

REPORT TO: CABINET

DATE: 5 DECEMBER 2019

TITLE: HTS (PROPERTY AND ENVIRONMENT) LTD BEST VALUE REVIEW

PORTFOLIO HOLDERS: COUNCILLOR MARK INGALL, LEADER OF THE COUNCIL

COUNCILLOR MARK WILKINSON, PORTFOLIO HOLDER FOR HOUSING

COUNCILLOR DANNY PURTON, PORTFOLIO HOLDER FOR ENVIRONMENT

COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

LEAD OFFICERS: SENIOR MANAGEMENT BOARD

RECOMMENDED that:

- A** The Best Value Review into Harlow Trading Services (Property and Environment) Ltd (HTS) and associated recommendations be received.
- B** HTS be advised that the current contract will be extended for the maximum five year period provided for within the current contract subject to (C) below:
- C** Subject to B being approved above:
 - i) The recommendations of the Best Value report be adopted as an action plan for the contract extension with the recommendations below required to be completed as part of the pre-contract extension process:
 - a) Variation of the cost reporting structure for HTS to correlate with the Council's cost centre arrangements (Economy Recommendation 1);
 - b) The annual contractual price indexation being changed (Economy Recommendation 2);
 - c) The setting of the mix of third party works, and directly awarded Council capital works, the Local Authority Trading Company (LATC) is to deliver (Economy Recommendation 3);
 - d) Alternative mechanisms for penalty and/or reward under the contract, are put in place (Economy Recommendation 17); and
 - ii) The Chief Executive, in consultation with the Leader of the Council, is delegated authority to negotiate and agree all matters in respect of the extension of the contract for the continued provision of services by HTS.
- D** The 'Business as Usual' activities in Appendix 2 of Appendix A are monitored for their completion by the Shareholder Sub Committee.

REASON FOR DECISION

- A** On making the decision to set up the LATC, Cabinet requested a report demonstrate that the LATC is achieving value for money.
- B** Under the terms of the current Services Agreement with HTS the Council is required to consider whether or not to extend the contract for the provision of services by for a further five years.

BACKGROUND

1. On 1 February 2017 the delivery of the Council's Housing Repairs & Maintenance, Environment and Street Scene services moved from a Joint Venture Company (JVCo) delivery model to services being provided via a wholly Council owned LATC. This contract runs until 1 February 2022, but may be extended.
2. Following analysis of a number of options setting up an LATC was identified as representing best value for money, being the cheapest option taking into account set up costs, impact on client teams and impact on support services. This delivery model was recommended to the Council's Cabinet on 17 September 2015 as the LATC delivery option avoided a lengthy and costly procurement process and ensured a smooth transfer of service provision, additionally, minimising costly potential severance payments that otherwise the Council could have ultimately borne.
3. The Cabinet meeting of 17 September 2015 resolved that, subject to the change in service provider from JVCO to LATC, Cabinet would receive a report in 2020 to demonstrate that the LATC is achieving value for money. Furthermore, in line with Clause 28 of the Services Agreement, the LATC (HTS) is required to demonstrate to the satisfaction of the Council that it understands and has incorporated the principles of best value into its operation, securing continuous improvement.
4. A Best Value Review has been carried out, commencing in February 2019 and completing in October 2019. The purpose of the Review is to steer the Council to a position where it can make decisions on the future delivery of services and these have been considered under the broad themes of Economy, Efficiency and Effectiveness.
5. The summary report for the review, and its more detailed appendices, can be found at Appendix A of this report. The review considered evidence under 15 works streams, covering governance arrangements, financial and operational performance and culture and relationships within the existing arrangements in place.

REVIEW FINDINGS

6. The Review Summary report shows that the Council has effectively set up a well-funded LATC and successfully disaggregated its operations from the previous private sector provider. The findings of the review under its broad themes of Economy, Efficiency and Effectiveness show that there are a number of areas of very good performance but also improvements and enhancements to be made which are reflected within the report recommendations which are summarised below, but set out fully in the Review Summary Report.

ECONOMY

7. Based upon the evidence submitted to the review, it was not possible to make direct comparisons to the 2017 mobilisation business model. Further work is required to be conducted, regardless of the decision to extend the contract, as part of an action plan to ensure this is concluded as a matter of urgency. The company have ambitious investment plans, should the contract be extended, but more work is required to reach a conclusion about their viability. Importantly the review highlighted no issues to suggest the current arrangements do not represent financial best value and added value from Corporate Social Responsibility activities was noted.
8. The increase on 3rd Party works, envisaged as a plus point of a LATC, to enable the opportunity of a return to the Council have yet to come to fruition. The Review has demonstrated that HTS has delivered only limited third party works for clients external to the Council. HTS has however delivered additional Capital and planned works projects for the Council, providing services beyond the core services of the Services Agreement, retaining the contractor profit element within the company. In addition to an effective change notice mechanism, the additional delivery of capital and planned works has allowed the Council to use a relatively quick and agile model for awarding of such works, ensuring value for money, through the Business Case process. The flexibility envisaged in setting up the LATC has therefore been realised in practice.
9. In reviewing work streams relating to the costs and resources required for contract delivery by HTS the existing payment mechanism is considered to be an economic method of contract payment with some minor amendments recommended to the penalty mechanism.

EFFICIENCY

10. Staff resources are a major asset of the company and the staffing and organizational practices and policies were reviewed, especially in light of actions required to address the ageing profile of the workforce. Work around social inclusion, equality of opportunity and its successful apprenticeships scheme need to be built on to ensure the company is ready to meet its staffing demographic challenges, including its Board level appointments strategy.
11. The good performance of current Key Performance Indicator's (KPI's) was noted. A review of the Output Specification and KPI suite is necessary and recommended. Future innovation to enhance service delivery measured by the KPI's will need to be financially appraised and a key forward initiative to achieve this is ICT linkages and investment. A continuing discussion on joint corporate priorities is also important and recommended.

EFFECTIVENESS

12. Compliance with governance documents including the Services Agreement and statutory governance documents (Articles, Scheme of Delegation and Business Plan) were demonstrated and this shows a positive outcome in terms of the overall operation of the company and its contract with the Council. SMART targets are required are required for HTS business plan activities and we are suggesting the development of action plans to facilitate this.
13. An overall high level of customer satisfaction with services being received was also evidenced. The customer is the key beneficiary of the Services Agreement held between the Council and HTS. A number of recommendations have therefore been

made to ensure that the customer, whether Council tenant or Officer, Harlow resident or visitor, has highest possible satisfaction from what is being delivered and access to services for those in greater need are prioritised.

PROPOSALS

14. The September 2015 Cabinet report from which the decision to create an LATC was made was clear that any recommended delivery model must ensure that the Council maintains complete flexibility to respond to the decisions that it may need to take in respect of future service specifications without incurring significant change penalties or premium pricing for uncertainty. The decision was also made on the basis that an LATC would not only build upon the commercial approach to service provision but also enable the Council to continue to benefit from possible dividend (profit) payments.
15. The Cabinet is required to decide whether extend the contract up to the maximum of five additional years. To ensure that HTS and the Council is clear of the terms upon which an extension, if approved, would be granted, it is proposed that any extension should be based upon implementation of the recommendations laid out within the report. These recommendations will form the basis of terms on which the Council would offer a contract extension and an associated action plan, to be delivered by August 2020.
16. The contract term between the Council and HTS is set at five years, with the option to extend this by no more than five additional years. If a contract extension is desired this will be communicated to HTS by 1 February 2020 at a dedicated meeting where the Council will also confirm the terms upon which an extension is being granted. It is also suggested that the Shareholder Sub Committee undertake monitoring of the achievement of Business as Usual recommendations.
17. If Cabinet decides to allow the contract to run in line with current contractual provisions and does not exercise the options to extend the contract an options appraisal will be carried out to identify the most appropriate delivery model for the services in question. The review outcomes will feed into the requirements of the associated procurement activity and contractual arrangements.

IMPLICATIONS

Environment and Planning (Includes Sustainability)

The delivery of effective property and environment services is one of the most high profile and important services that the Council provides to residents. Establishing clarity at this point about the delivery of this service will be important for all parties to ensure that the right level of service is provided and the Best Value process will help to ensure that this happens.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT and Property & Facilities)

The costs of the services delivered under the service agreement are already included within the councils operational and capital budgets. The extension of the agreement will be met from these annual budget allocations subject to the agreed annual price uplift.

Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive

Housing

The delivery plans from the Best Value Review support current housing strategic planning priorities and need to be aligned to wider LATC implementation plans and priorities so that affordable, flexible, and resilient services can be demonstrated.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

As contained within the report.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

The report brings forward the final report of a Best Value review requested by Cabinet to meet the contractual deadline set under the LATC Service Agreement. This requires a meeting with HTS (Property and Environment) Ltd where the Council will lay out its terms for agreement of any extension which must take place on or before 1 February 2020. The report sets out the matters which require conclusion before a contract extension is agreed and those that will be implemented to a timescale to be agreed.

Author: Simon Hill, Head of Governance

Appendices

Appendix A - HTS (Property and Environment) Ltd Best Value Review Outcome Summary report

Background Papers

Cabinet report, (26 March 2015), *OPTIONS APPRAISAL OF THE FUTURE DELIVERY OF WORKS AND SERVICES UNDERTAKEN BY KIER HARLOW LTD*

Cabinet report, (17 September 2015), *OPTIONS APPRAISAL OF THE FUTURE DELIVERY OF WORKS AND SERVICES CURRENTLY UNDERTAKEN BY KIER HARLOW LTD*

Cabinet report, (10 December 2015), *GOVERNANCE AND STRUCTURE OF LOCAL AUTHORITY TRADING COMPANY*

Glossary of terms/abbreviations used

HTS – Harlow Trading Services (Property and Environment) Ltd

JVCo – Joint Venture Company

KPI – Key Performance Indicators

LATC – Local Authority Trading Company