



## Background to the Review

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### **Purpose of the Report**

1. To present the conclusions and recommendations of the Traded Services Scrutiny Review Panel for endorsement.

particularly in relation to schools. However, this would require further validation by the Scrutiny Review Panel.

### **Purpose of the Review**

2. The Panel set out to review and scrutinise the traded services process and to ensure that transparency and appropriate monitoring of traded services was undertaken.
3. The Panel set out to consider the following questions and make subsequent recommendations:
  - i) Does the earlier decision to continue trading some of the Council's services remain sound?
  - ii) If yes, are there any improvements to be made to the existing arrangement?
  - iii) What lessons could be learned from other organisations?
  - iv) What are the benefits and risks of other delivery models?

6. It was also important that the approach to traded services was embedded within the Council's procurement processes and that these processes enabled a flexible approach to cope with the ever-changing market.
7. There was a need to understand any risks and legal implications associated with the operation of a traded service and to ensure that appropriate monitoring arrangements were in place.
8. Consideration would also need to be given by the Panel to the strengths and weaknesses of other delivery models.
9. Accordingly, it was resolved to establish a Scrutiny Review Panel to analyse these areas and make recommendations on a possible change in approach.

### **Background**

4. In November 2013 at the meeting of the Scrutiny Commission, a report on the progress made on traded services was considered and the Director of Corporate Resources welcomed the opportunity to have Elected Members feed into the process of reviewing and shaping the Council's future approach to trading.
5. At the meeting, there was general consensus that it was important to continue trading and retain and develop the business of existing clients,

### **Scope of the Review**

10. The County Council faces significant savings and efficiency targets as outlined within the Medium Term Financial Strategy (MTFS). The level of savings required is mainly as a result of external factors including spending pressures, the economic position and forecast reductions in Government funding.

11. In 2012, a Programme was created to address the Cabinet's response to an update on the MTFS position which identified financial risks associated with the Academy conversion agenda:
12. The Programme's objectives were:
- To develop a strategic approach to commercially traded services;
  - To develop a sustainable business stream from services provided within the Council's remit and legislature;
  - To retain 90% of the Council's current business over the next two years.
13. In September 2013, a Commercial Services Strategy was created. The intention of the Strategy was to make a contribution to the financial challenges which the Council faced, by successfully trading some of its services.
14. Faced with a number of possible options, it was decided that the Authority would trade some of its services (**see Appendix A**), initially without major infrastructure changes. The aim therefore was to generate funds to support wider Council objectives of securing a positive outcome for Leicestershire.
15. Funds generated would be used towards savings targets or to reduce the burden on council tax payers to fully meet the cost of existing activities. These services would be run with a "commercial" and "business" orientated approach, ensuring that the Council could continue to offer high quality and value for money services that customers would choose, at a price they could afford. The customers of these services would in the main be: schools, academies and other public service bodies.
16. The County Council is a large and complex organisation with a diverse range of services, and it was understood from the onset that to develop its traded services the Council would require a commitment to embrace new ways of working, and ultimately some changes to structures and reporting lines.
17. The initial focus was on separating the services that traded with Schools and moving them from the Children and Families Department into the Corporate Resources Department e.g. Governor Support and School Food and Catering Services. This would have the dual benefit of allowing Corporate Resources to focus on developing a trading model and also enabled the senior management team of Children and Family Services to focus solely on their core objectives without being distracted by trading activities.
18. The original aims behind this approach were to:
- Remove ambiguity by separating traded services from core educational services;
  - Maintain and develop a business stream and generate a contribution to cover the County Council's costs;
  - Achieve this without distracting officer focus from the delivery of the County Council's core service priorities. The separation of traded from other core services would enable a sharper focus on the commercialisation of these services but also enable other officers to focus on the core competence of their service

delivery without distraction;

- Develop quality services which would provide a stepping stone to any future direction that emerged within a changing local authority environment.
- Commit to conducting a review of the strategy between September 2014 and September 2015 and to then consider whether it was still viable and worthwhile to continue to develop the Council's traded services.
- Consider the possibility of adopting alternative delivery models, either sooner or later.

### **Membership of the Panel**

19. The following members were appointed to serve on the Review Panel:

**Dr. R. K. A Feltham CC**  
**Mr. S. J. Hampson CC**  
**Mr. E. D. Snartt CC**  
**Mr. L. Spence CC**  
**Mr. M. B. Wyatt C**

Dr. R. K. A Feltham CC was elected as Chairman of the Panel.

### **Conduct of the Review**

20. The Scrutiny Review Panel began its work in June and met on five occasions between 16 June 2014 and 24 October 2014. The key objectives of the Review Panel were as follows:

- To examine and validate the rationale behind the decision to trade, as a means of contributing towards the County Council's financial deficit;
- To understand the current approach being adopted in relation to traded services and how this compared with the approach taken at authorities elsewhere in the country;
- To identify any risks associated with the current approach and ensure that appropriate monitoring arrangements were in place to reduce or mitigate them;
- To enable a full understanding of the County Council's traded services portfolio and to conduct a detailed review of existing arrangements and scrutinise alternative delivery models;
- To examine the existing arrangements, recommend any improvements to the Council's approach and provide direction on the future shape and direction of traded services;

21. The Panel was supported in its Review by the following individuals and is grateful to them for their contribution:

<b>Richard Haynes</b>	Ernst & Young
<b>Trevor Phipps</b>	ESPO
<b>Julie Meakin</b>	Leeds City Council
<b>Roderick O'Connor</b>	Leicestershire County Council
<b>Wendy Philp</b>	Leicestershire County Council
<b>Graham Read</b>	Leicestershire County Council
<b>Jo Morrison</b>	Leicestershire County Council
<b>Michael Jacques</b>	Leicestershire County Council
<b>Dominic Smith</b>	Leicestershire County Council
<b>Sam Weston</b>	Leicestershire County Council

## The Panel's Recommendations

### General

- (a) That the County Council should continue to trade some of its services and further develop them to generate income to further contribute towards the Council's savings targets
- (b) That the existing full portfolio of traded services be reviewed and that those traded services:
  - (i) Delivered by the Corporate Resources Department be consolidated under one service lead;
  - (ii) Considered to be no longer viable in a changing marketplace should cease trading and focus on internal delivery;
- (e) Strengthen the existing trading arrangements and fill vital skills and capability gaps of business development, a sales and account management function be created within the trading unit to ensure that a consistent offer is in place and to enable the cross-selling of services;
- (f) That it be accepted that some services with a traded element would remain outside of the stand-alone entity.

### The Future

#### A New "Stand-Alone" Trading Unit

- (c) That a stand-alone trading unit be developed as part of the County Council, with its own brand and identity. This would:
  - (i) Enable it to have a clear and strategic position in the marketplace, with a stronger trading presence;
  - (ii) Maintain a link to the Council's corporate branding, with its reputation for high quality and value for money services;
- (d) Establish a dedicated marketing resource to ensure the trading unit is able to convey a coherent message to new and existing customers;
- (g) That whilst it does not currently feel that a separate company should be created to cater for private sector trading, it will be necessary to keep a watching brief and that this position should be reviewed at a later date once a clearer picture can be taken of the new unit's delivery and performance;
- (h) That Elected Members have a vital role to play in championing the Council's traded offer to the local customer base (particularly district and parish councils) and that their expertise in the ongoing quality assurance role of traded services would be welcomed;
- (i) That a time table for the development of these recommendations be devised by January 2015 to enable officers to progress the work without delay and to enable the Chairman to assess progress against these recommendations in 8-10 months' time.

## Context of the Review: The Financial Challenge

***Over the last three years, there have been significant reductions in Local Government funding. Local Government reductions have been higher than in other parts of the public sector. Unlike health, overseas development and education, Local Government funding has not been protected.***

22. In the face of continued financial challenge, funding reform, and cost reduction, Elected Members and officers of the County Council are confronting the needs of their citizens and considering how to transform their service delivery and improve organisational performance.
23. The County Council is both low funded and low spending. Leicestershire is the third lowest funded local authority and receives £56 (23%) per head less than the average county council. In addition, other comparable county councils spend on average £81 (15%) more per head of population. If funded at the same level as the average County Council, Leicestershire would receive £37m in additional resources.
24. Leicestershire County Council also has a low council tax base. In simple terms this means that relative to other county councils it has a higher proportion of lower value properties. This means that its receipts per head of population from council tax are lower than most counties.
25. Although the County Council has met its savings targets within the last two years, the Council is facing an increasingly serious financial situation and will now have to make £40 million of extra savings.
26. Rising demand for care services and reductions in grants have pushed the savings target up to £120 million and £50 million of this remains unidentified.
27. The County Council has been hugely successful in delivering efficiencies and in order to deliver further savings it will be required over time to become smaller by: reducing headcount, simplifying ICT infrastructure and divesting property.
28. However the Panel were conscious that facing a mounting fiscal challenge, the Council must focus on more than service improvement and cost reduction.
29. Inevitably the Council must stop delivering some services and it may also decide that some services are better delivered by others or through new service delivery models. However, the Council shall retain some core services and the challenge within a more demanding financial climate shall be to sustain or improve current service levels whilst also reducing the cost of service delivery.
30. The Panel were mindful that to be more commercial and trade successfully was a more innovative way of maintaining service levels, reducing costs and protecting against council tax rises.
31. The Panel were also conscious that traded services had already made a contribution towards the £85 million pounds of savings delivered by the Council.

## Current Trading Arrangements: Where are we now?



32. The Panel were committed to making the review a thorough and worthwhile exercise, but they were also conscious of the constraints of time and the size and complexity of the numerous and disparate services currently traded by the County Council (see **Appendix A**). Therefore, unable to review them all, they carefully chose a cross section that would provide a diverse range of services and also enable sufficient time to have an in-depth analysis of financial and operational practices.
33. Although it will become evident from the report, the County Council has a varied range of customers to whom it provides services and some of these are beyond the geographical boundaries of Leicestershire -the Panel were conscious that over 80% of the services traded are with schools and academies. Consequently as well as aiming for new customers, new markets and new products, the traded services of the Council would need to ensure that they continue to develop a sustainable income from existing clients.
34. The conversion of maintained schools to Academy status and the changes to schools funding arrangements have meant that this marketplace has become increasingly volatile and ever changing. The market is constantly evolving and the initial creation of academies has been followed by other subsequent challenges.
35. In some instances academies have joined together in clusters, in an attempt to reduce their own costs and become more commercial, often, seeking their services from other providers and not from the County Council. This can be both a threat and an opportunity for the County Council's traded services, but officers need to be prepared to meet these emerging challenges with flexible responses.

36. The services that were selected by the Panel for review were: School Food and Catering Services, Property and Facilities Management, Central Print and Creative Services.

### **The School Food Support and Catering Service**

37. The first service chosen by the Panel for review was the School Food Support and Catering Service. The School Food Support Service was previously outsourced by the County Council.
38. In 2008, it was brought back in-house due to a general dissatisfaction with the service by its customers.
39. The Panel were interested in reviewing this service as a good example of a complex service area. The service is a £10 million pound business providing meals to 218 Academies and Schools out of the 283 that are within Leicestershire.
40. The Panel considered the many challenges faced in providing a service of this nature. In the first instance the School Food Support and Catering Service is directly challenged by the changes in the marketplace by the fact that some Academies had chosen to leave the service for another provider, not because they were dissatisfied with the package but merely as a consequence of becoming an Academy and deciding to explore alternative arrangements. The volatility of this particular marketplace was also heightened by the emergence of new entrants seeking business.

41. Additional challenges had been placed upon the service by funding reform which had forced the service to review its unit costs and its pricing model in order to remain competitive, without compromising quality. In addition the Panel learnt that there were many logistical and operational challenges in providing a service across a 283 multi-site operation, where units varied greatly in size and where some kitchens were production sites, whereas other sites had their meals delivered.
42. Despite these challenges the Panel were presented with facts which demonstrated that the Service continued to retain most of its customers and provide a first class service balancing quality with cost.
43. Officers had worked hard to develop a business model which supported Health and Education priorities around academic attainment and tackling obesity whilst also ensuring that the Service did more than cover its costs.
44. The Panel were made aware of the operational and financial rigour in place to ensure that the Service was run as a “tight ship” ensuring the delivery of a high quality service with rigid controls in place around inventory, costs and shrinkage.
45. The Panel heard how the service was committed to continuous improvement and had recently acquired the Bronze Food for Life Accreditation. They also appreciated that the County Council has added much value to school foods by retaining the service in-house as it was now able to offer: a full operational catering service, Food



and Health & Safety risk assessments, catering audits, the compilation of menus to meet Government standards, special diets for over 500 children, as well as equipment repairs and renewals.

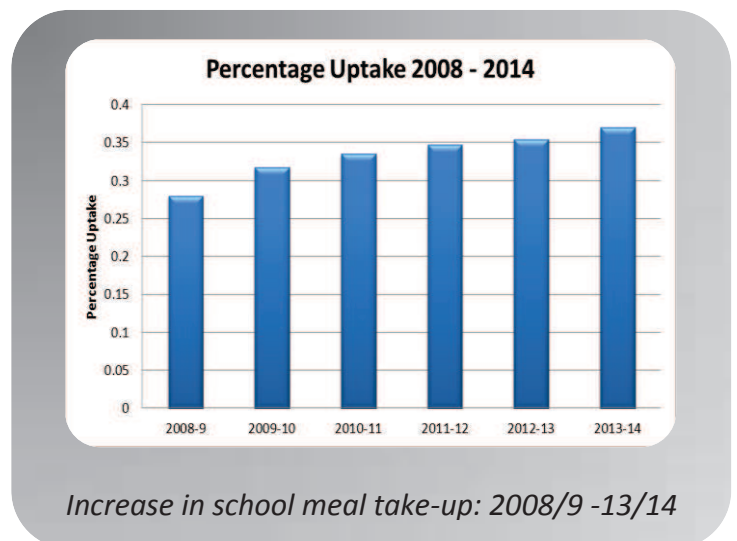
46. Despite the emerging challenges of a changing marketplace, this robust approach had resulted in a continued increase in the uptake of the Service within schools and academies and tighter financial rigour had meant that the Service has made an increased contribution, as well as supporting its core principle of providing healthy and nutritious meals to children.
47. The Panel reflected on the fact that this Service operated on a “hub and spoke” model, with a core central team supporting field based staff who, although based within schools, were the employees of the County Council. The Panel noted officer comments that this model had both the flexibility and resilience to support the delivery of School Meals for other councils.

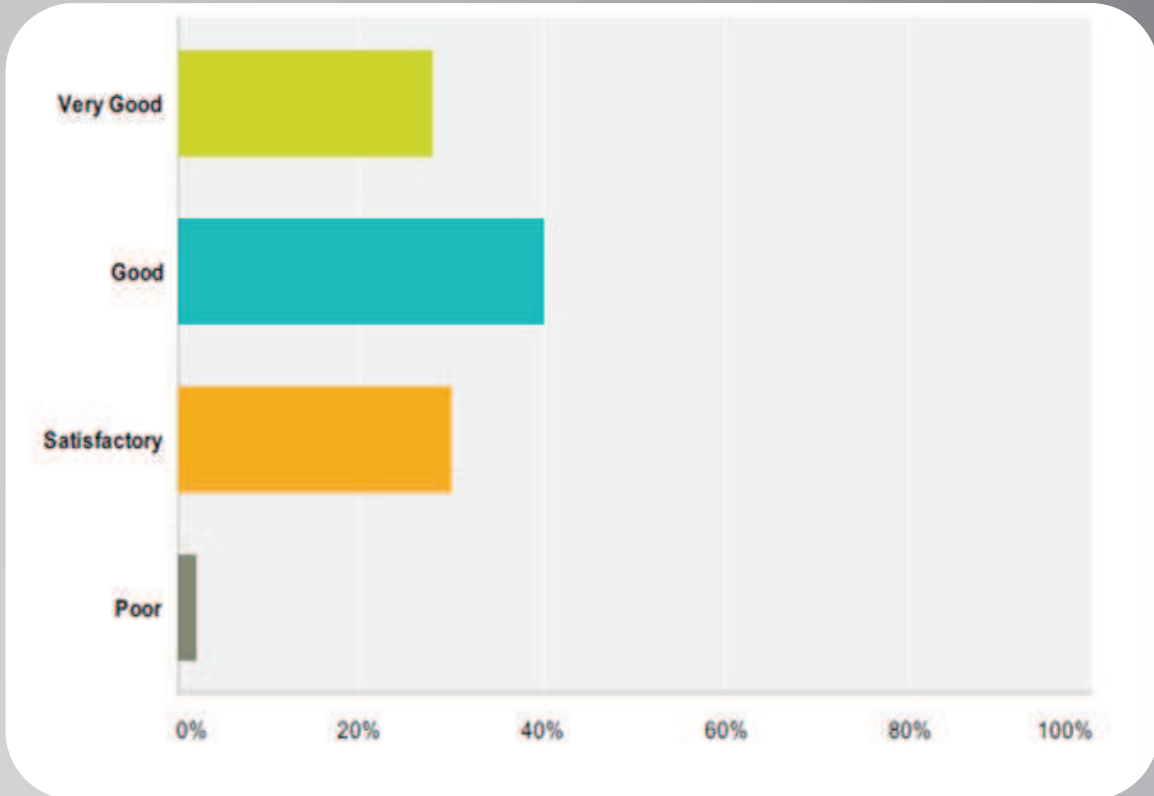
### Innovation

48. The Panel supported the action that officers had taken to combine the School Food Service with the County Hall Catering Service. These services had previously operated within different parts of the County Council but adopting a fresh perspective on trading arrangements it *had* seemed logical to combine two services which shared the same basic skillsets and core competencies.
49. The combining of these two services had not only enabled greater flexibility in service delivery, but had

also provided more career opportunities for staff and supported the Council being an employer of choice.

50. The Panel were made aware of other innovative practices, which included: introducing theme days to increase uptake within the staff restaurant; the introduction of a Friday night takeaway service at certain schools and the introduction of an evening meal service for staff at County Hall which had unfortunately been less successful than the other initiatives. The Panel were also made aware that the Service was diversifying in providing consultancy work and had managed to pick up a piece of work with the YMCA in Southampton. Officers were hoping to further develop this element of the business.





*Customer survey responses for the overall quality of the catering service*



*Operational controls have been developed as part of a commercial management model that allowed the Authority to retain a high level of control over procurement and service delivery. Through control and weekly monitoring of food procurement the authority had substantially reduced cost and waste within school food services. The Panel welcomed this approach and were keen to preserve the intellectual property rights to the model and not divulge it to competitors, though it was acknowledged that services from different authorities did share some data and best practice with each other.*

### **Property Services and Facilities Management (FM)**

51. The next service reviewed by the Panel was Property Services and Facilities Management. The trading arm of which provides a diverse portfolio of services that are categorised as Hard and Soft FM. Soft FM consists of providing services such as cleaning, grounds maintenance and pest control. Hard FM includes services such as building repairs/maintenance and new builds.
52. The Panel were made aware that despite fierce private sector competition, the existing customer base for Property Services and Facilities Management had not only been maintained, but had actually increased in some areas. The changes to schools grant funding had meant that schools now had more control of their own budgets and initially this was a potential threat to retaining income.
53. Service managers had maintained close contact with their customers, understanding their needs and requirements and this had ensured minimal loss of business. The Panel listened to officers explaining that, at a time of economic uncertainty and changing conditions, there was also a growing opportunity for FM to support schools and academies to manage their buildings and services in a cost effective way, whilst also managing risk.
54. A large element of business came from schools and academies and the service was able to rely upon a hard core of expertise across all elements of facilities management as well as maintaining relationships built on trust. A key selling point of the service was its 24/7 repairs and maintenance helpdesk which was always able to ensure that a suitably qualified and experienced contractor would respond to out of hours emergencies.
55. In response to the emergence of academies the service had also introduced new products into their sales portfolio and was able to offer: asbestos assessments, pest control and wash room supplies to supplement the original Soft FM trading model.
56. The Panel were interested to hear how the Service was able to support schools and academies in ensuring that they were in touch with their responsibilities under ever changing legislation. The Service had successfully developed a regulatory compliance package which ensures that the necessary, surveys, inspections and risk assessments are identified and where necessary the service would carry these out on behalf of a customer.
57. The Panel were also interested to hear how the Service had developed in-house capability around contract management and were able to offer contracts to predefined Council specifications or bespoke to individual requirements.
58. All contracts were tendered to full Official Journal of the European Union specifications, ensuring competitive pricing, high quality specifications and also environmental friendly compliance. Where contactors were used, they were all selected from industry leading companies with national

accreditation. Officers believed that this competence could be further developed as a core capability of the service which would give them a competitive advantage in the marketplace.

59. It was also noted by the Panel that the County Council has been ranked as the best priced Soft Facilities Grounds Maintenance service for both the East and West Midlands by the Pro5 group. The Pro5 group consisted of the five largest public sector professional buying organisations in the UK, including the Eastern Shires Purchasing Organisation (ESPO). Soft FM cleaning services are benchmarked against the National Association for Public Sector Excellence (APSE) indicating that cleaning costs were delivered at approximately 11.5% lower than the national average.
60. The Panel were made aware that recent customer satisfaction rates for the service remained high; achieving 100% satisfaction rates for 'value for money' and 'responsiveness', with customer feedback on overall quality in excess of 97%.
61. The Council is projecting an increase in income from the Service for the 2015/16 financial year and was achieving a surplus of 10% to 15% for Hard Facilities Management.

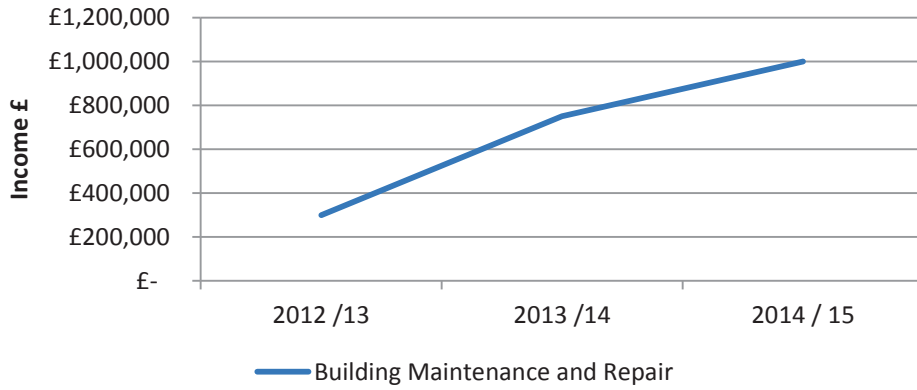
### **Innovation**

62. The Panel were interested to hear how the Service was trying to future proof itself by developing new competencies which were not only sources of competitive advantage but would also be building blocks to future opportunities. One particular

competency that had been developed was around contract management.

63. In delivering property and FM services, the Council has developed three flexible service delivery models: the County Council's outsourced contracts, in-house contracts and joint partnership working. This was a blended approach to contract management which provided a flexible model that utilised in-house skills supplemented by the capability of partners. This approach has been developed through customer feedback and market research in order to meet customer needs, and the challenges of delivering quality and efficiency.
64. Some of the key benefits of this model were outlined to the Panel as being:
- That significant savings have been achieved by insourcing previously outsourced contracts, eg. electrical maintenance had been brought 'in-house' saving £105,000 per annum;
  - £321k of Soft FM Savings achieved via inflation freeze and up-front payments;
  - £215k budget reduction following Hard FM framework re-tendering;
  - That the Council is able to operate contracts on a 'nil to landfill' basis with all materials being recycled;
  - Those contracts were actively managed to seek efficiency savings through development of new practices throughout the contract's lifespan.

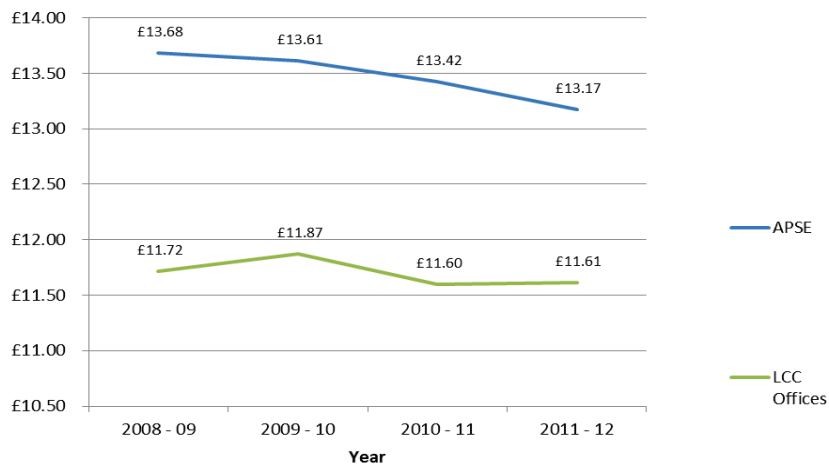
### Hard FM Traded Fees income current and forecast



Increase in fee income for Hard FM 2012-14

The Service is projecting increase in income for the 2015/16 financial year and was achieving a healthy profit margin of 10% to 15% for Hard Facilities management.

### Cleaning Cost per SqM



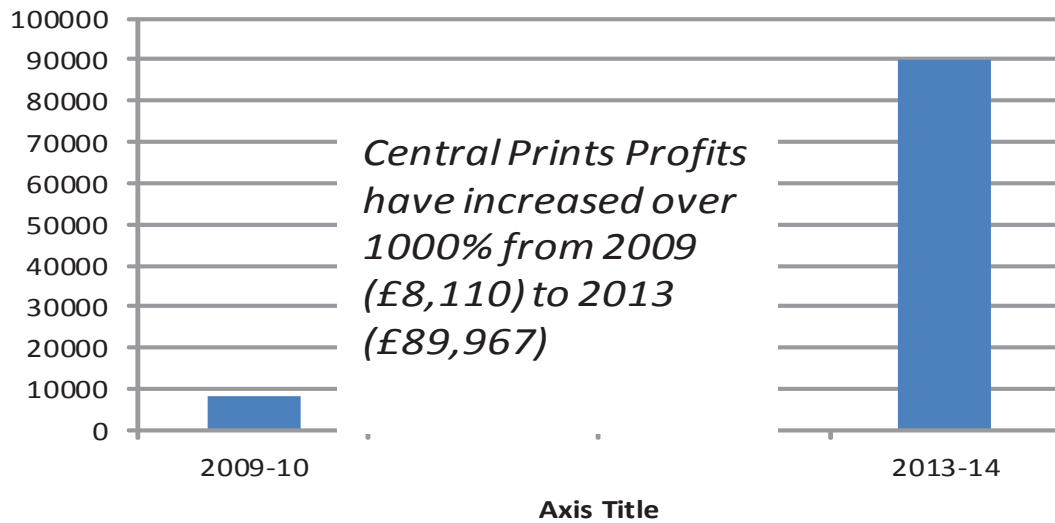
Soft FM cleaning services are benchmarked against the National Association for Public Sector Excellence (APSE) indicating that the County Council's cleaning costs were delivered at approximately 11.5% lower than the national average.

### Central Print Services

65. The Panel examined Central Print Services as part of its review. Central Print Services has developed into a large scale award winning print business. It produces all of the internal work for Leicestershire County Council but now also provides wide array of digital and lithographic work to a range of external clients.
66. The Panel listened to officers recounting the development of the Service over the last seven years. The initial focus had been to use the service to develop a capability that could bring the Council's printed work inside and produce it more effectively than sending it to outside suppliers. This was very successful and in the last 3 years the Service was able to contribute £247k of savings towards the MTFS by bringing work in-house.
67. Over time, new challenges emerged for the Service, first the recession took hold and then the County Council's own digital agenda challenged the Council to reduce the production of printed materials. At both points in time, officers considered the possibility of ceasing or outsourcing the Service, but instead decided to exploit capabilities and to seek new business by competing for and winning external framework tenders.
68. The Service now trades as a fully commercialised model with up to date technology and highly skilled staff. The unit has developed a core competence of flexibility as well as a reputation for quality and a two shift pattern not only sweats the assets but maximises production and enables fast turnaround for customers.
69. The Service has maximised technology and automation and uses batch printing to reduce costs. Moreover with web-based technology, the unit has the capability to offer remote sites a personalised service enabling quotation, pricing and proofing within a short timescale.
70. The Panel noted a presentation from officers which highlighted the extent of external business development and the wide range of customers that the service caters for. The Panel commended the relevant officers on their business model and expressed a view that they would be interested in continuing to monitor the expansion of the trading offering of the unit. Members of the Panel also noted with concern that not all district and parish councils were using the Services on offer.



### Increase in Surplus 2009 -20014



*The Council's "Digital by Default" policy has understandably had an impact on Central Print Services. The Service has repositioned itself to attract a significant amount of business from external organisations. A salesperson has been brought into the Service to enable it to proactively engage external and private sector customers in an effort to increase business.*

### Creative Services

72. The County Council's Creative Services section is a dedicated design service with a primary purpose to create materials which help to achieve the Council's communications objectives: to inform, change behaviour and increase income.
73. The Panel found that Creative Services was not as commercially focused as other services, principally because its emphasis was on internal delivery to the County Council itself. While the Service attracts some external income, this was not its primary focus, not least due to the small size of the Creative Services team. However, given that income from internal sources is projected to decrease, the Service is expected to become more commercially focused to maintain its income target of £75,000 per annum.
74. The Panel felt that there was scope for the Service to work collaboratively with Central Print and that the pooling of budgets between County Council services and partner organisations should be considered. The Panel was of the view that Creative Services should retain its primary focus on the effective communication of the Council's brand and that its traded activity should continue to be a lower priority.





## Lessons Learnt from other Authorities

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75. In embracing an outward perspective the Panel reviewed the progress of other organisations that had also developed new revenue streams from existing service areas and also observed that there are many varying approaches that can be adopted towards trading.
76. To support this approach they considered presentations about two local authorities – Leeds City Council and Kent County Council – who both already operate a trading arm, albeit with differing models.
77. As well as exploring potential alternative delivery models for service provision, the Panel were keen to benchmark and explore how other authorities were delivering their traded services.
- Leeds City Council**
78. Leeds City Council had set out with a clear vision to make a profit but to do so ethically. Efforts were made to preserve public services, partner with the voluntary sector and not compete with local small and medium enterprises (SME's) where doing so could place SMEs in financial difficulties.
79. Leeds had a range of services which it traded successfully and as a consequence in the last three years there had been a net growth in employment within Leeds City Council and a proactive approach to meeting financial challenges by generating income, as opposed to reducing jobs or outsourcing public services.
80. Leeds City Council believed that they operated many of their services in line with private industry standards and they were therefore capable of trading them successfully across both the private and the public sector. However they realised that, although legislation permitted them to trade with private sector organisations, they would need to form a trading arm to do so.
81. They have subsequently adopted an approach which separates their public and private trading. They have made a decision to combine all of their trading activities within one standalone entity which they have branded as “Civic Enterprise Leeds”. This entity continues to trade with other public sector bodies, under The Local Authorities (Goods and Services Act) 1970.
82. However, in accordance with the legislation they realised that they could only trade with the private sector by forming a trading company. They therefore created a trading company which was associated with but separate from the standalone entity of “Civic Enterprise Leeds”, and used this vehicle as a means to trade with the private sector.
83. This trading company was established as a private limited company but this was merely a vehicle to allow the Authority to trade with the private sector without restriction.
84. In effect they had amalgamated services and branded them as a standalone entity which delivered services to public sector bodies whilst forming a local authority trading

company through which to trade private sector business.

85. From their perspective there were many benefits to this model which supported their trading vision:

- Council staff would not need to be transferred to the company under the “Transfer of Undertakings Protection of Employment” regulations;
- Local authorities were more tax efficient than limited companies. By separating public sector and private sector business, they were only liable to pay VAT and Corporation Tax on their private sector activity;
- The Council would be able to compete with the private sector and thereby increase local competition.

86. The Leeds approach was received with interest by the Panel, which saw many benefits in their adopted approach. The Panel noted that the approach provided a tax efficient means of trading with both the private and public sector.

87. It supports a means of increasing turnover and returns which would offer the authority more resilience in responding to continued financial pressures. Moreover it is an approach which did not preclude the possibility of exploring even more radical options at a later date.

#### **Kent County Council**

88. Kent County Council’s approach was markedly different to Leeds City Council in its use of a limited

company. It did not merely use this company as a tax vehicle for private enterprise; it appeared to place a greater focus on private sector trading.

89. Kent County Council’s company, “Commercial Services Ltd”, employ approximately 700 people and trade in £600 million worth of business per annum. Its customer base appears to be London and the South East region.

90. Their core business areas are Education Supplies, Energy, Recruitment and Direct Services.

91. Its Direct Services include: vehicle repair and MOT services, vehicle hire, landscape and gardening services, pest control, Facilities Management and fire safety inspections/training.

92. Its energy business, “LASER”, purchase £350million in energy for 110 customers which are mainly local authorities, academies, charities and housing associations. In 2013, a further energy business was set up, “Lumina”, who provide a free of charge service to SME’s to help them save money on energy costs. Both LASER and Lumina are registered trademarks of Commercial Services Ltd.

93. Kent County Council operates under a trading name of “Connect2staff” and supply recruitment services to the private and public sector across London and the South East.

94. Kent County Council trade their Legal Services to 300 other public sector bodies and in the month of September 2013 recorded a 20% profit rise and £2.4 million profit for 2012/2013 financial year. Turnover

rose from £1million to £12 million in the same year. This service does not form part of Commercial Traded Services Ltd but is traded directly by Kent County Council. They employ 125 lawyers and have won a range of awards, however there is no trading to the private sector.

- Contact Point (Contact Centre)
- Finance
- Human Resources
- ICT
- Internal and External Communications
- Legal Services
- Property and Infrastructure Support

95. Kent County Council is currently seeking to grow their business in the following areas:

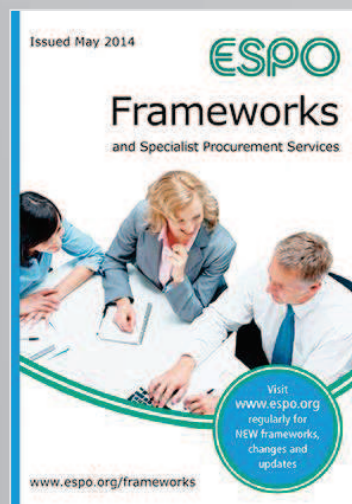


### Eastern Shires Purchasing Organisation (ESPO)

The Panel heard from Trevor Phipps at ESPO who reported on the significant rebranding exercise that has taken place within the organisation to focus on its core offer of high quality services and good value. A comprehensive survey had been undertaken with their customers on what their brand meant to them and this had fed into its future direction. The Panel noted that a similar exercise could take place in relation to any future branding decisions in regard to traded services.

Also of particular note was the Organisation's approach to account management and sales which enabled it to be responsive to emerging trends in the marketplace.

The Panel were particularly pleased to learn of the potential for increased joint working between the County Council and ESPO in the future for the mutual benefit of both organisations. One area where this might be possible from a County Council perspective was for ESPO's customer base of 10,000 schools to be utilised in order to increase marketing potential.





### **Ernst & Young (EY): *The wider perspective in local government***

EY are currently working with over 50 upper tier authorities across England and Scotland, along with most Government departments and agencies. It is evident that in the context of on-going public sector grant reduction, and growing demand for services, many authorities are taking positive, strategic steps to protect their net revenues through diversifying their income sources. Below is an overview of the various delivery models that local authorities have been using. These models lend themselves to different strategies, which are typically:

- to divest themselves of low priority services they no longer want to provide;
- to reduce costs as far as is possible;
- to improve efficiency and grow net revenues.

While the early 2000s saw many authorities outsourcing services to the private and 3<sup>rd</sup> sector, there has been a gradual shift from outsourcing, which was driven by cost reduction, to more progressive delivery models that are focused on revenue growth and longer term sustainable services. For those authorities wanting to ‘commercialise’ their services, there are a number of key options to consider which are outlined towards the ends of this report.

Authorities wanting to commercialise services and diversify revenues can only be successful if it is a conscious and strategic choice, with political and Executive leadership. Furthermore, commercial strategies that are based on operating within an open market (for example, selling services to self-funders or individuals with direct payments, selling services to property developers, etc) tend to be more likely to succeed than those predicated by selling to other councils.

The first stage in looking at commercialising services is to appraise the services that the Council is good at and that the wider market wants. In a time when demand for older people care services is growing, it makes sense that many councils have seen this as a key area for income growth, rather than just a cost pressure. However, the next key prerequisite is an honest assessment of the services’ competitiveness comparing existing performance against the market competitors (e.g., their appeal or unique selling point, the unit cost and price, service quality). Undoubtedly, many authorities have identified the need to redesign services to make them competitive (e.g., getting an in-house care at home service from costing £35 per hour, to a commercial service costing £15 per hour with no loss in quality). This requires investment.

As with any business investment, the business case and operational business plan serve as critical documents to appraise investment needs, assess the opportunity and evaluate risk. Several authorities are currently looking at joint ventures with commercial partners in a bid to share risk, but also share the return from pooling shared resources. In our experience, unless the Council makes a concerted effort to commercialise relevant services, the aspiration of diversifying revenues rarely becomes a reality. Such an approach would be reliant on luck and chance. If Leicestershire wants to explore and genuinely pursue a strategy of revenue growth to offset existing financial pressures, it will need to invest, and give clear focus and leadership.

## Traded Services: Where are we going?

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### Alternative Delivery Models

96. Having reviewed a presentation from Leeds City Council and having studied an overview of the approaches adopted by Kent County Council, the Panel turned their attention to scrutinising a broader range of alternative delivery models.
97. The next section of the report will outline some of the considerations given by the Panel to a range of options and an outline of associated risks and benefits. **A more detailed outline is contained within the tables attached in the Appendix to this report.**
98. Members of the Panel were mindful that some organisations had simply decided to outsource some of their services rather than to trade them. Therefore as a starting point they had some discussion on the possibility of wholesale outsourcing.

### Outsourcing

99. The Panel deliberated on the concept of outsourcing and the fact that the term generally refers to the contracting of services to another company or organisation, usually but not exclusively a private sector provider. Typically a number of services are “bundled” together and a single provider is procured through a competitive exercise to deliver these services. A key feature and advantage of such arrangements being that it enables an organisation to reduce in size as staff are generally TUPE transferred to the new service provider.

100. The Panel reflected that there are benefits to outsourcing arrangements: primarily they allow an organisation to shrink in size and consequently divest of human capital, property and other infrastructure assets which will no longer be required to support the remaining smaller workforce.
101. Outsourcing can also be seen to be advantageous when the outsourcer has a specific competitive advantage and *ipso facto* are not only able to deliver a better service but also reduce average unit costs.
102. In these circumstances it can appear as a realistic option. It enables an authority to decide what it is good at, what its core competencies are and what it wishes to retain and relinquish. The Panel acknowledged that in these circumstances the outsourcer may have a particular expertise that the outsourcing organisation does not possess. An example of an effective outsourcing arrangement has been Hertfordshire County Council’s management services agreement which has purportedly delivered £25m savings to date.
103. However, the Panel also reflected upon some of the risks associated with outsourcing and whilst they acknowledged that the County Council is aspiring to be a commissioning organisation and that inevitably there will be some existing services of the Council that may be outsourced, they were not willing to advocate the wholesale outsourcing of the Council’s traded services at this moment in time.

104. Undoubtedly the biggest incentive to outsource is to save money and it was felt that the current in-house trading arrangements were viable and also had scope for further improvement. Moreover, although an outsourcing of these services might initially attract private sector capital, it would not contribute to significant further savings, and it would also mean that any future additional traded income would not be able to be used to protect essential services.

105. The Panel reflected on the point that once a service is outsourced it is sometimes difficult to influence the provider. They considered the existing arrangements for the Schools Food Service, which as well as making a contribution to the running costs of the Council; it also supported Health and Education priorities. A private sector provider focused on profit and shareholder value might not be as focused on tackling the obesity or attainment issues amongst school children.

106. It was also noted by the Panel that outsourcing can be difficult to reverse and furthermore it would require the local authority to still have a commercial client function to manage the contract.

### **Mutuals & Cooperatives**

107. The Panel gave consideration to Co-operatives and Mutuals as a possible alternative delivery model. They considered the fact that they are a form of social enterprise that are owned and run by its members. As well as giving members an equal say and share of the profits, co-operatives act together to build a

better society through co-operation. A newly established co-operative would be completely independent from the County Council.

108. Officers informed the Panel that there are many co-operatives in existence and two examples that have evolved from the public sector are: "people2people" which was established by Shropshire County Council to deliver care assessments and provide targeted support and SEQQL (Swindon). It has 845 employees delivering health and social care.

109. The Panel considered that as with an outsourcing model, a co-operative would enable the County Council to save money by becoming smaller and reducing the costs associated with in-house provision.

110. Establishing a co-operative also has ethical benefits associated with allowing its members the freedom to operate democratically and to directly influence service delivery and the quality of service provision. On the downside, the Council would lose control and influence if the quality of services deteriorated. There would also undoubtedly be a need to invest in set up and procurement costs.

111. Giving consideration to all factors, the Panel did not consider establishing a trading arm as a Mutual or Co-operative at this moment in time.

### **Social Enterprises**

112. The Panel reflected on the mechanism of Social Enterprise as a means of further developing the

traded services of the County Council.

113. The Panel saw clear benefits in supporting this type of venture as a means of providing services to the community, and considered that in some instances it could be an effective model to better deliver services to meet community needs than to outsource them.
114. However, Social Enterprise did not seem to be an appropriate model through which to place the vast and varied services that the County Council currently trade.
115. The Panel noted that Social Enterprise as a start-up can be a risky proposition. The considerable potential risks to the employment of staff, service delivery and service quality, did not support this model as being a viable alternative at this moment in time. The associated risks seemed to outweigh any benefits at a time when the County Council was facing increasing financial challenges and the need for resilience was paramount.

#### **Joint Venture or Joint Committee**

116. The Panel reflected on the notion of developing traded services into a Joint Venture Company, which could either be a partnership with a private sector organisation or a Shared Service, involving the shared responsibility or formal transfer of service or activity with another authority. A critical feature of either of these arrangements is that risk is shared with a partner; the downside being that the benefits are as well.
117. The Panel considered that a distinct feature of these arrangements as opposed to some of the other models is that the Council would retain control and influence of the staff and their expertise.
118. Moreover it was noted by the Panel that there are inherent benefits in partnering, particularly with a private sector partner who could bring their experience and expertise.
119. The notion of a Joint Venture could not be dismissed in entirety. However the Panel noted that to enter into this type of arrangement would require meticulous planning around the procurement, financial, legal and contractual matters.

#### **Local Authority Trading Company**

120. Whilst the Local Authority (Goods and Services Act) 1970, allows the County Council to generate income with other public bodies, in order to trade with other private sector organisations and generate profit, the Council would need to form a Local Authority Trading Company (LATC), which would operate as a private company but would be owned by the Council.
121. The Panel gave full consideration to the creation of a LATC. They considered that the creation of such an entity would support the Council's commitment to change, creativity and innovation by creating a very different approach to service delivery.
122. The Panel were appreciative of the benefits of being able to trade more widely, but they were also mindful of the Leeds model which had

highlighted some of the “disbenefits” of putting public sector business through a LATC and consequently having to pay VAT and Corporation Tax.

123. The Panel did not dismiss a LATC as an option but they felt that it required further consideration and a watching brief over those LATC that currently existing in the public sector. Perhaps the creation of a LATC was part of a future journey but before reaching this decision the Panel felt that there was a need for a more detailed business case.

#### **In-house service provision**

124. Finally, the Panel considered that for some time, Local Authorities had delivered services from in-house. Therefore although there were skill and capability gaps which private sector organisations might possess, the Panel also acknowledge that there was considerable in-house expertise, and in-house service provision remained a viable option.
125. In reviewing a selection of trading services earlier in the review the panel had become aware that much of the internal expertise also resided within networks and relationships that no external partner could rival.
126. The Panel saw additional benefits associated with in-house provision, in that it enabled Members to exercise control and influence while also managing risks, unlike some of the other delivery models where control and influence were sacrificed.

127. The panel were aware that Leicestershire County Council officers had some strong business relationships which were evidenced by the level of customers being retained. This compared favourably with for example Staffordshire County Council, who in 2012 had revealed within their business case that: “some services have experienced as much as a decline of 31%”.

128. However, the Panel also observed that there were inherent risks with maintaining in-house provision. There was the danger of inflexibility, complacency and a risk of not being as hard-nosed as a private sector partner might be when it came to having to make service reductions.



**Should the County Council continue to trade its services?**

129. In its final meeting, the Panel reflected on the wider context and the financial challenges facing the County Council, and the tasks that they had been set to resolve.
130. In its deliberations, the Panel reflected on the fact that the spending pressures facing the County Council are increasing and that for the foreseeable future the Council continues to face decisions about which public services to protect, reduce or close.
131. The Panel considered the point that inevitably authorities will become smaller as a consequence of austerity savings.
132. They accepted that within the current and future financial challenges, some public sector organisations will need to reduce in size and they will do so by outsourcing non-core activities and as a consequence of this decision these organisations will decide not to trade.
133. In many respects traded services were essentially support services and as such they could be provided by someone else.
134. However, having reviewed a selection of services, interviewed officers and analysed performance, the Panel were of the opinion that the County Council should continue trading its services.
135. The Panel, whilst accepting that the County Council will be a commissioning organisation, believe that a wholesale outsource would not necessarily be in the best interests of the citizen, neither would it guarantee the best service nor would it deliver the required savings
136. Moreover the Panel believed that officers of the County Council had maintained trading levels despite facing adverse trading conditions within a turbulent marketplace.
137. Although schools are being encouraged to be autonomous, within Leicestershire, the Panel believed that high quality services and strong relationships suggested that maintaining business with schools and academies was long term sustainable.
138. To stop all trading would have a huge impact both internally and externally and a high cost to implement. It would also have significant financial implications and a reduction in existing income streams would increase the budget deficit.
139. It was evident from the work of the Panel that traded services operating under a Leicestershire County Council banner, as well as competing within the marketplace were able to develop a Unique Selling Point derived from expertise and strong relationships based on trust and a commitment to values and ethics that perhaps some competitors did not have.
140. The Scrutiny Review Panel therefore proposed that the earlier decisions to continue trading some of the Council's services remained sound, and by trading services and

generating income, any surplus will not only go towards decreasing the financial deficit, but could mean that core services are protected from making further service reductions.

### **Reviewing the current Trading arrangements**

141. Although the Panel supported developing the traded services of the County Council, they reflected on the fact that further work may be required to review and rationalise the existing portfolio.
142. The Panel were mindful that the very notion of developing a portfolio, means divesting of some elements as well as investing in others and they surmised that in a true commercial sense not all the existing traded services would be deemed viable if scrutinised.
143. They felt that Internal Audit should conduct a review to determine the viability of all traded services continuing.
144. Members were also of the opinion that there were improvements that could be made to the existing operating model and were able to make recommendations drawing from their own commercial experience.
145. Notwithstanding the positive attributes that the Panel had elicited from the officer presentations on traded service arrangements, they were of the opinion that there were some skills gaps in account management, sales and marketing and business development.
146. The Panel expressed an opinion that there should be an agreed direction of travel which ultimately brought all trading services under one umbrella.
147. It was the feeling of the Panel that the County Council should begin to create a stand-alone internal organisation within which all core traded services were included. This might initially focus predominantly but not solely on providing services to schools and academies.
148. The Panel were also mindful that given the complexity of the Council, there would be some services which would have a traded element but which reside outside the trading unit, one example that came to mind was Legal Services.
149. An essential part of this journey would be the creation of a name and identity for this venture. This would enable a much more cohesive marketing, branding and advertising campaign.
150. The current trading arrangements were based around services and not around a “corporate” brand and identity.
151. Reflecting on the ESPO model, the Panel expressed a strong opinion that there was a need to have a dedicated marketing resource for the new standalone entity which would ensure that the message the Council broadcasted about its services was consistent and offered cross-selling possibilities.

### Considering alternative delivery models

152. Accepting that trading is a viable option to deliver a contribution towards the Council's savings, the final matter considered by the Panel was the possibility of alternative delivery models.
153. Rather than relying upon an in-house delivery solution, the drive to "spin out" (separate from the local authority and become a stand-alone organisation) was also a critical tenet of the Government's 2011 Open Public Services White paper.
154. Change for the sake of change is not in itself an effective driver and the Panel was aware of the need to consider both the merits and the disadvantages of other models. It was also mindful that in their explorations, they needed to be aware of the associated, legal, tax, valuation, procurement and financial implications inherent within and associated with each alternative delivery model. Details on the legal perspective on local authorities trading their services is set out below.

### The Legal Perspective

It goes without saying that any approach to traded activity must be legally robust. The principle Acts affecting charging and traded activity by the Council are:

#### Local Authority (Goods and Services) Act 1970

- Restricts the supply of services to local authorities and to other public bodies designated under the Act
- Does not enable services to be provided to the private sector
- Broadly limits the services which may be provided to those described as administrative, technical or professional and works of maintenance.
- Provides that an agreement made in pursuance of the Act "may contain such terms as to payment or otherwise as the parties consider appropriate". This means that the providing authority can make a profit from the activity.

#### Local Government Act 2003

- Establishes the concepts of 'charging' and 'trading' for local authority functions generally:
- Establishes that a local authority can charge for services , provided that:
  - ▶ the service is discretionary ie. is not one which the local authority is under a duty to provide;
  - ▶ the recipient agrees to the provision of the service;
  - ▶ there is no other legislation which specifically precludes the local authority from charging for the service;
  - ▶ taking one financial year with another, the income from charges does not exceed the costs of provision.
- The 2003 Act and associated subordinate legislation clarifies that a local authority may undertake any of its functions for a "commercial purpose" but if it wishes to do so it must do so via a company. It is a requirement that before exercising this power a business case is prepared and approved by the Council.

In regard to the above two Acts, the issues the Council would need to have regard to are as follows:

- “Commercial Purpose” is not defined and although it is generally taken to mean “with a view to making a surplus/profit” some doubt exists as to what it means;
- The powers are primarily concerned with public to private trading;
- There seems little benefit in seeking to use the 2003 Act powers, given that the Localism Act 2011 supports broader activities (as set out below).

### **Localism Act 2011**

Creates the so called “general power of competence” under which a council can do anything a private individual can do, unless other legislation inhibits it. The 2011 Act generally duplicates 2003 Act restrictions on trading and charging.

The issue again is that there is no definition of “for commercial purpose”. No case law establishes or tests that. General understanding is that if you “set out to make a profit’ then this will be caught but beyond that there must be a degree of doubt as to what is covered. There is nothing in the Act to say that the “ commercial purpose” has to be that of the Council and it is feasible that Council providing services at cost (permitted under 2003 Act) to a private company may be interpreted as being for the commercial purpose of the customer. However – this seems an extreme interpretation and may well preclude any council activity. As the intention of the 2011 Act was to free up local authorities ability to function it seems unlikely this would be an interpretation that will be adopted by the courts.

### **Other issues to be considered**

Authorities need to ensure that when using the general charging power conferred by the 2003 Act they fully comply with other complementary legislation such as the Competition Acts. Otherwise they risk being investigated and taken to court for non-compliance and may incur significant associated costs.

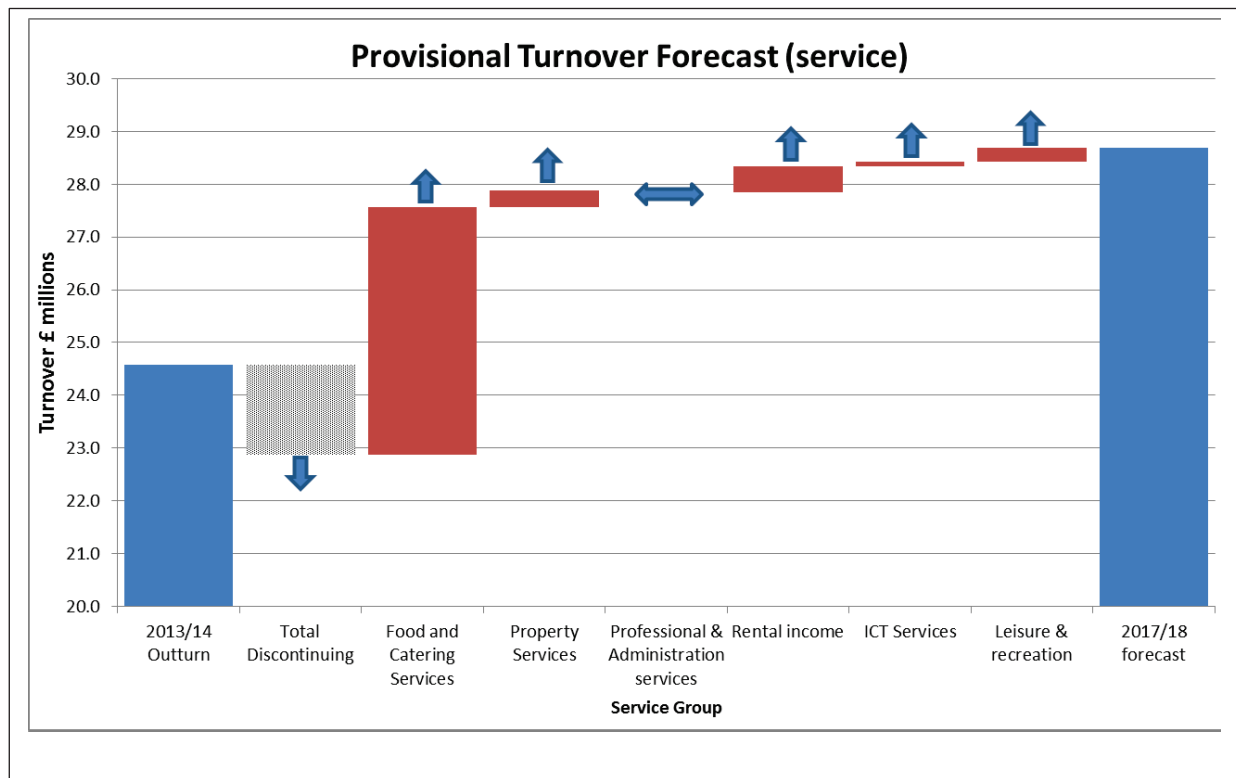
When considering whether to charge for services using the general charging power, Government advice is that they should consider the likely impact on local businesses and may wish to consult with them and other interested parties.

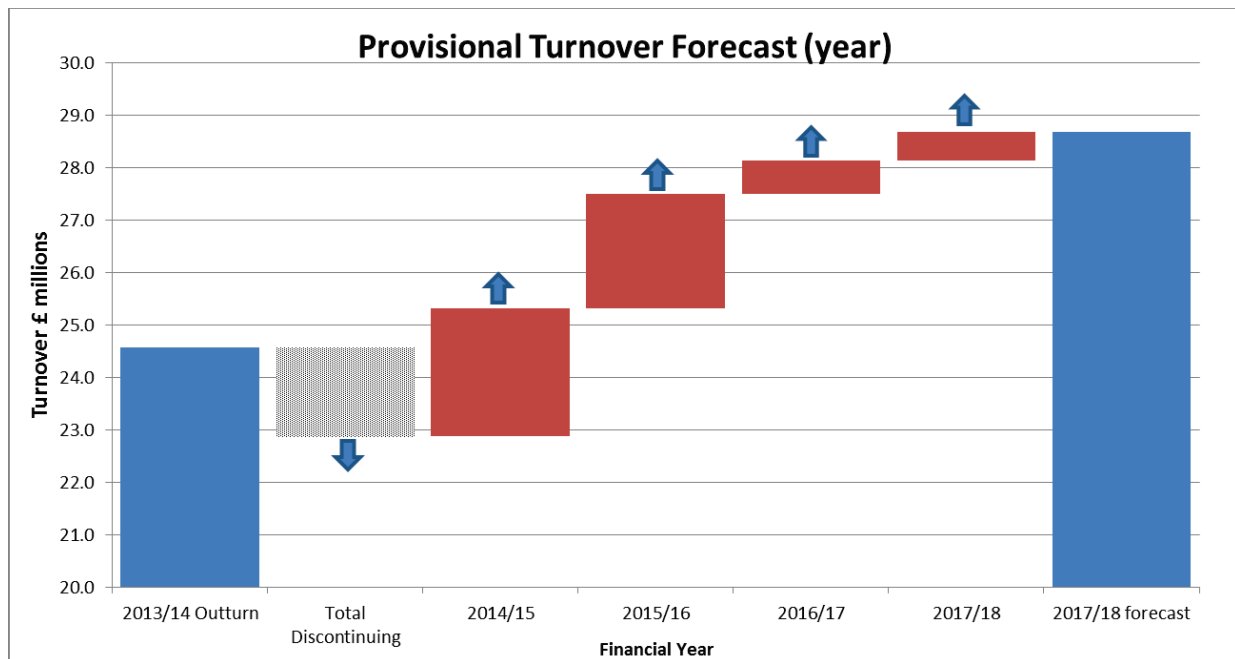
In considering the setting up of a company, a council should consider the following issues as part of its development:

- Start-up funding: how would funds be sourced to enable the company to operate in year 1 if income is not in place to recover those costs? Can a council set out to develop a business to make a reasonable surplus until such time as that surplus can support the activities as a separate company?
- Would the service have any certainty of business previously sourced from the council?
- Would the council buy back any internal use of the service?
- How will current services that provide a mix of internal function, statutory function and services which are charged for operate under two umbrellas (Council and Company)?
- How are the financial and other risks of the company to be addressed by the council (losses, staff reductions if costs aren’t recovered, lack of service to the council, loss of knowledge and skill from the council, increased company ownership risks/costs)?
- If a local authority wishes to trade with the private sector beyond a discretionary amount and without restriction it would have to set up a formal trading arm in the same way that Leeds City Council have (see paragraphs 82-86 of this report).

### Traded Services – Projections

155. Based upon provisional MTF5 forecasts the traded services turnover within Corporate Resources is expected to increase from £24.6 million in 2013/14 to 28.7m in 2017/18. This is despite the expectation that £1.7million of turnover will be lost to due to discontinuing services. The largest of these is the academies insurance scheme, which is likely to be replaced by a new Education Funding Agency arrangement from September 2015.
156. For services that are expected to continue trading turnover is expected to increase by £5.8 million (25%). The largest contributor being the School Food Service, whilst turnover was already increasing the introduction of free infant school meals is expected to have a significant beneficial impact.
157. Property Services, Rental Income and Leisure Services are all expected to have growth exceeding 15% over the period, contributing £1.1m of turnover between them. Increases are expected to be delivered through a combination of organic growth and investment in property assets such as County Hall and Industrial Properties.
158. The chart below shows the turnover increase by financial year. The first two years are heavily impacted by growth in free infant school meals, but even the later years show reasonable growth in excess of 2.5% per annum.





### Marketing: Deciding the Market and Product Growth Strategy

159. Through the discussions that took place within the Panel's meetings, Members continued to return to the issue of a marketing strategy. In their opinion, this would harness all of the good work currently being done by the disparate traded services into a cohesive strategy that would assist in developing objectives around:

- Increasing market growth;
- Increasing sales and turnover;
- Developing and strengthening the brand;
- Developing new products;
- Effectively managing and rationalising costs.

160. Members also acknowledged that devising an effective marketing strategy is not a quick fix and that the decisions that would need to be made that were not about focusing on short term gain but long term sustainability and success.

161. In the associated discussions, Members used the Ansoff matrix to assist in their deliberations and were keen that officers should use the model to assist in planning their future business strategies for any trading organisation. The Ansoff Matrix is a strategic planning tool that provides a framework to help decision makers devise strategies for future product and market growth. Members liked the fact that it is a simple, practical but effective tool.

#### Market Penetration

162. The first quadrant in the matrix (pictured on page 32) refers to market penetration. In exploring this dimension, the business focus is on devising a strategy that markets existing products to existing customers. The Panel reflected on the fact that through historical links with the County Council, existing trading services have strong links with schools and academies. There was strong consensus from the Panel that this needs to be

consolidated and built upon. Consideration should therefore be given by officers on how to:

1. Maintain and increase the market share of existing products;
  2. Continue to market existing products to existing customers;
  3. Increase the use of additional products by existing customers;
  4. Maintain and consolidate control within the existing markets
163. The Panel believed that, in the first instance there was an imperative to focus and build on the existing Leicestershire market penetration. They were encouraged to hear that Corporate Resources Managers were developing a database, which would identify market penetration across all existing services and which would enable more cross selling of products to customers.

164. Members reflected that this approach would be further enhanced by having an account management and sales infrastructure and a dedicated marketing resource to develop the brand and strategy.

#### **Product Development**

165. Another perspective of the Ansoff model relates to “product development” which specifically relates to developing and or creating new products. The Panel were keen to see more innovation and creativity, but they also accepted that creation of new products in some markets can mean

huge investment in research and development and establishing the product. Nonetheless in some instances, new products can mean that a business has made their products and services unique from rival products by developing distinctive capabilities. The Panel believed that there was more scope for development within this area.

#### **Market Development**

166. Using Ansoff’s model the Panel also considered market development, the question here was whether to enter one market or enter a range of different markets. The Panel were of the opinion that the County Council’s traded services should build on trading beyond Leicestershire and explore the possibility of doing more work for other public sector bodies. The Panel had no doubt that the services that they had reviewed had the capability and products to move into new geographical markets.

167. Some members of the Panel had an appetite for the County Council’s traded Services to venture further into markets where they would compete more with the private sector. The decision to look for more private sector work would have higher associated risks and it was highlighted that, in some instances, costs might outweigh the benefits. Although keen to explore market development, the Panel were aware that entry into new markets can be expensive.

#### **Diversification**

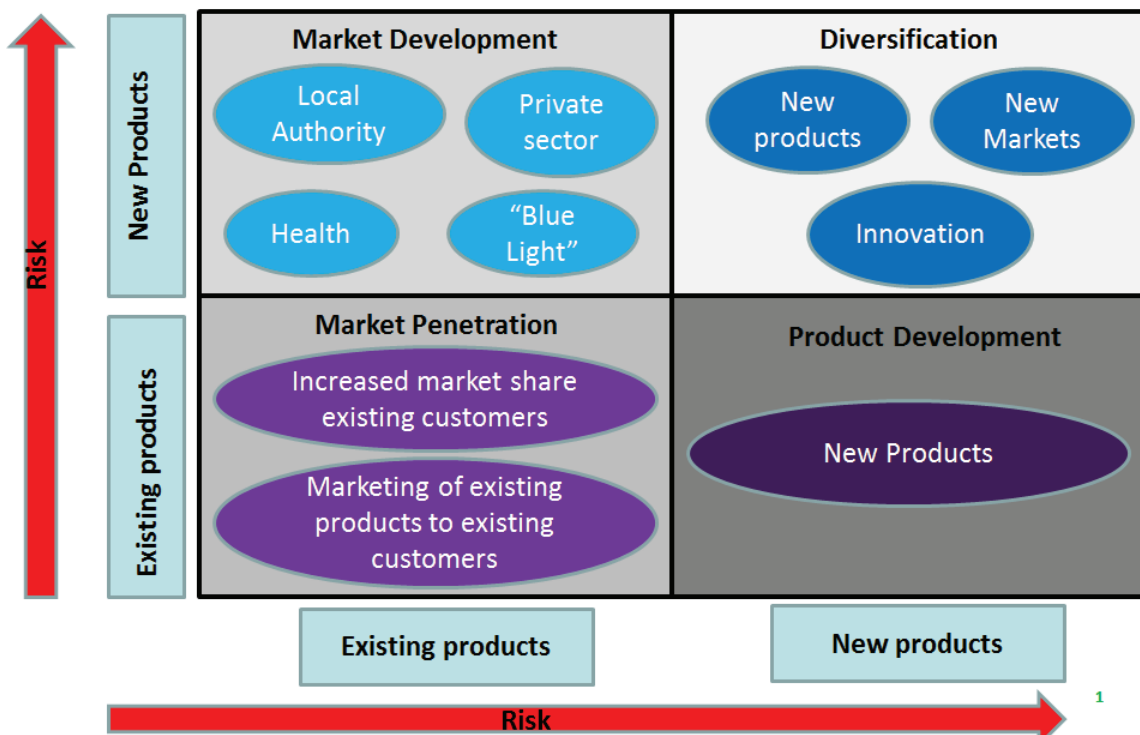
168. The final quadrant of Ansoff’s matrix focuses on diversification and

means embracing a journey that focuses on new products and new markets at the same time. In reviewing this aspect of the model the Panel once again saw its usefulness as an aid to taking a measured response to both opportunity and risk. A diversification strategy is clearly the most risky as a business ventures into unknown territory. The investment of adopting a diversification strategy could be huge.

products. They went back to basics in exploring the Chartered Institute of Marketing’s definition of marketing as “...the management process responsible for identifying, anticipating and satisfying customer requirements profitably.” In their summation they returned to the thought that at the core of any commercial activity and marketing strategy were people: the employees and the customer. Moving forward, they wanted to ensure that the voice of the customer was heard and that people were properly trained and they were the right people to do the job. This reinforced its view that any new trading entity would need to acquire additional skills around marketing sales and account management.

- 169. In summary, the Members hoped that officers would use the Ansoff matrix along with other models when defining their approach to examining new markets and

## Ansoff Matrix





## The Scrutiny Review: In Summary

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**The world is ever changing and customers are more discerning and demanding - markets are volatile, whilst social media and fast communications move at frenetic speed. The customer is not only king, but also kingmaker and reputation can be lost or made in a “tweet”. The Panel were keen that officers leading on traded services would need to constantly challenge the status quo. However, the Panel also expressed a preference for resilience and sustainability rather than impulsive action, which in an ever changing market could spell ruin to any commercial venture.**



The Panel were mindful that there was a journey to consider when commercialising public services. The separation of services from the County Council to another delivery model can be complicated and the borders of what are in and out of specific services are not always as clear as one might initially assume them to be. If this route was to remain a possibility then the transition would need to be managed carefully in order to minimise risk.

The approach of the Panel was to focus on supporting officers to develop an in-house infrastructure which would develop a shape and entity over time. In the short term, the focus would need to be on improving business and marketing plans, establishing sound pricing models and ensuring that sound financial rigour was in place. A robust infrastructure would provide a healthier trading organisation which might open up further opportunities for the County Council in the future. Although the initial focus was on the further development of an in-house trading operation, this did not prevent considering other delivery models at a later date. It was hoped that Elected Members would continue their involvement with the traded entity providing leadership and direction.

## Recommendations of the Review Panel

### General

- (a) That the County Council should continue to trade some of its services and further develop them to generate income to further contribute towards the Council's savings targets
- (b) That the existing full portfolio of traded services be reviewed and that those traded services:
  - (i) Delivered by the Corporate Resources Department be consolidated under one service lead;
  - (ii) Considered to be no longer viable in a changing marketplace should cease trading and focus on internal delivery;

### A New "Stand-Alone" Trading Unit

- (c) That a stand-alone trading unit be developed as part of the County Council, with its own brand and identity. This would:
  - (i) Enable it to have a clear and strategic position in the marketplace, with a stronger trading presence;
  - (ii) Maintain a link to the Council's corporate branding, with its reputation for high quality and value for money services;
- (d) Establish a dedicated marketing resource to ensure the trading unit is able to convey a

coherent message to new and existing customers;

- (e) Strengthen the existing trading arrangements and fill vital skills and capability gaps of business development, a sales and account management function be created within the trading unit to ensure that a consistent offer is in place and to enable the cross-selling of services;
- (f) That it be accepted that some services with a traded element would remain outside of the stand-alone entity.

### The Future

- (g) That, whilst it does not currently feel that a separate company should be created to cater for private sector trading, it will be necessary to keep a watching brief and that this position should be reviewed at a later date once a clearer picture can be taken of the new unit's delivery and performance;
- (h) That Elected Members have a vital role to play in championing the Council's traded offer to the local customer base (particularly district and parish councils) and that their expertise in the ongoing quality assurance role of traded services would be welcomed;
- (i) That a time table for the development of these recommendations be devised by January 2015 to enable officers to progress the work without delay and to enable the Chairman to assess progress against these recommendations in 8-10 months' time.



Mr. S. J. Hampson CC



Mr. E. D. Snartt CC



Mr. L. Spence CC



Mr. M. B. Wyatt CC



**Dr. Kevin Feltham CC**  
 Chairman of the Review Panel on Traded  
 Services and County Councillor for Gartree  
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## **APPENDICES**

## The County Council's Current Traded Services

Below is a summary of the County Council's currently traded services, which excludes: partnerships (eg. Resiliency), those with an annual external income of less than £50,000 and statutory-based services - such as planning and parking enforcement.

County Council Department	Traded Service
<b>Corporate Resources</b>	Internal Audit Insurance Strategic Property (valuations) LEAMIS (ICT) Central Print School Food Support Services County Hall Catering School Bursar Service Property - Hard & Soft Facilities Management Beaumanor Sites Development - furniture/construction Forestry & Arboriculture Farms & Industrial property portfolio Governors Development Service Health, Safety & Wellbeing Human resources EMSS (Payroll & Human Resources admin) Sports facilities (Melton & County Hall)
<b>Children &amp; Families</b>	Anti-Bullying Psychology service Safeguarding Unit School Admissions & Pupil Services Support for Looked after children Specialist Teaching Service
<b>Environment &amp; Transport</b>	Business Waste Leicestershire Highways Operations Engineering Design Climate action Transport Data Modelling
<b>Chief Executive's Department</b>	Legal services Performance & Business Intelligence Registrars (partial) Historic & Natural Environment
<b>Adult &amp; Communities</b>	Adult Learning (grant supported) Libraries & Museums (partial)
<b>Other</b>	Eastern Shires Purchasing Organisation (ESPO)*

\*ESPO is a local authority purchasing consortium made up of the following six local authorities: Cambridgeshire County Council, Leicestershire County Council, Lincolnshire County Council, Norfolk County Council, Peterborough City Council and Warwickshire County Council.

## Outsource Service Provision

Transfers service delivery risks to external provider

### Overview

- Outsourcing involves externalising service delivery to an alternative provider – often a private sector organisation
- Typically a number of services are ‘bundled’ together and a single provider is sought to deliver these services
- A competitive procurement exercise is required to appoint an outsourced provider
- Council staff are generally transferred to the new provider under TUPE
- Service delivery risks are transferred to the outsourced provider
- A robust client side function is needed in order to manage the provider effectively and to set the strategic direction
- Provides access to private sector investment to fund service improvement

### Advantages

- Commercially independent
- Service delivery risk transferred to a third party
- Private sector capital and enterprise can improve delivery
- Low costs of implementation as the outsource provider may bear the cost of transition
- Can achieve sustainable quality & performance improvements – but only if underpinned by robust and effective contract management.

### Risks

- Uncertainty over current market interest
- Generally requires ‘bundling’ of services to be achieve critical mass
- Limited ability to influence outsource provider
- Limited opportunity for LA to take advantage of future efficiencies
- Difficult to reverse strategy in future years
- Need for high level of commercial skills in Local Authority.

### Example

- H&F, K&C and Westminster have jointly outsourced its finance and HR and transaction system to BT.
- For 13 years Cambridge Education managed the education services for the London Borough of Islington
- Hertfordshire County Council’s management services agreement has led to £25m savings to date.

# Joint Venture Company or Joint Committee

Reducing indirect costs & optimising resources through a new shared service company or joint committee

## Overview

- Shared services may involve the formal transfer of activity to another authority or shared responsibility
- A Joint Venture Company (JV Co) is a company created in partnership with a private sector organisation
- The risk and liability is shared between the Council and the private sector partner
- These approaches can work well for 'transactional' type services, and where service delivery processes are similar
- Delegation requires careful consideration of contract placement / award – commercial, legal and procurement regulations need to be closely adhered to as recent legal cases have exposed Councils who have not followed the correct procurement process
- Most JV Companies are a Company Limited by Guarantee – the Council holds an equity share and has senior officer and Member representation on the Company's Board

## Advantages

- Continued access to Council staff and expertise
- Certainty about service costs
- All partners have a stake – leading to stronger future relationship
- Council gains the benefit from the partner's experience and expertise in the marketplace
- Provides an opportunity to standardise processes to enable more effective use of resources

## Risks

- Requires strong contract management
- Performance management can be complicated
- More expensive, complex and time consuming than an outsourcing exercise
- Extensive investment may be required
- Establishing effective governance and management can be time consuming and complex
- The charging structure can prove complex

## Example

### Shared Services

- H&F, K&C and Westminster will share a range of services through the Tri Borough Accord.
- Newham & Havering have a shared ICT function.
- LGSS (Cambs & Northants) provides all corporate services.

### Joint Ventures

- Wellingborough Norse Ltd – JV between Borough Council of Wellingborough and Norse for Waste Collection.
- Staffordshire created 'Entrust' with Capita to provide £90m services to schools (e.g., FM, ICT, etc)

## Mutuals/Co-operatives

Business owned and run by and for their members

### Overview

- Co-operatives are a form of social enterprise.
- A cooperative is owned and run by and for their members, whether they are customers, employees or residents. As well as giving members an equal say and share of the profits, co-operatives act together to build a better world through co-operation.
- A new cooperative would be independent from the Council and if the Council chooses to set up cooperative, staff would become members of this new company.
- A cooperative organisation not only shares the same values but puts them into practice in the way that it operates. In a cooperative, every member has a vote to influence the decisions of the business and therefore the voice of the member (employee, service user or citizen) is represented.

### Advantages

- As Co-operatives are run democratically, there is a high level of opportunity for members e.g. (Workforce) to influence quality of services.
- Co-operatives are likely to offer some flexibility in reducing high costs associated with in house provision, to generate additional income as well as the potential for accessing additional funds and grants.

### Risks

- The Council would have little control or ability to influence if services were of a poor quality or moving in a different direction
- The Council would likely need to invest in set up and procurement costs.

### Example

- Shropshire Council set up People2People to deliver care assessments and provide targeted support.
- SEQOL (Swindon) has 845 employees delivering integrated health and social care.
- Evolve YP was set up as a mutual by social workers in Staffordshire to allow decisions to be made closer to the children and young people.

## Social Enterprise

Provides opportunity to involve partners but increases risk of failure

### Overview

- Social enterprises are established to provide services to the community
- Often seen as being better able to deliver services that meet the needs of their community than outsourcing
- Seek to trade successfully and can operate in all sectors of the market
- Can include a diverse range of stakeholders that can all play a role in running the organisation
- The majority have shared ownership. Any profits generated can be shared between members, but most co-operatives seek to retain profits and reinvest them in assets to improve service delivery
- The Council transfers the risk of service delivery
- Community co-operative examples include:
- Out of Hours GP Service – jointly owned and managed by multiple GP practices to

### Advantages

- Able to access alternative funding streams (e.g. future builders)
- Risk transferred to a third party
- Commercially independent
- Involves stakeholders and service users

### Risks

- As a small start-up organisation it can be potentially vulnerable in the early stages of development
- Securing external funding can be difficult
- Performance levels may initially decline during establishment period
- Uncertainty over the interest of communities to take on the responsibility of service provision
- Council loses influence over service quality

### Example

- The management of the Blenheim Garden Estate in Lambeth was transferred to a resident's organisation.
- Sirona is a SE delivering Adults and Children's health and social care services, and wellness services in Bath and North East Somerset, saving £9m over five years.
- Care Plus formed out of NE Lincs Care Trust Plus in 2011 to deliver health & social care services



# Local Authority Trading Company (LATC)

## Service Provision

Provides opportunity to innovate and reduce costs while Council retains ultimate control

### Overview

- The Local Government Act 2003 provides powers for a local authority to transfer in-house services to a trading company where the local authority is the majority shareholder
- Local authority trading companies (LATCs) can transform the delivery of directly provided services through:
  - Reshaping services to become more personalised
  - Making services more commercially competitive
  - Retaining in-house expertise while incentivising innovation
  - Working collaboratively with other partners who support the client group
- An LATC can include a range of other shareholders (including the private sector) to support and shape service innovation.

### Advantages

- Maintains a link to Local Authority influence and brand
- Reduce staffing and corporate costs
- Council retains any surplus
- More responsive and innovative
- It provides an opportunity to test the value of services
- Able to trade with all sectors of the market
- Potential to generate future capital receipts

### Risks

- Ultimate risk resides with the local authority as the majority shareholder
- Governance model requires balance between autonomy and control
- Council retains ultimate financial risk
- Potential conflict between local authority and LATC

### Example

- Buckinghamshire have recently set up Buckinghamshire Care to provide some Adult Social Care Services.
- Barnet Council set up The Barnet Group and transferred in its Learning Disability Services, Physical and Sensory Impairment Disability Services and Housing Needs and Resources Service.
- York City Council are establishing a LATC focused on corporate services, with the intention to expand it off to the private sector.

## 'In House' Service Provision

Provides continuity but with limited options to innovate and reduce costs

### Overview

- Local authorities have traditionally delivered a similar, consistent portfolio of services in-house
- Meeting financial challenge would result in significant reduction in services
- This has created a highly trained, highly experienced workforce capable of delivering high quality services
- This has resulted in organisations that deliver services using a single approach finding it difficult to respond to mounting financial and demand pressures
- In-house service providers are often not incentivised to challenge the status quo:
  - Is the service actually contributing to meeting the needs of citizens, communities or businesses?
  - Is the service being delivered as effectively and efficiently as possible?

### Advantages

- Members maintain control
- Requires little innovation or risk taking
- Reduces risk of catastrophic failure
- Does not require change in behaviours or relationships.

### Risks

- Personalisation results in under used services and assets while cost pressures increase
- Large service delivery costs remain unchallenged
- Citizens, communities and businesses needs remain unmet
- Unable to trade with large sections of the market
- Inflexible and non-adaptable.

### Example

- Historically this has been widely used across local governments, from Looked After Children through to Waste Collection and Benefits Processing.
- Many of the “blue collar” roles have traditionally been collated into a Direct Labour Organisation (DLO) or Direct Service Organisation (DSO) within the construct of a local authority.

## Overview of Delivery Models

Options	Potential benefits	Potential risks
<b>Outsource</b> Externalising service delivery to an alternative provider	<ul style="list-style-type: none"> <li>▶ Commercially independent</li> <li>▶ Risk transferred to a third party</li> <li>▶ Private sector capital and enterprise can boost delivery</li> </ul>	<ul style="list-style-type: none"> <li>▶ Uncertain market interest and ability to deliver</li> <li>▶ No opportunity for LA to take advantage of future value in the service</li> <li>▶ LA loses control over the services and has limited ability to intervene in the event of failure</li> </ul>
<b>Mutual / Cooperative</b> Co-operatives are businesses owned and run by and for their members	<ul style="list-style-type: none"> <li>▶ Offers flexibility in reducing high costs associated with in house, to generate additional income as well as the potential for accessing additional funds and grants</li> </ul>	<ul style="list-style-type: none"> <li>▶ Council would have little control or ability to influence if services were of a poor quality or moving in a different direction</li> <li>▶ Council would need to invest in set up and procurement costs</li> </ul>
<b>Joint Venture Company / Joint Committee</b> Jointly controlled entity or service	<ul style="list-style-type: none"> <li>▶ Build on best practice / reduce investment needs</li> <li>▶ Reduce indirect costs / overhead</li> <li>▶ Ability to restructure workforce</li> </ul>	<ul style="list-style-type: none"> <li>▶ Governance arrangements can be complex</li> <li>▶ May continue existing practices rather than promote innovation</li> </ul>
<b>Social enterprise</b> A company which combines commercial principles with a community philosophy	<ul style="list-style-type: none"> <li>▶ Able to access alternative funding streams</li> <li>▶ Risk transferred to a third party</li> <li>▶ Commercially independent</li> <li>▶ Reinvests its profits into the business or local community</li> </ul>	<ul style="list-style-type: none"> <li>▶ No opportunity for LA to take advantage of future value in the service</li> <li>▶ Securing external funding is risky</li> <li>▶ Performance levels may initially decline during establishment period</li> <li>▶ Council has limited ability to intervene in event of failure</li> </ul>
<b>Local Authority Trading Company (LATC)</b> Set up by and remains legally connected to the Council, with freedom to act as a company and can compete in the open market	<ul style="list-style-type: none"> <li>▶ Trade on LA brand and reputation</li> <li>▶ Council retains ownership and any surplus</li> <li>▶ Reduce LA staffing and corporate costs</li> <li>▶ LA continues influence over services</li> <li>▶ Able to be flexible to market needs</li> <li>▶ Able to trade with all sectors of market</li> <li>▶ Future option to extend range of services</li> </ul>	<ul style="list-style-type: none"> <li>▶ Pension under-funding</li> <li>▶ Redundancy and pension strain</li> <li>▶ Uncompetitive service provision</li> <li>▶ Adverse effects of increased Self Directed Support</li> <li>▶ Potential conflict with the wider supplier market</li> <li>▶ Potential tension between the independent LATC and its owner</li> </ul>
<b>In house provision</b> Provision of services by the Council	<ul style="list-style-type: none"> <li>▶ Minimal disruption</li> <li>▶ Existing management approach and structures can be maintained</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unable to afford to maintain current levels of service</li> <li>▶ Inflexible and non-adaptable (e.g., personalisation, choice, etc)</li> <li>▶ Constrained by Council's corporate pay &amp; reward structures</li> </ul>

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