

**SWYDDFA CYMORTH Y CABINET
CABINET SUPPORT OFFICE**

Fy Nghyf / My Ref : CM31506
Eich Cyf / Your Ref : RDB/NH/BD/09.07.15
Dyddiad / Date: 16th July 2015



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Councillor Nigel Howells
Chair Policy Review & Performance Scrutiny Committee
Cardiff County Council
Atlantic Wharf
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CF10 4UW

Annwyl / Dear Nigel

**Scrutiny Joint Policy Review And Performance And Environmental Scrutiny
Committee 9 July 2015**

I refer to your letter of 13 July 2015 which raised some queries in relation to the presentations made to the joint Policy Review & Performance and Environmental Scrutiny Committee meeting on 9 July and also the documents that had been shared with the Committees ahead of this meeting.

Firstly, please accept my apologies for the documents not being 100% complete at the time these were shared. At the time that the documents were first forwarded to the Scrutiny Office on 3 July, it was explained that some information still needed to be added to the Outline Business Case and both this and the Cabinet report were still being subjected to checking and QA processes. Hence, further amendments were likely before these were finalised. Updated versions of these documents were provided on 7 July and whilst the information previously absent was then included, some further amendments were made ahead of the documents being published on 10 July.

In terms of the specific queries raised in your letter, I would respond as follows:

Corporate Alternative Delivery Model (ADM) Evaluation Methodology

Please be assured that the output from the corporate evaluation methodology was not ignored. At a very early stage in the development of the new corporate ADM evaluation methodology, it was intended that the output from the model would be considered alongside a number of other criteria/factors when identifying the preferred future delivery model(s) for the services being considered. I understand that this was explained to the Policy Review & Performance Scrutiny Committee by officers from the Council's Commissioning and Procurement Service on 7 July.

Both the Outline Business Case and the Cabinet report explain that the ADM appraisal process on this project comprised the consideration of:

- the corporate evaluation methodology output;
- the high level financial analysis, and
- other key factors.

PLEASE REPLY TO / ATEBWCH I : Cabinet Support Office / Swyddfa Cymorth Y Cabinet,
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Consideration was also given to recommendations made by the Scrutiny Task and Finish, the work of which I have previously gratefully acknowledged.

As stated in the Outline Business Case and Cabinet report, and also explained at the meeting on 9 July, subject to the completion of the Full Business Case, I believe the most appropriate way forward for the Council is to establish a Wholly Owned Trading Company. There are a number of reasons for this. Firstly, the corporate evaluation model, which was piloted on this project, is largely based around the balance of risk and control. This methodology, in assessing appetite for risk and control, is therefore 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. However, I believe that the establishment of Wholly Owned Company with the injection of the commercial acumen and proper governance will enable the Council to achieve the required benefits and also maintain a high level of control whilst doing so. Secondly, the high level financial analysis indicates that the Wholly Owned Company will deliver most financial benefit to the Council which is clearly an important issue. Thirdly, other key factors 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.

As stated at this meeting, the model output was omitted from the documents shared with Scrutiny on 3 July as the weightings, following consultation with the Unions, had not at that time been finalised. The model output, however, was included in the Outline Business Case shared with Scrutiny on 7 July. A summary of the changes made as a result of the consultation process are attached to this letter.

Corporate Overheads

You will be aware that a Public/Public and Public/Private JV company and also contractor would incur and charge both local and central overhead costs against the company which would have an impact upon the net saving benefits realised. It has been assumed that the local overhead charges (e.g. premises, senior management team, etc) would be transferred to the JV company/contractor. However, in terms of the central overhead, an analysis of the existing overhead charges to the services in scope was necessary to determine which were considered to be variable (and hence capable of being mitigated) and fixed (i.e. those that the Council would continue to bear). In summary, c.54% (c£1.5m p.a.) of the charges were considered variable and c46% were considered fixed. Support services were considered to see which activities currently recharged to the areas in scope would remain within the Council. For example where a proportion of activity relates to tasks that will remain with the Council regardless of the model chosen. Examples of this include corporate advice and compliance, corporate performance mechanisms and other monitoring responsibilities.

Therefore, as stated in Appendix 3 of the Outline Business Case, a reduction in overhead charge of £1.5m was assumed.

During the meeting, in response to a Scrutiny query about establishment overheads, Officers responded by saying that the overhead charges covered many factors other than property. When checking the assumptions made, I confirm that the financial modelling has already assumed that accommodation charges would effectively be transferred to a JV company or contractor.

A summary of the overhead charges, as extracted from Appendix 3 of the Outline Business Case, is shown below:

	Modified In-house		Wholly Owned Company		Public	Public JV	Public Private JV		Outsource	
	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12	Yrs 1 - 7	Yrs 1 - 12
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Model 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						
S-T : Model	0	0	1,577	2,827	12,912	22,775	11,768	21,620	10,201	19,181
Council Savings										
Support Services					-8,450	-16,131	-7,681	-15,363	-7,681	-15,363

In respect of the above the table:

- 'Overheads' – this refers to the assumed cost of overhead for the different models. No additional overhead charge has been assumed for the Modified In-House and Wholly Owned Company models and, as stated in Appendix 3 of the Outline Business Case, a cost of 3.8% has been assumed for the JV models and 3.3% for the Outsource model
- 'Company related costs' - this corresponds to the £250,000 per year for the Wholly Owned Company model primarily for the employment of a Managing Director and Business Development Manager with the purpose of providing the required injection of commercial acumen. The remaining costs make an allowance for Non-Executive Director costs/expenses and other incidental governance aspects such as audit.
- 'Support Services Costs' – this refers to the reduction in existing Council overhead that would be possible if one of the joint venture models was established or the services were outsourced. As stated above, the reduction assumed per year based on the overhead analysis undertaken was £1.5m. It should not be noted that no reduction has been made for Modified In-house and Wholly Owned company models although in practice, overhead reductions for both these models would be achieved.

Incentivisation

As explained at the meeting, possible alternatives for the incentivisation of staff need to be assessed and analysed. In particular, consideration will need to be given to how any incentivisation would impact on potential Equal Pay issues both within the Company and between the Company and the Council more generally. I am not in a position to share any thoughts with Scrutiny at this Outline Business Case stage but will be able to report more detail as the Full Business Case develops and would welcome further dialogue on these matters. In terms of reference to the 'John Lewis' effect, Officers recognise that staff would not be shareholders in a Wholly Owned Company. However, the reference was made in respect of the benefits of improving the motivation, engagement and commitment of staff that being part of a Wholly Owned Company would bring.

Model Saving Assumptions

It is important to note and understand that the high level financial model is assumptions driven. The assumptions made are set out in Appendix 3 of the Outline Business Case. These were informed through the Soft Market Testing undertaken at the end of 2014 and research, and subject to challenge by Local Partnerships. In respect of 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. These are set out in Table 4 of the Outline Business Case. It was also assumed that these would form a significant part of the savings for the Wholly Owned Company model. In terms of the other models, similarly detailed saving proposals were not available, and in order to avoid double counting, it could not be assumed that the identified Modified In-house savings would be additional to the percentage efficiency savings assumed for the other models. It is believed that this was a fair way to evaluate the efficiency savings of the alternative models being considered and did not place the Wholly Owned Company with an unfair advantage.

Service Improvement Plans

As explained at the meeting, it would have been appropriate to release details of proposed savings ahead of the required consultations being undertaken. However, it was important to include the high level detail under the headings identified within the Outline Business Case so that a 'flavour' of the types of savings envisaged could be shared. The alternative would have been to simply include a corresponding overall percentage saving in a similar manner to that provided for the other models.

It is intended to commence these consultations on all directorate and personnel savings as part of delivering a Final Business Case in the new calendar year. The Final Business case (FBC) process with the process would be consistent with best practice, be required for any model; and the consultation would develop in the next stages and will be regularly reviewed as part of existing applied strong Project Governance

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The majority (c.£230,000) of the £250,000 Wholly Owned Trading Company Management Costs, also referenced in Appendix 3, relates to the employment of a Managing Director and Business Development Manager with the purpose of providing the required injection of commercial acumen. The remaining costs make an allowance for Non-Executive Director costs/expenses and other incidental governance aspects such as audit. As identified in both the Outline Business Case and Cabinet report, the Company governance proposals, and corresponding costs, will be fully developed as part of the Full Business Case. Such management costs are comparable to that for a Public/Public and Public/Private JV.

Appendix 9 of Outline Business Case

The risk register which would have been included in Appendix 9 of the Outline Business Case forwarded to Scrutiny on 3 July was provided in Section 4 of the Outline Business Case forwarded on 7 July. It was also included at this location in the version published on 10 July. The risk register will continue to develop in the next stages and will be regularly reviewed as part of existing applied strong governance.

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The 12 – 18 months' timescale was a typo picked up prior to the publication of the OBC on Friday 10 July. This was corrected to 18 – 24 months prior to publication of the final version.

Employee Terms and Conditions

It is confirmed that employees transferring to a Wholly Owned Trading company would do so under TUPE on their contractual terms and conditions operational at the time of transfer. In order to comply with current legislative requirements and avoid the Council having challenges from an Equal Pay perspective, any changes to terms and conditions would need to be applied to all employees under its control. It is therefore not intended to make any changes to the terms and conditions of transferring employees which would be contrary to such legislative requirements. The Wholly Owned Company would also be subject to the Code of Practice on Workforce matters as it stands in Wales, and therefore any new recruits to the Wholly Owned Company would also have terms and conditions at the same level as those employees who have transferred, mitigating the risk of a two-tier workforce.

Union Consultations

Consultation with the Unions commenced at the end of May 2014, shortly after Cabinet approved the Chief Executive's Organisation Development report, through the Trade Union Budget Forum. Consultations have been ongoing since this time and details of meetings are hereby attached as requested.

Cabinet Response to Task and Finish Report

It is believed that recommendations 12, 13, 14, 15, 16, 18, 20, 21 and 23 were partly accepted on the basis that both the currently preferred models of the Cabinet and that of the Scrutiny Task and Finish Group involve transferring services to a different model from that currently operated. These recommendations were not completely accepted on the basis that Cabinets currently preferred model is different to that of the Scrutiny Task and Finish Group.

Conclusion

I appreciate that a relatively small amount of information was shared with the Scrutiny Committee's at a relatively late stage. However, taking into account the information that has previously been shared to and from Scrutiny's, I believe that adequate Scrutiny has taken place at this stage in the project. I am very keen to progress and continue with your inputs which have been very helpful to date. As such I have asked officers to set out clearly timeframe gateways within the next stage (FBC) stakeholder plans, such that you may consider within your work forward plans for the year.

As previously advised, the project is adopting a gateway process and following the completion of the next critical stage, of the Full Business Case and Transition plan there will be a certain key point for a full pre- decision Scrutiny to take place on a final decision on the proposed way forward.

I trust this response is helpful. However, if you have any queries, please contact me.

Yn gwyir
Yours sincerely



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

Enc:

- Summary of Changes Made to Model Output
- Details of Trade Union meetings