

REPORT TO: CABINET

DATE: 17 SEPTEMBER 2015

TITLE: OPTIONS APPRAISAL OF THE FUTURE DELIVERY OF WORKS AND SERVICES CURRENTLY UNDERTAKEN BY KIER HARLOW LTD

PORTFOLIO HOLDERS: COUNCILLOR JON CLEMPNER
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CONTRIBUTING OFFICERS: CORPORATE MANAGEMENT TEAM AND HEADS OF SERVICE

BEV THOMAS, RELATIONSHIP AND COMMISSIONING MANAGER (01279) 446252

This is a Key Decision
It is on the Forward Plan as Decision Number I003698.
Call-in Procedures may apply
This decision will affect no ward specifically.

RECOMMENDED that:

- A** The services currently provided by Kier Harlow Ltd be provided by the Council from the termination of the current contract between the Council and Kier Harlow Ltd through a Local Authority Trading Company (LATC).
- B** Subject to A above, all staff and assets transfer to the LATC as per the transition arrangements put in place for the termination of the current contract between the Council and Kier Harlow Ltd.
- C** Subject to A above, Cabinet receives a report on the governance arrangements for the LATC at its meeting in October 2015.
- D** Subject to A above, the Chief Executive, in consultation with the Leader of the Council, is delegated authority to negotiate and agree all matters in respect of the termination of the contract for the provision of services by Kier Harlow Ltd, the transfer of the relevant assets and staff to the LATC, and all necessary actions to ensure the successful commencement of the services through the LATC .
- E** Subject to A above the Chief Executive, in consultation with the Leader of the

Council, is delegated authority to negotiate and agree all matters in respect of the winding up/solvent liquidation of Kier Harlow Ltd.

- F** Subject to A above Cabinet receives a report in 2020 to demonstrate that the LATC is achieving value for money.

REASON FOR DECISION

- A** The contract for the provision of services by Kier Harlow Ltd expires on 31 January 2017 and the Council must determine how it wishes to procure and deliver these services from 1 February 2017.

BACKGROUND

1. The Council entered into a joint venture partnership with Kier Support Services Ltd (now called Kier Services Ltd) which resulted in the formation of a Joint Venture Company (JVCo) known as Kier Harlow Ltd on the 1 February 2007. The Council then entered into a contract for the provision of services by Kier Harlow Ltd.
2. The JVCo delivers the following services :-
 - a) Responsive housing repairs.
 - b) Cyclical housing maintenance.
 - c) Planned housing maintenance.
 - d) Responsive repairs to non-housing properties.
 - e) Cyclical maintenance to non-housing properties.
 - f) Street cleaning.
 - g) Grounds maintenance.
 - h) Cleaning and caretaking of communal housing.
 - i) Pest control.
 - j) Stray dog collection.
 - k) Vehicle maintenance.
 - l) Drainage and gully repairs and maintenance.
 - m) Supporting elections.
 - n) Highway repairs.
3. Cabinet at its meeting held on 26 March 2015 received an options appraisal report which identified that there was no one single preferred delivery model arising from the stakeholder consultations. Cabinet determined that the following options would be shortlisted for further analysis and development:-
 - a) Option 4 – Outsourced Contract (two main service packages comprising housing repairs / maintenance services and environmental services with two providers).
 - b) Option 6 – Hybrid Option (a single Joint Venture for the two major services packages and outsourced minor works).
 - c) Option 7 – Hybrid Option (As option 4 with insourcing either one or both services).

4. The further analysis and development to include :-
 - a) A wider peer group review of the Council's audit family group to further identify best practice.
 - b) A financial appraisal to identify potential life cycle costs of each selected option.
 - c) An organisational and cultural impact assessment of each selected option.
 - d) The development of a procurement strategy for each selected option to identify contractual, performance, financial, legal and governance requirements.
5. Cameron Consulting was commissioned to undertake a), c) and d) in paragraph four above and to incorporate all elements into a final report.
6. To undertake b) in paragraph four above an independent financial consultant was appointed from the East of England Local Government Association, who utilised financial benchmarking undertaken by Savills for housing repairs and Plan B Management Solutions for environmental services.
7. Attached to this report is the confidential Executive Summary (a copy of the confidential full report is available to Councillors upon request). Councillors are reminded that discussion of these documents will require the Cabinet to move into private session.
8. The report recommends a delivery model which addresses the key challenges of affordability, reducing resources, customer expectations, service resilience, cost of flexibility in service standards and the cost of change to undertake the works and services.
9. A key factor in these challenges is the financial uncertainty facing the Council, which includes likely further significant reductions to the Council's Revenue Support Grant and other grants, reduction in social rents for four years, impact of Right to Buy for registered social landlord tenants and welfare reforms. The Council in its Medium Term Financial Strategy has already identified further savings required to the General Fund of £3.476m over the next four years and recent Government announcements indicate that these savings targets are likely to be increased significantly. Similarly, the Housing Revenue Account now faces significant loss of rental income which will affect the Council's ability to repay the debt incurred through self-financing. In view of these significant challenges, and the foreseeable need to change service specifications to maintain affordability, the Council is not able to confidently specify its future requirements for scope of works and service standards. These specifications are critical to the procurement process should the Council seek to out-source the works and services. 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.

10. The financial analysis has identified that the recommended delivery option represents best value for money, being the cheapest option taking into account set up costs, impact on client teams, impact on support services and potential severance payments.
11. The recommended delivery option avoids a lengthy and costly procurement process and is more likely to ensure a smooth transfer of service provision than to another external provider. Additionally, costly severance payments that otherwise the Council could have ultimately borne, would be minimised.
12. The review identified that Kier Harlow Ltd has made significant progress in the modernisation of work processes, investment in training and culture change since 2007 resulting in significant efficiencies, innovations and productivity gains. Therefore, it was considered that further out-sourcing of the works and services was unlikely to achieve further significant improvements in efficiency, economy and effectiveness. Given this progress it is essential that the recommended way forward ensures that this good work is continued. It is consequently recommended that this is achieved through the creation of a Local Authority Trading Company (LATC). This 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.
13. A risk assessment of the recommended delivery model has been included in the confidential Executive Summary. This covers the key risks associated with it and the control measures that are in place or will be required.
14. External Counsel advice has been sought on the recommended delivery option of a LATC and this review has confirmed that it is within the powers of the Council.
15. If approved, the Council will need to establish a LATC wholly owned by the Council and its governance arrangements. This will be the subject of a separate report to Cabinet, but is likely to include a recommendation for the inclusion of external Non-Executive Directors to ensure that the strategic objectives, commercialism and on-going performance required within the LATC are achieved.
16. In order to ensure that the Council can demonstrate value for money, it is proposed that the performance of the LATC is formally reviewed in 2020.

IMPLICATIONS

Place (includes Sustainability)

It is vital that the Council has in place affordable, flexible and resilient arrangements to provide the services the Council specifies within a changing fiscal environment.

Author: **Graeme Bloomer, Head of Place**

Finance (Includes ICT)

The current independent financial modelling undertaken indicates that the proposals are affordable within the existing budgets held for the payment of the Annual Service Charge. The Council has already made financial provision to meet the costs arising from the re-procurement of the services currently provided by Kier Harlow Ltd. The future savings targets of the Council are currently unknown but are likely to increase and will be significant for both the General Fund and HRA should the proposals for annual rent charges to be eroded over the next four years. Any arrangements put in place need to provide the Council with the flexibility to provide services within the reducing resource base.

Author: **Simon Freeman, Head of Finance**

Housing

It is vital that the Council has in place affordable, flexible and resilient arrangements to meet the requirements of its tenants and leaseholders within the reducing resources of the Housing Revenue Account Business Plan.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

None beyond those contained within the report.

Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

External Counsel have confirmed that:

- a) the recommendation of a Local Authority Trading Company meets the Council's duty to provide best value under economics, efficiency and effectiveness as of today and
- b) consultation with local stakeholders concerning policy and approach to deliver the service (referred to at 3 and 4 above) meet statutory consultation duties of section 3 of the Local Government Act 1999.

Author: **Brian Keane, Head of Governance**

Background Papers

None

[These are papers referred to in the preparation of the report that are not attached as appendices but that are available for public or Councillor study.]

Appendices

Confidential Appendix A – Executive Summary