Ref: RDB/NH/BD/09.07.15

13th July 2015

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

Dear Councillor Derbyshire,

Joint meeting of the Policy Review & Performance and Environmental Scrutiny Committees – 9th July 2015

On behalf of the Policy Review & Performance and Environmental Scrutiny Committee I would like to thank you, the other Cabinet Members and officers for attending the joint meeting of the two Committees on Thursday 9th July 2015. As you are aware the meeting considered:

- Pre decision scrutiny of the Cabinet report titled Infrastructure Services – Alternative Delivery Model prior to it being considered at the Cabinet meeting on Thursday 16th July;
- Cabinet response to the Joint scrutiny task group report titled Infrastructure Business Model & Alternative Delivery Options.

The comments and observations made by Members following these items are set out in this letter.

Pre decision scrutiny of the Cabinet report titled Infrastructure Services – Alternative Delivery Model prior to it being considered at the Cabinet meeting on Thursday 16th July

Members noted that important pieces of information were missing from Appendix 11 – Infrastructure Services Alternative Delivery Models: Outline Business Case – July 2015 which was published on Friday 3rd July 2015. In particular Appendix 3 of this document titled 'Output from Corporate Evaluation Methodology' was not provided. The Committee felt that this was one of the most crucial parts of the whole Outline Business Case as it scored each of the fourteen services against the five alternative delivery models. Once provided it was very interesting to see that for the most part the outcome of the Corporate Evaluation Methodology was completely different to the recommendations in the Cabinet paper, i.e. to take the Wholly Owned Arms Length Company forward as the option for developing a Full Business Case. Members were somewhat confused that the outcome of the Corporate Evaluation Methodology and joint scrutiny report were very similar yet cast aside in favour of a Wholly Owned Arms Length Company. Members were advised that the Corporate Evaluation Methodology was one of three key elements of the Outline Business Case, therefore, I would be grateful if you could explain:

- How and why you were able to ignore the outcome of the Corporate Evaluation Methodology?
- Why it was omitted from the Appendix 11 – Infrastructure Services Alternative Delivery Models: Outline Business Case – July 2015 provided on the 3rd July 2015 and only made available following a request on Monday 6th July?
- At the meeting officers explained that changes were made late in the day to the scores of the Corporate Evaluation Methodology; this they were told was as a result of consultation with the trade unions. Please explain the changes and how they impacted on the eventual scores.

Members were concerned at some of the assumptions made originally in Appendix 4 – High Level Financial Analysis Assumptions and subsequently replaced as Appendix 3 – High Level Financial Analysis Assumptions when the Outline Business Case was reissued on Tuesday 7th July 2015. They note that after applying efficiency savings and net income generation assumptions the model illustrates that Public / Private Joint Venture was in first place, Public / Public Joint Venture in second and Teckal (Wholly Owned Arms Length Company) came in third. The assumptions in the overheads and support services sections conclude that many fixed corporate services costs cannot be removed from the Council, therefore, have to remain in addition to any third party overheads associated in working with a Public / Public Joint Venture, Public / Private Joint Venture and Outsourcing. This in effect handicaps the three models by £6.644 million; £6.257 million and £3.818 million respectively. I would be grateful if you could provide the Committees with:

- A detailed list of the fixed corporate support costs which cannot be removed from the Council budget with an explanation supporting why these cannot be removed.
- Fixed building costs were cited as examples of fixed corporate costs which could not be removed from the Council budget. Members were confused at this assumption because only a few days earlier at the Policy Review & Performance Scrutiny Committee the Director for Economic Development explained that a paper on the future of County Hall would be made available in the autumn. I would be grateful if you could justify this assumption given that there is so much uncertainty over the future of the Council's accommodation and that the Council is in the middle of 'The Office Rationalisation Project'.

During the meeting a Member asked if incentivisation had been considered for the wholly owned arms length company and was informed that this would be explored during the development of the Full Business Case. Members hope that at least some thought has been given to this idea, and would be grateful if you could provide the Committees with some ideas which might be considered during the development of the Full Business Case. In addition to this they are curious to find out more around how the 'John Lewis' effect might absorb itself into a Wholly Owned Arms Length Company when 100% of the dividends would be returned to the Council and not the employees or 'partners' as is the case with John Lewis.

The Committee were concerned by the assumption in the financial model which suggested that the Teckal (Wholly Owned Arms Length Company) would benefit from the initial savings achieved by the Modified In House option, when Public / Public, Public / Private and Outsourcing would not.

Instead the three options were assumed to start from the c£73 million savings figure at the point where they were able to begin the service delivery (periods ranging from 9 to 24 months according to page 85 of the Outline Business Case). Members believe that the Modified In House savings should be an assumed constant for each of the five models until they reach the point at which the new alternative delivery option would take over, i.e. they would all start from different points of the Modified In House savings profile instead of from the c£73 million figure. A constant message to the task group was that irrespective of the alternative delivery model chosen a Modified In House option would need to pursued right up to the point where the new model would take over. The financial model used by the Outline Business Case should follow this assumption and not work on the basis that no change would happen until the starting point of the new alternative delivery model. Maintaining the current assumption provides the Teckal option (Wholly Owned Arms Length Company) with an unfair advantage which impacts on the overall net present values for Public / Public, Public / Private and Outsourcing.

Members were concerned that the Service Improvement Plans were not available for consideration alongside the Outline Business Case despite them forming a large part of the basis of the £4.053 million in house savings for the period 2015/16 to 2017/18. The Committees were informed that the documents were not yet available as full consultation of the proposals had not been undertaken. As a consequence we are very concerned at the assumption that the savings will be achieved by both the In House model and the Wholly Owned Arms Length Company and do not believe that it should be included within the Outline Business Case as it lacks substance and detail. I would be grateful if you could confirm:

- When the Service Improvement Plans will be finalised and made available for the Members of the Environmental Scrutiny Committee and Policy Review & Performance Scrutiny Committee.
- The outstanding tasks required to complete the consultation on the Service Improvement Plans.

Page 11 of the Outline Business Case states that *'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'.* As this is a significant amount of annual expenditure I would be grateful if you could provide costed detail on how the assumption was calculated. For example, the amount allocated for non-executive directors, corporate governance costs and the Managing and Business Development Directors.

The email sent to you on Monday 6th July asked for a copy of Appendix 9 which was missing from the original Outline Business Case and titled as 'Project Risks'. If Members are to provide you with robust scrutiny feedback they will need to understand your judgements around risk and how these were reached, so could you please arrange for a copy of this to be provided as soon as possible.

Page 85 of the Outline Business Case states that the 'Implementation Time' for an Outsourcing option would be 12 to 18 months. This is contrary to the two year implementation period advised by Commissioning & Procurement to the joint scrutiny task group. Please provide a basis for the 12 to 18 month assumption and explain why it is different to the advice provided by Commissioning & Procurement in March 2015.

Members were confused as to how employee terms and conditions would be affected following the transfer to the new Wholly Owned Arms Length Company. At one point in the meeting it was explained that employee terms and conditions would not change, then at a later point this was contradicted with a suggestion that they could change. I would be grateful if you could provide Members with clarification regarding:

- The predicted changes to employee terms and conditions, i.e. would they change or stay the same?
- Clarification on how TUPE protection would be applied to employees transferring to the new Wholly Owned Arms Length Company.

- If the new structure would prevent multi tier employee terms and conditions being applied.

I would be grateful if you could provide the Committee with a detailed summary of all alternative delivery model consultation undertaken with the trade unions prior to the joint meeting on the 9th July. This should include what was discussed and any outcomes from meetings.

Cabinet response to the Joint scrutiny task group report titled Infrastructure Business Model & Alternative Delivery Options

Members note that from the 27 recommendations two were rejected; 11 were accepted and 14 were partially accepted. The Committee acknowledge that you believe recommendations 12, 13, 14, 15, 16, 18, 20, 21 and 23 have been partially accepted, however, the Committee would like to respectfully disagree and suggest that these should have been rejected as in actual fact you are recommending the implementation of different models.

Conclusion

Members fully understand the importance of correctly identifying the best possible alternative delivery model for providing infrastructure services in Cardiff. The outcome of this decision will shape how the Council will spend £73 million per annum and have a direct impact on every citizen in the city along with the countless number of commuters and visitors who come to Cardiff each year. As a consequence we believe that it is not possible to undertake proper scrutiny of the proposals until all of the requested information has been provided and Members are allowed time to properly digest the information. The Committee, therefore, asks that you delay taking a decision on the proposals due to be taken on the 16th July 2015 so that detailed scrutiny can be conducted on the complete proposals.

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

Regards,

Councillor Nigel Howells
Chairperson Policy Review & Performance Scrutiny Committee

Cc to:

Councillor Phil Bale, Leader of the City & County of Cardiff Council
Councillor Ramesh Patel, Cabinet Member for Transport, Planning & Sustainability
Councillor Graham Hinchey, Cabinet Member for Corporate Service & Performance
Paul Orders, Chief Executive
Andrew Gregory, Director of City Operations
Tara King, Assistant Director for the Environment
David Lowe, Waste Operations Manager
Christine Salter, Corporate Director Resources
Jane Forshaw, Director for the Environment
Marc Falconer, Operational Manager, Projects & Accountancy
Paul Keeping, Operational Manager, Scrutiny Services
Marie Rosenthal, Director for Governance & Legal Services
Neil Hanratty, Director for Economic Development
Ken Daniels, GMB
Angie Shiels, GMB
Robert Collins, UCATT
Martin Roberts, UCATT
Jayne Jackson, UNISON

Ian Titherington, UNISON

Jim Pates, UNITE

Thomas Watkins, UNITE