Steve Davis, Electrician / UNITE
    - Ian Morrison, Multi Trade Operative / UNISON
    - Councillor Van Coulter

- Amey
    - Mike Cafferky – Business Director, Non PFI Highways
    - James Trotter – Business Development Director Local Government
    - Dave Nicholson – HR Business Partner
    - Eddie Fellows – Network Manager, Birmingham HMMS
    - Mike Hodkinson – Business Development Manager
    - Jason Parfitt – Principal Operations Manager Birmingham PFI
    - Helen Walters – Facilitator
    - Wayne Rowley – Principal Operations Manager Solihull
    - Will Tyas – Account Manager, Birmingham HMMS

- Wellingborough Norse
    - Ricky Sinfield – Unison
    - Nicola Holden - General Manager
    - John Casserly – Managing Director
    - Fourteen line staff from Wellingborough Norse

- Borough Council of Wellingborough
  - John Campbell – Chief Executive
  - Bridget Lawrence – Head of Resources
  - Liz Elliott - Head of Finance and Section 151 Officer
  - Councillor Peter Morrall – Chair of the Wellingborough Norse Liaison Board
  - Councillor Brian Emerson - Wellingborough Norse Liaison Board

- Cormac Solutions Ltd
  - Arthur Hooper, Managing Director
  - Robin Fisher, Director

- Other External Witnesses
  - Ricky Fuller – Head of Strategic Client Services, Peterborough City Council
  - Alistair Merrick – Former Wolverhampton Council Director & Consultant
  - Ian Coventry – Environmental Services Manager at Slough Borough Council
  - Paul Sayer – Senior Union Representative, GMB
  - Bill Abbot – Senior Union Representative, UNISON
  - Graham Jermyn - Director, GYB Services at Norse Commercial Services

LEGAL IMPLICATIONS

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 modification. 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 power 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. standing orders and financial regulations; (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

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.

The financial data included in the service-specific issues section of the report has been based on the 2013-14 Outturn (Month 14) position and therefore provides a snapshot of the financial position of the relevant services at that point in time. Subsequent to that snapshot these services would have incorporated the 2014/15 and 2015/16 savings into their revenue budgets.

In the Background section of the report there is a reference to a saving of £4.3m to be delivered from the Infrastructure Business Model by the end of 2017/18. At this stage this is an indicative potential saving opportunity which will be developed during the preparation of the 2016/17 Budget, and associated MTFP.

ENVIRONMENTAL SCRUTINY COMMITTEE
TERMS OF REFERENCE

To scrutinise, measure and actively promote improvement in the Council's performance in the provision of services and compliance with Council policies, aims and objectives in the area of environmental sustainability, including:

· Strategic Planning Policy
· Sustainability Policy
· Environmental Health Policy
· Public Protection Policy
· Strategic Transportation Partnership
· South East Wales Transport Alliance
· Licensing Policy
· Waste Management
· Strategic Waste Projects
· Street Cleansing
· Cycling and Walking
· Streetscape
· Transport Policy and Development
· Intelligent Transport Solutions
· Public Transport
· Parking Management

To assess the impact of external organisations including the Welsh Government, Welsh Government Sponsored Public Bodies and quasi departmental non-governmental bodies on the effectiveness of Council service delivery. To report to an appropriate Cabinet or Council meeting on its findings and to make recommendations on measures, which may enhance Council performance in this area.

POLICY REVIEW & PERFORMANCE SCRUTINY COMMITTEE
TERMS OF REFERENCE

To scrutinise, monitor and review the overall operation of the Cardiff Programme for Improvement and the effectiveness of the general implementation of the Council's policies, aims and objectives, including:

- Strategic Policy Development
- Strategic Programmes
- Community Planning & vision Forum
- Voluntary Sector Relations
- Citizen Engagement & Consultation
- Corporate Communications
- International Policy
- Council Business Management and Constitutional Issues
- Equalities
- Finance and Corporate Grants
- Organisational Development
- Fundamental Operational Review
- E-Government and ICT
- Property and Procurement
- Carbon Management
- Contact Centre Services and Service Access
- Legal Services

To scrutinise, monitor and review the effectiveness of the Council's systems of financial control and administration and use of human resources.

To report to an appropriate Cabinet or Council meeting on its findings and to make recommendations on measures, which may enhance Council performance in this area.

ENVIRONMENTAL SCRUTINY COMMITTEE MEMBERSHIP

Councillor Paul Mitchell
(Chairperson)

Councillor Chris Lomax

Councillor Elizabeth Clark

Councillor Keith Hyde

Councillor Roderick McKerlich

Councillor Sarah Merry

Councillor Chris Davis

Councillor Ralph Cook

POLICY REVIEW & PERFORMANCE SCRUTINY COMMITTEE MEMBERSHIP

Councillor Nigel Howells
(Chairperson)

Councillor David Walker

Councillor Jayne Cowan

Councillor Russell Goodway

Councillor Cecilia Love

Councillor Garry Hunt

Councillor Jim Murphy

Councillor Mary McGarry

Councillor Kathryn Lloyd

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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 Collection 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 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 it 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 contacts 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.

Project Programme - FBC Stage

APPENDIX 4

Project Governance Throughout the Full Business Case Stage

Task/Milestone	Dates
Phase 3 – FBC Project FBC Transition Board	20/07/15-31/07/15
External Project support identified and appointed	20/07/15-21/08/15
PHASE 3 Project Brief –Signed off	10/08/15
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
	GATEWAY REVIEW
Draft Cabinet Report Submitted	30/11/15
Cabinet Report and Full Business Case considered by Key	01/12/15-18/12/15

Stakeholder Management
Stakeholder Planning Workshop 27/07/15-31/07/15
Development of Communication Plan 03/08/15-07/08/15
Constant Engagement and Communication with all Stakeholders Throughout the Full Business Case stage

Modified In-House Model
Development of Modified In-House Improvements 20/07/15-
Implementation of identified and approved Modified In-House improvement actions

Stakeholders and amended			
Final Full Business Case and Cabinet Report Submitted	Dec 15		
Cabinet Approval of Full Business Case recommend to Council	Jan 16 Jan/ Feb 16		
GATEWAY REVIEW			
Initiate Transition Board & Mobilisation (if WOC Approved)	Feb /16	**Constant Engagement, staff TUPE Consultation and Communication with all Stakeholders Throughout the Transition and Mobilisation Phase**	
Establishment of Wholly Owned Company (if approved)	Quarter 1 (16/17)		

Cardiff Council
Statutory Screening Tool Guidance

Appendix 5

If you are developing a strategy, policy or activity that is likely to impact people, communities or land use in any way then there are a number of statutory requirements that apply. Failure to comply with these requirements, or demonstrate due regard, can expose the Council to legal challenge or other forms of reproach.

For instance, this will apply to strategies (i.e. Housing Strategy or Disabled Play Strategy), policies (i.e. Procurement Policy) or activity (i.e. developing new play area).

Completing the Statutory Screening Tool will ensure that all Cardiff Council strategies, policies and activities comply with relevant statutory obligations and responsibilities. Where a more detailed consideration of an issue is required, the Screening Tool will identify if there is a need for a full impact assessment, as relevant.

The main statutory requirements that strategies, policies or activities must reflect include:

- **Equality Act 2010 - Equality Impact Assessment**
- **Welsh Government's Sustainable Development Bill**
- **Welsh Government's Statutory Guidance - Shared Purpose Shared Delivery**
- **United Nations Convention on the Rights of the Child**
- **United Nations Principles for Older Persons**
- **Welsh Language Measure 2011**
- **Health Impact Assessment**
- **Habitats Regulations Assessment**
- **Strategic Environmental Assessment**

This Statutory Screening Tool allows us to meet all the requirements of all these pieces of legislation as part of an integrated screening method that usually taken no longer than an hour.

The Screening Tool can be completed as a self assessment or as part of a facilitated session, should further support be needed. For further information or if you require a facilitated session please contact the Policy, Partnerships and Citizen Focus Team on 02920 72685 e-mail: nwood@cardiff.gov.uk. Please note:

- **The completed Screening Tool must be submitted as an appendix with the Cabinet report.**
- **The completed screening tool will be published on the intranet.**

CARDIFF
CAERDYDD

Statutory Screening Tool

Name of Activity: Infrastructure Services ADM Project	**Date of Screening:**
Service Areas: Waste Collections (commercial and residential); Waste Treatment and Disposal; Waste Education and Enforcement; Street Cleansing; Pest Control; Parks Management and Development; Highways Operations; Highways Asset Management; Infrastructure Design and Construction Management; Central Transport Service; Hard Facilities Management; Soft Facilities Management – Cleaning, Soft Facilities Management – Security; Projects; Design and Development	**Lead Officer:** Andrew Gregory Director Strategic Planning, Highways, Traffic and Transport
Attendees: None. Screening completed by Kerry Barley, Business Analyst	

What are the objectives of the Project	**Please provide background information on the Project and any research done [e.g. service users data against demographic statistics, similar EIAs done etc.]**
The project has been assigned the task of facilitating a savings opportunity of at least £4.3 million over the MTFP, and will look to achieve this by undertaking a wholesale review of the services in scope of the project, in order to determine if the level of savings can be achieved by utilising an ADM or range of ADMs for the delivery of the services in scope. This screening assessment has been prepared for Phase 2 of the project where the output will be an Outline Business Case, making recommendations for suitable delivery model(s) to be implemented for the services in scope. The assessment will therefore be considering the potential impacts of this phase of the project.	Phase 1 of the project was completed in November 2014 when a Cabinet Report was submitted, resulting in the number of models being considered reducing from seven to five and permission being granted to carry out a soft market testing exercise. It was also advised that Phase 2 would be completed with the submission of an Outline Business Case, making recommendations for which model(s) should be used to deliver the services in scope to achieve the required savings opportunity. In regards to Phase 1 an EIA and PIA were completed and submitted accordingly. It is envisaged that Phase 3 (the development of a Full Business Case for identified Models) and (Phase 4 Implementation of the identified models) will result in a more comprehensive screening assessment. This is when potential impacts considered by the screening assessment will be better understood.

Part 1: *Impact on outcomes and due regard to Sustainable Development*

Please use the following scale when considering what contribution the activity makes:		
+	Positive	Positive contribution to the outcome
-	Negative	Negative contribution to the outcome
ntrl	Neutral	Neutral contribution to the outcome
Uncertain	Not Sure	Uncertain if any contribution is made to the outcome

	Has the Strategy/Policy/Activity considered how it will impact one or more of Cardiff's 7 Citizen focused Outcomes?	Please Tick +	-	Ntrl	Un-Crtn	**Evidence or suggestion for improvement/mitigation**
1.1	**People in Cardiff are healthy;** *Consider the potential impact on* • *the promotion of good health, prevention of damaging behaviour, promote healthy eating/active lifestyles etc,* • *vulnerable citizens and areas of multiple deprivation* • *Addressing instances of inequality in health*				✓	
1.2	**People in Cardiff have a clean, attractive and sustainable environment;** *Consider the potential impact on* • *the causes and consequences of Climate Change and creating a carbon lite city*				✓	
	• *encouraging walking, cycling, and use of public transport and improving access to countryside and open space*				✓	
	• *reducing environmental pollution (land, air, noise and water)*				✓	
	• *reducing consumption and encouraging waste reduction, reuse, recycling and recovery*				✓	
	• *encouraging biodiversity*				✓	
1.3	**People in Cardiff are safe and feel safe;** *Consider the potential impact on* • *reducing crime, fear of crime and increasing safety of individuals* • *addressing anti-social behaviour* • *protecting vulnerable adults and children in Cardiff from harm or abuse*				✓	

	Has the Strategy/Policy/Activity considered how it will impact one or more of Cardiff's 7 Citizen focused Outcomes?	Please Tick				Evidence or suggestion for improvement/mitigation
		+	-	Ntrl	Un-Crtn	
1.4	**Cardiff has a thriving and prosperous economy;** *Consider the potential impact on* • *economic competitiveness (enterprise activity, social enterprises, average earnings, improve productivity)* • *Assisting those Not in Education, Employment or Training* • *attracting and retaining workers (new employment and training opportunities, increase the value of employment,)* • *promoting local procurement opportunities or enhancing the capacity of local companies to compete*				✓	
1.5	**People in Cardiff achieve their full potential;** *Consider the potential impact on* • *promoting and improving access to life-long learning in Cardiff* • *raising levels of skills and qualifications* • *giving children the best start* • *improving the understanding of sustainability* • *addressing child poverty (financial poverty, access poverty, participation poverty)* • *the United Nations Convention on the Rights of a Child and Principles for Older persons*				✓	
1.6	**Cardiff is a Great Place to Live, Work and Play** *Consider the potential impact on* • *promoting the cultural diversity of Cardiff* • *encouraging participation and access for all to physical activity, leisure & culture* • *play opportunities for Children and Young People* • *protecting and enhancing the landscape and historic heritage of Cardiff* • *promoting the City's international links*				✓	

	Has the Strategy/Policy/Activity considered how it will impact one or more of Cardiff's 7 Citizen focused Outcomes?	Please Tick +	-	Ntrl	Un-Crtn	Evidence or suggestion for improvement/mitigation
1.7	**Cardiff is a fair, just and inclusive society.** Consider the potential impact on • *the elimination of discrimination, harassment or victimisation for equality groups*				✓	
	• *has the community or stakeholders been engaged in developing the strategy/policy/activity?* • *how will citizen participation be encouraged (encouraging actions that consider different forms of consultation, through more in depth engagement to full participation in service development and delivery)?*	✓				Questions in regards to the Infrastructure ADM Project were included within the Cardiff Debate exercise, and consideration of the output from this will be included within the Outline Business Case. This is considered a positive impact as citizens have been made aware of the project and have also had the opportunity to provide input via the consultation exercise.
	Will this Policy/Strategy/Project have a ***differential impact*** *on any of the following:*					*Please give details/consequences of the differential impact (positive and negative), and what action(s) can you take to address any negative implications?*
	• **Age** (including children and young people aged 0-25 and older people over 65 in line with the United Nations Conventions)			✓		
	• **Disability**			✓		
	• **Gender Reassignment**			✓		
	• **Marriage & Civil Partnership**			✓		
	• **Pregnancy & Maternity**			✓		
	• **Race**			✓		
	• **Religion/Belief**			✓		
	• **Sex**			✓		
	• **Sexual Orientation**			✓		
	• **Welsh Language**			✓		

	Yes	No
Is a Full Equality Impact Assessment Required?		✓
Is a Full Child Rights Impact Assessment Required		✓

	Has the Strategy/Policy/Activity considered how it will impact one or more of Cardiff's 7 Citizen focused Outcomes?	Please Tick +	-	Ntrl	Un-Crtn	Evidence or suggestion for improvement/mitigation
1.8	**The Council delivers positive outcomes for the city and its citizens through strong partnerships** *Consider the potential impact on* • *strengthening partnerships with business and voluntary sectors* • *the collaboration agenda and the potential for shared services, cross-boundary working and efficiency savings*	✓				Phase 2 of the project has involved the use of Local Partnerships (an organisation part owned by both the Treasury and Local Government Association) as an critical friend, for the Outline Business Case and Evaluation Methodology. Phase 2 of the project has also tasked service areas in scope with producing improvement plans to clarify what their modified in house models could look like. Within the actions identified there is considerations of providing services across boundaries and for other quasi-public bodies in the surrounding area, evidence of looking to find further efficiency savings and also considerations of asset transfer and making better use of voluntary groups.

SUMMARY OF APPRAISAL (highlight positive and negative effects of the policy / plan / project being assessed, demonstrating how it contributes to the economic, social and environmental sustainability of the city):

The appraisal is predominantly of a neutral/uncertain nature as it is considering Phase 2 of the ADM Infrastructure Services project, where the main output is the production of an Outline Business Case proposing the most suitable model(s) for delivery of the services in scope whilst also achieving a savings opportunity of at least £4.3 million.

Developing a Full Business Case where required and implementing the recommended model during Phases 3 and 4 of the project, will certainly deliver towards the economic sustainability of the city and the Council. It is likely there will also be linked impacts on social and environmental factors. However it is during stage 3 and 4, and the screening documents produced at these stages where more detail and a more in depth appraisal will be able to be completed.

WHAT ACTIONS HAVE BEEN IDENTIFIED OR CHANGES BEEN MADE TO THE POLICY / PLAN / PROJECT AS A RESULT OF THIS APPRAISAL:

None

Part 2: *Strategic Environmental Assessment Screening*

		Yes	No
2.1	Does the plan or programme set the framework for future development consent?		✓
2.2	Is the plan or programme likely to have significant, positive or negative, environmental effects?		✓

Is a Full Strategic Environmental Assessment Screening Needed?	Yes	No
▪ If yes has been ticked to both questions 2.1 and 2.2 then the answer is yes ▪ If a full SEA Screening is required then please contact the Sustainable Development Unit to arrange (details below)		✓

If you have any doubt on your answers to the above questions regarding SEA then please consult with the Sustainable Development Unit on 2087 3228
sustainabledevelopment@cardiff.gov.uk

Part 3: *Habitat Regulation Assessment (HRA)*

		Yes	No	Unsure
3.1	Will the plan, project or programme results in an activity which is known to affect a European site, such as the Severn Estuary or the Cardiff Beech Woods?		✓	
3.2	Will the plan, project or programme which steers development towards an area that includes a European site, such as the Severn Estuary or the Cardiff Beech Woods or may indirectly affect a European site?		✓	
3.3	Is a full HRA needed?		✓	

Details of the strategy will be sent to the County Ecologist on completion of the process to determine if a Habitat Regulation Assessment is needed. For further information please phone 2087 3215 or email biodiversity@cardiff.gov.uk

Appendix 1 – Statutory Requirements

It is possible that the Impact Screening Tool will identify the need to undertake specific statutory assessments:

- **Equality Impact Assessment**: *This assessment is required by the Equality Act 2010 and Welsh Government's Equality Regulations 2011.*
- **Sustainable Development Bill**: *The Bill, when it comes into effect, will require sustainable development (SD) to be a central organising principle for the organisation. This means that there is a duty to consider SD in the strategic decision making processes.*
- **Shared Purpose Shared Delivery**- *The Welsh Government requires local authorities to produce a single integrated plan to meet statutory requirements under a range of legislation. Cardiff Council must therefore demonstrate its contribution towards Cardiff's own integrated plan; "What Matters".*
- **United Nations Convention on the Rights of the Child**: *The Children Act 2004 guidance for Wales requires local authorities and their partners to have regard to the United Nations Convention on the Rights of a Child.*
- **United Nations Principles for Older Persons:** *The principles require a consideration of independence, participation, care, self-fulfillment and dignity.*
- **The Welsh Language Measure 2011**: *The measure sets out official status for the Welsh language, a Welsh language Commissioner, and the freedom to speak Welsh.*
- **Health Impact Assessment**: *(HIA) considers policies, programmes or projects for their potential effects on the health of a population*
- **Strategic Environmental Impact Assessment:** *A Strategic Environmental Assessment (SEA) is an European Directive for plans, programmes and policies with land use implications and significant environmental effects.*
- **Habitats Regulations Assessment**: *The Conservation (Natural Habitats, &c.) (Amendment) Regulations 2007 provides a requirement to undertake Habitats Regulations Assessment (HRA) of land use plans.*