



# **Review of the Strategic Service Delivery Partnership**

## **Report by Strategic Service Delivery Review Group**

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...**Providing** for our communities  
...**Protecting** our future

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## **Note**

The Strategic Monitoring Committee approved the recommendations set out in the Strategic Service Delivery Partnership Review Group's report, as presented to it at its meeting on 10th April, 2006.

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## Executive Summary

1. The Herefordshire Strategic Service Delivery Partnership (The Partnership) commenced on 1st September 2003 with the award of initial 10-year contracts to Herefordshire Jarvis Services Limited (HJS) and Owen Williams Limited. HJS is a joint venture between Herefordshire Council and Prismo Limited, a wholly owned subsidiary of Jarvis PLC.
2. The current expenditure under the service delivery agreement between the Council and HJS is approximately £15 million per annum. The scope of the contract includes highway maintenance, grounds maintenance, street cleansing, toilet cleansing, recycling, street lighting, courier services, printing, vehicle maintenance, signage, building maintenance, building cleaning, and event catering.
3. The current expenditure under the service delivery agreement between the Council and Owen Williams Limited is approximately £1 million per annum in fees. The scope of this contract covers the provision of engineering services for policy development, design and implementation, including transportation and traffic engineering, management and control; highway design and management; materials testing; general infrastructure development; property/architectural services and other associated technical services.
4. This combined expenditure represents a significant proportion of the Council's revenue and capital procurement budgets (12%) and provides for the delivery of a wide range of important services.
5. The Strategic Monitoring Committee decided in July 2005 that it would be timely to scrutinise the operation of the Partnership and appointed a Review Group comprising 6 Members of the Committee to carry out this task.
6. The Group's principal finding is a concern about the viability of Herefordshire Jarvis Services and the implications of this for service delivery. Factors leading to that concern include evidence that assumptions underpinning the Business Plan were optimistic and that the negativity associated with the Jarvis name is preventing the Company generating significant new business. Coupled with ongoing annual rate reductions for jobs and an 8% fee on the sum invoiced to the Council paid to Jarvis PLC for managerial support it appears extremely difficult to see how HJS can continue to deliver the contract and make a profit. In these circumstances the Group was concerned that the temptation would be for the contractor either to seek to inflate the cost of each job or to reduce service delivery in some way and that this might not be immediately apparent to the Council. The Group has made a number of recommendations intended to suggest a way forward but can not pretend to be optimistic.
7. It has particular reservations about the 8% fee on the sum invoiced to the Council by HJS for works it has carried out under the service delivery agreement which is paid to Jarvis PLC for managerial support. These relate to the implications of the annual fee for the profitability of HJS and the benefit received in return for the payment.
8. To date, although the fee is shown in the HJS accounts no money has actually been taken out of the HJS business because the business is not earning enough to pay the charge. The Group was told that within 2 years HJS expected that the business would be able to sustain the charge, with the aim of generating a profit of 10% within 5 years. The Group can not therefore

see how in future HJS could repay the debt which has accumulated and continues to accumulate. It is also therefore unlikely that the Joint Venture Company, in whose profits the Council expected to share, will now in fact be able to make a profit once the 8% charge is taken into account.

9. Although HJS receives certain services from Jarvis PLC in return for the 8% sum the Group also did not consider this payment represented value for money. There was no evidence of the input into the Partnership of significant additional expertise and innovation which might have been expected from a large Company such as Jarvis PLC.
10. The Group has therefore recommended that firm representations be made to Jarvis PLC to write the sum off. The Group has also recommended that the Council explore whether it is possible to ensure that future payments for management services are only made when evidence is received that these have been provided and that the payment therefore does represent value for money.
11. The Group has also identified shortcomings in the Business Planning Process highlighting the need both for HJS to revisit its process and to comply with the provisions of the Contract governing production of the Business Plan. It has also commented on the need for the Council to recognise its own role and to monitor and influence the contract, adopting a more robust and challenging approach.
12. The Group has also commented on the implications for HJS of the negative image associated with the Jarvis name and the potential hindrance that the association with Herefordshire might have in securing external work.
13. Given its concern about the viability of HJS the Group sought and received assurance from officers that service delivery would continue in the event of failure of HJS. It has also noted the need for the Council's Contingency Plan to be updated and robust, and for systems to be in place to ensure that the services are being and continue to be delivered to the quality, cost and standard required.
14. In relation to Owen Williams the overall picture presented to the Group was that Owen Williams had sought to develop a responsive local team that sought to provide a good service. If problems did occur Owen Williams was ready to seek a constructive solution. The Group did, however, consider that the fee levels charged by Owen Williams required further monitoring and examination.
15. In terms of the operation of the Partnership as a whole the Group has commented on the need for closer working relationships to be developed, in particular between HJS and Client officers. It has noted that co-location of staff has had some benefits in this respect.
16. It has recognised the progress in developing a Joined Up Programme of work and action being taken to continue to improve the process. However, the Group thought that there was a need for a renewed focus on developing the Partnership to maximise the potential benefits.
17. The Group hopes that its report will make a constructive contribution to consideration of the future operation of the Strategic Service Delivery Partnership.

## **1. Introduction**

- 1.1 At its meeting on 1st July, 2005, the Strategic Monitoring Committee agreed to scrutinise the operation of the Council's contract with Herefordshire Jarvis Services. Following a resolution that the scoping statement and the appointment of the Review Group be finalised following consultation with the Chairman and Vice-Chairman of the Committee, Cllr Terry James (Chair), Cllr Mrs. Polly Andrews, Cllr Harry Bramer, Cllr John Goodwin, Cllr John Thomas, and Cllr Stuart Thomas were appointed to serve on the Strategic Service Delivery Partnership Review Group. The Terms of Reference for the Review are attached in Appendix I.
- 1.2 The overarching purpose of the Review was to examine the Strategic Service Delivery Partnership between Herefordshire Jarvis Services Limited, Owen Williams Limited and Herefordshire Council. The desired outcomes from the Review were: to establish that the aims and objectives contained in the Service Delivery Agreement are being met; to establish that the Council is receiving value for money; and to establish that the Partnership is meeting the priorities of the Council's Corporate Plan.
- 1.3 The Review was undertaken between October 2005 and January 2006. This report summarises the key findings of the Review and contains recommendations for the Executive.
- 1.4 The Review Group would like to express their thanks to the witnesses who submitted evidence and participated in interviews during the Review.

## **2. Method of Gathering Information**

### **i. Preamble**

- 2.1 The Review Group commenced the Review at a meeting on 3rd October, 2005 with an introductory presentation on the Strategic Service Delivery Partnership by the Director of Environment and County Secretary and Solicitor. At the same meeting, a number of documents were circulated to the Group by way of initial briefing, including briefing on the Herefordshire Jarvis Services (HJS) Shareholders Agreement, the legal framework for the Herefordshire Jarvis joint venture, a briefing paper on the contract with Owen Williams Limited, and a scoping statement for the Review. In addition, the Group received a report that had been presented to Cabinet on 14 July 2005: The Herefordshire Strategic Service Delivery Annual Report 2005, prepared by the Council's Project Manager on the contractual arrangements which underpin the Partnership.
- 2.2 At this initial meeting the Review Group identified the key lines of enquiry and determined the approach to be adopted to the collection of information.

### **ii. Documentary submissions**

- 2.3 A considerable amount of documentation relating to the establishment and operations of the Partnership was considered by the Review Group during the course of the Review.
- 2.4 This documentation included: a series of briefing papers prepared by Herefordshire Council officers to inform the Review; short notes prepared by

several witnesses to support their interactions with the Review Group; business planning information submitted by Herefordshire Jarvis Services Limited, and other presentation materials submitted by both Herefordshire Jarvis Services Limited and by Owen Williams Limited.

- 2.5 A full list of the documentation considered by the Review Group is presented in Appendix II.

**iii. Witness interviews**

- 2.6 At its first meeting on October 3, the Review Group noted that it would be necessary to obtain information from representatives of Herefordshire Jarvis Services Limited, Owen Williams Limited, the Leader of the Council as the Council's observer on the HJS Board, and a sample of Council staff in receipt of services from Herefordshire Jarvis Services Limited, noting that some staff thought the partnership arrangements worked well whereas others did not.

- 2.7 Accordingly, the Review Group held interviews with a number of key witnesses or groups of witnesses to enable specific issues to be discussed in detail. The witnesses included members of the management teams of the Council's partners and a selection of Council officers with responsibility for client-side involvement in different areas of the Partnership's operations. The full list of witnesses interviewed and the timetable on which the interviews were conducted is set out in Appendix III.

- 2.8 The interview programme was launched on Thursday October 20 with a question-and-answer session with senior HJS representatives. In the subsequent week, Owen Williams staff made a presentation on the company's capabilities and the work carried out in the Hereford office. Following a number of interviews with Herefordshire Council client officers, the local HJS management team was invited back for a review session on 1 December 2005. A list of question areas that had been developed following the client officer interviews was assembled and forwarded to HJS for their consideration prior to this session.

**3. Background to The Partnership**

- 3.1 The Partnership has its origins in a decision in 2001 to review the operation of Herefordshire Commercial Services, the Council's in-house Direct Service Organisation, and to examine whether the private sector could offer a better service. At the time of that review, the commercial services were operating at an annual loss of some £0.6M with no realistic prospect of a turnaround in financial performance. The partnering arrangements and required contracts were in line with the "Rethinking Construction" principles set out in a report on the scope for improving quality and efficiency in UK construction which had been commissioned for the former Department for the Environment, Transport and the Regions. "Rethinking Construction" identified five key drivers of change for the construction industry at large: committed leadership; a focus on the customer; integrated processes and teams; a quality-driven agenda; and commitment to people.
- 3.2 Based on these principles, a partnership model was devised which appeared to match the Council's requirements. In essence, this model incorporated long-term partnership arrangements in respect of both contract services and technical consultancy services.

- 3.3 The two contracts necessary for the implementation of the partnership model along the lines described were placed following public procurement procedures conducted in line with EU procurement principles and best value legislation. The partnership arrangements use the New Engineering Contract (NEC) family of contracts. Thus, the service delivery agreement with HJS is based on the NEC Engineering and Construction Contract whilst the agreement with Owen Williams is based on the NEC Professional Services Contract. The NEC contract family provides a secure basis for partnering and in both cases the ethos of the partnership working is given formal expression in the contract documentation. Jarvis PLC was selected as the preferred partner for the delivery of contract services following a competition in which 28 organisations responded to the invitation to tender. Owen Williams Limited was selected as the preferred partner for the delivery of technical consultancy services following a competition in which 19 organisations pre-qualified. In each case the final selection of preferred bidder, with whom negotiations were eventually completed, was made following a systematic assessment of price, quality and cultural fit. Additional detail on the background to the transfer process and on the selection is presented in Appendix IV.
- 3.4 The Herefordshire Strategic Service Delivery Partnership (The Partnership) commenced on 1st September, 2003 with the award of initial 10-year contracts to Herefordshire Jarvis Services Limited and Owen Williams Limited. Herefordshire Jarvis Services Limited is a Joint Venture Company owned by Herefordshire Council and Prismo Limited a wholly owned subsidiary of Jarvis PLC. The Council holds 200 non-voting shares in the Joint Venture Company and Prismo Ltd holds 800 shares. This arrangement was founded upon the mutual commitment of the partners to deliver the Council's requirements within available financial resources. Appendix V illustrates the key participants in the Partnership and shows the most significant relationships between the partners.
- 3.5 The current expenditure under the service delivery agreement between the Council and Herefordshire Jarvis Services Limited is approximately £15 million per annum. The scope of the contract includes highway maintenance, grounds maintenance, street cleansing, toilet cleansing, recycling, street lighting, courier services, printing, vehicle maintenance, signage, building maintenance, building cleaning, and event catering.
- 3.6 The current expenditure under the service delivery agreement between the Council and Owen Williams Limited is approximately £1 million per annum in fees. The scope of this contract covers the provision of engineering services for policy development, design and implementation, including transportation and traffic engineering, management and control; highway design and management; materials testing; general infrastructure development; property/architectural services and other associated technical services.
- 3.7 The mutual commitments of the partners are set out in nine high level Aims and Objectives, as summarised later in this report (paragraph 4.1).
- 3.8 The service delivery agreements contain over 100 performance indicators. These have been reduced to 28 key performance indicators together with 19 secondary indicators focusing on the principles of "Rethinking Construction" to concentrate on cost and time predictability.
- 3.9 The annual report by the Project Manager submitted to Cabinet in July 2005 commented that performance of the partnership to date had been mixed and that it was clear that all parties would have to continue to develop the joint

working arrangements to extend good working practices across the services and overcome some initial problem areas. The report also noted that there had been significant improvements in many service areas since the partnership arrangements were instituted. Implementation of the areas of focus in line with the principles of Rethinking Construction was seen to have contributed to a better quality of workmanship together with better time and financial outturns, to have improved performance in respect of health and safety, and to have improved the delivery of programmes to meet Members' expectations.

- 3.10 The Project Manager's report also commented that, overall, the contract arrangements represented good value for money with improved outcomes for the Council. However, it observed that the need for senior management commitment from the Council had been higher than anticipated, with the change process taking longer than planned and with unexpected disputes having taken too long to resolve. This was broadly the picture presented at the outset of the current Review.

#### **4. Aims and Objectives**

- 4.1 The aims and objectives of the Strategic Service Delivery Partnership are presented in Schedule 8 of the Service Delivery Agreement between Herefordshire Council and Herefordshire Jarvis Services Limited and are also incorporated in the Service Delivery Agreement between Herefordshire Council and Owen Williams Limited. These aims and objectives are reproduced here as follows:

- Deliver the Council's service outcomes within the available financial resources.
- Improve the processes by which we achieve the objectives of the Council.
- Productivity improvement (Whole Cost).
- Enhance the perception/customer satisfaction of all services delivered directly or indirectly by the Council.
- Cross fertilisation of cultures through learning and sharing.
- Deliver quality local services that are responsive to local needs
- Sound commercial and financial management.
- Safety: 'ZERO TOLERANCE' to accidents
- Quality product - 'Right first time' principle.

- 4.2 One of the Review's terms of reference was to review the nine high level aims and objectives contained in the Service Delivery Agreement and establish whether they were being met. One of the key questions was to consider the method of measurement of the aims and objectives. Appendix 2 of the Strategic Service Delivery Partnership Annual Report 2005 presented to Cabinet in July 2005 detailed the critical success factors against which

performance would be measured and made an assessment of performance at that time.

- 4.3 The Review Group has reviewed the Annual Report presented to Cabinet noting that Cabinet has already therefore had the opportunity to form a view on the points raised in that report. As the Review developed, the evidence collected by the Group revealed important issues touching on the operation of the Partnership, which were not addressed in such detail in the Annual Report, and it is these the Group has chosen to focus on in its report as a consequence.
- 4.4 Another of the desired outcomes was to establish that the Partnership is meeting the priorities of the Council's Corporate Plan. Whilst it is clear that the work of the Partnership contributes in general terms towards meeting some of the priorities the Group found it difficult to identify any direct linkages and have no comments on this aspect.

## **5. Value for Money**

- 5.1 Value for money describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer.
- 5.2 The Strategic Service Delivery Partnership Annual Report 2005 presented to Cabinet in July 2005 stated that:

*“the award of the Contract at lower than the industry rates, the absorption by the Contractor of previous losses by the Council's Direct Labour Organisation and ongoing annual rate reductions represent good value for money in financial terms.*

*Overall the contract arrangements represent good value for money with improved outcomes for the Council. However, the need for senior management commitment has been higher than anticipated. The change process is taking longer than planned and unexpected disputes have taken too long to resolve which has delayed progress in securing effective joint working.”*

- 5.3 The Group was concerned that whilst on the face of it the ongoing annual reduction in rates for services and works (1% per annum for all highway works and 0.25% for all other services), from a low base, might have appeared a good deal at the time the contract was awarded, in their view the bid for the Contract had been too low. The section on the HJS business plan in this report demonstrates how optimistic the Plan has proved to be and the extent to which it has not been achieved. In this context and in conjunction with the burden of the 8% fee on turnover payable to Jarvis PLC, also the subject of a separate section in this report, the Group was concerned that the contract with HJS may prove to be undeliverable.
- 5.4 In these circumstances the Group was concerned that the temptation would be for the contractor to either seek to inflate the cost of each job or to reduce the quality of service delivery in some way and that this might not be immediately apparent to the Council. It does seem that there may have been some instances of costs being inflated.
- 5.5 The Group did receive evidence of disputes over the cost of schemes and of some efforts by Quantity Surveyors employed by HJS to maximise the cost of

schemes. It has also noted the discussions which take place over the monthly application for payment which HJS submits to the Council. It has, however, also received evidence from HJS suggesting that the criticism of overcharging or maximising the cost of schemes was being overstated by the client officers.

- 5.6 The Group was also advised that HJS sub-contracted out a lot of work, particularly in relation to building maintenance. Clearly HJS charged a fee to the Council for this. It was not clear to the Group how this could represent value for money.
- 5.7 Further evidence giving cause for concern on this point was that HJS had done little to consolidate the supply chain of contractors. It was sub-contracting in the same way as the Council had done and was consequently incurring the same costs. It was also suggested to the Group that some contractors were charging a premium for working for HJS rather than the Council. However, it was noted that the contractor was now bearing the risk of engaging sub-contractors rather than the Council. There was evidence that health and safety compliance and sub-contractor registration had improved.
- 5.8 The Group has commented in more detail in a separate section on the 8% fee paid to Jarvis PLC for managerial support to HJS and does not consider that this fee represents value for money.
- 5.9 Performance indicators have been put in place for the service delivery agreements with baselines established for 2004/05. The Group has been advised that the indicators do not yet provide a clear picture on performance. It has noted the need for further work to be undertaken by the Council on this issue.
- 5.10 In summary the Group was unable to obtain any hard evidence that expenditure represented value for money and to demonstrate that the quality and quantity of service had improved. The Group was, however, informed that there had been some improvement in the quality of work. Also whilst the evidence appeared to suggest that some efficiency savings had been made there was clearly scope for further improvements in the working practices of both HJS and the Council. In particular the Council needed to acknowledge the changes they needed to make to operate the contract effectively.

## **Recommendation**

**That the scope for further improvements in the working practices of both HJS and the Council should be vigorously explored.**

## **6. Expertise received from HJS**

- 6.1 One of the outcomes the Council wished to achieve from the Partnership was the encouragement of innovative solutions to service delivery.
- 6.2 The Group found no evidence of the input into the Partnership of significant additional expertise and investment and benefits of economy of scale which might have been expected from the association with a large Company such as Jarvis PLC. One simple example was the lack of a marketing strategy for the business – one area where it would have been thought that Jarvis PLC would have been able to provide HJS with a significant advantage over its

competitors. Evidence was also presented to the Group by client officers of frustration at the disappointing level of investment in new equipment. It was also noted that in the main the Council was dealing with staff formerly employed by Herefordshire Commercial Services.

- 6.3 It was suggested that in part the lack of change was because Council officers had wanted to retain control of the processes. There was also resistance by officers to accepting that a principal incentive to HJS would be to generate profit. It was therefore in part a question of culture, trust, and working relationships.
- 6.4 In part this was reflected in the comments of HJS representatives. They gave the Group some examples of changes they had introduced and proposals for further change. They suggested they could do more if given the opportunity to do so by the client.
- 6.5 The Group would note at this point that the evidence they received pointed clearly to the conclusion that working practices had improved and in particular Health and Safety practices. It is important that these lessons are not lost in any eventuality.
- 6.6 It is clear that there is still scope for innovative approaches to be developed. One of the functions of the Partnership Management Team is to consider the potential for innovation. But even though at that level there is agreement as to the aims of the Partnership, it is not clear that this is shared at lower levels of the organisation.
- 6.7 The Group's conclusion is that the Council is not getting the benefit of expertise from Jarvis PLC which it might expect and for which it is paying. There is an apparent lack of investment and capacity at a strategic level and a general lack of support from Jarvis PLC.
- 6.8 The potential to generate improvement in service delivery through innovations as originally envisaged still remains and greater focus needs to be placed on this by both HJS and the Council as client.
- 6.9 The Group did consider whether part of the difficulty which clearly exists is because each partner had had different expectations about what the other could contribute. Whereas HJS had had an expectation that the Council would be able to help them more in winning school contracts, the Council had had an expectation that more expertise would have been brought to the partnership by HJS than appeared to have been the case.
- 6.10 When neither side had performed according to the other's expectations this had led to disillusionment and a retreat from seeking to work in partnership to a reliance on a basic contractual relationship. If this is the case, trust and mutual understanding needs to be rebuilt.

### **Recommendation**

**That each partner needs to have a clearer understanding of what each can contribute to the Partnership to improve service delivery and consider what can be done to remove the barriers which are impeding progress, with the Council proactively seeking to draw on the expertise available from Jarvis PLC which HJS representatives have said is available.**

## **7. The Business Plan**

- 7.1 There are two aspects to the Review Group's examination of the Business Plan. The first relates to the extent to which the business planning process specified in the contract has been followed and the second to the detail of the Business Plan itself.
- 7.2 Under the Shareholders Agreement between the Council and Prismo Ltd, Prismo are required to procure that the directors of the Company prepare a draft Business Plan at least 30 working days prior to the commencement of each financial year of the Company. The draft is to be submitted to Herefordshire Council not less than 20 working days prior to the commencement of the financial year of the Company. This draft is then to be discussed by the Company, and Herefordshire Council, who may then make representations and comment on the content of the Business Plan.
- 7.3 The Group found great difficulty in securing details of the Business Plan from HJS. Whilst there was an awareness of the provision in the Shareholders Agreement, it was clear that apart from the preparation of a detailed Business Plan at the outset only annual presentations on specific issues had been received by the HJS Board. The Council had not been provided with a draft Plan as required by the Agreement. Equally, the Group found no evidence that the Council itself had sought to enforce the provision in the Agreement.
- 7.4 It also appeared that the operation of HJS had not been subjected to the level of rigorous scrutiny by the Council's observers that might have been expected given the scale of the contract and its importance in service delivery terms.
- 7.5 The reports and minutes of the HJS Board have been examined and the overall conclusion reached that there has been little formal business planning in the sense in which the term would normally be understood.
- 7.6 The Group's findings also demonstrate a need for the Council to recognise that there remains a vital role in monitoring and influencing the contract. One of the arguments in favour of the Joint Venture Company approach was that it would give the Council greater influence in the operation of HJS. There appears to be a need for the Council's observers on the Board to adopt a more robust and challenging business minded role.
- 7.7 The Group was advised by HJS representatives that when the business plan was first set out it had been thought by HJS that core business would represent 75% of work with the remaining 25% being external. Growth was expected in building maintenance and building cleaning (facilities management), grounds maintenance and printing. Facilities Management was expected to be the main growth area. In terms of highways it was expected that profit would be generated through efficiency and effectiveness gains.
- 7.8. One concern the Group discussed was the extent to which the assumptions contained within the Business Plan had been, or should have been, tested prior to letting the contract, questioning in particular the Plan's assumptions on winning school business and the likely level of confidence in the Company given the Jarvis name. Another concern was the efforts that had or had not been made and the success of those efforts in adjusting and amending the Business Plan as events had unfolded.

7.9 The Council has 102 schools with some 24,000 pupils. It was reported to the Group in October 2005 that the facilities management work currently carried out by HJS, a key growth area identified by the Company, was as follows:

- *Schools Catering:* HJS currently provided schools catering to 11 schools, from 2 production kitchens (St Mary's Fownhope and Hunderton). (Prior to July 2005 HJS was providing catering services to 33 schools.)
- *Grounds Maintenance:* HJS had lost all 35 Grounds Maintenance Contracts formerly held by HCS. HJS currently provided services to only one school. The Group was informed that 53 grounds maintenance contracts were to be awarded in January 2006. HJS subsequently won contracts to provide a service to a further two schools. It now therefore provides Grounds Maintenance Services to 3 schools in total.
- *Building Cleaning:* HJS provides building cleaning services to 3 schools in Herefordshire: Lugwardine, Pencombe and the Priory Pupil Referral Unit. (Herefordshire Commercial Services had provided services to 25 schools.)

HJS was on Worcestershire County Council's approved select list for Building Cleaning and was trying to bid to carry out grounds maintenance work. There was some £5 million of business available from Worcestershire schools of which HJS currently held £600,000.

7.10 The Group found clear evidence that the assumptions underpinning the Business Plan had been optimistic and ill founded. It is clear that HJS had expected that the Council would have been able to do more to assist HJS in winning work at schools, in particular building cleaning. It was of concern to the Group that this was a fundamental misunderstanding of the Council's relationship with schools. HJS did not seem to recognise that schools were financially independent as well as being independent in spirit. It was worrying that HJS still seemed to believe even now that the position in this regard could somehow be reversed.

7.11 The Group has not been convinced that the HJS business is being driven forward and that assumptions of growth will materialise.

## **Recommendations**

**That HJS be encouraged to revisit its business planning process.**

**That action should be taken to ensure compliance with the provisions of the Shareholders agreement.**

**That the Council's Observers on the Board should take a more proactive role.**

**That monitoring reports should be presented to the Corporate Management Board and to Cabinet by the Council's observers on a quarterly basis.**

## **8. The 8% Management Charge**

8.1 Under the contract there is a management agreement between the joint venture company and Prismo, the sponsoring Jarvis company. This agreement sets out the basis on which Prismo Limited will provide managerial support to the Company (Herefordshire Jarvis Services Limited) and the

corresponding levels of payment that it will receive. There is an 8% fee each year, which is calculated as 8% of the amount invoiced to the Council under the Service Delivery Agreement. This means that external work is exempt from this fee, a point the Group believes should be reinforced to HJS.

- 8.2 Based on the turnover in 2004/05, this fee comes to approximately £1.4 million. The Review Group sought to establish what the Council receives in return for this sum and whether the HJS business could sustain such a charge.
- 8.3 HJS said that this fee was payment for the overhead costs of Jarvis PLC Head Office in York for providing the following services: payroll, IT, procurement, Human Resources, Training, Insurance, and legal services.
- 8.4 This sum significantly exceeds the amount for Central Council Services previously provided to Herefordshire Commercial Services (Human Resources, Legal and Committee, Treasurer's and ICT), which came to £283,000. The fact that the recharge is set as a percentage of turnover suggests that it is not linked to the cost of central services provided by Jarvis PLC to HJS. In short, it is a simple flat percentage fee based on that part of the turnover of the Company that is related to the work undertaken for the Council under the Service Delivery Agreement.
- 8.5 In terms of HJS sustaining this charge the Group was informed that although this management fee was shown in the HJS accounts, no money had actually been taken out of the HJS business. The business was not earning enough to pay the charge. Laying the management fee on one side, HJS said that it was operating profitably with a profit of £200,000 to date and an expected year-end profit of £400,000. Profit was expected to be £1.2 million by the end of 2006/07 and £1.9 million the year after in line with plans. Within 2 years it was therefore expected that the business would be able to sustain the 8% recharge. The aim was to generate a profit of 10% within 5 years.
- 8.6 The Review Group was concerned that at some point Jarvis PLC would wish to recoup the 8% charge. It asked what the Company's intentions were and whether it would calculate that a debt had accumulated since the commencement of the contract or whether it would write all or part of this sum off. It was not clear how HJS would be able to repay an accumulated sum.
- 8.7 The Managing Director of Jarvis PLC Roads Division provided clarification as follows:

*"The position currently is as follows: It will be another year or two before HJS achieves sufficient profitability to routinely meet payments of the management charge. The growing liability from the previous years will, as you have suggested, build to a quite substantial level. It is not, however, Jarvis's intention to create a liquidity problem for HJS by demanding an immediate and one time payment of the outstanding charges. Jarvis would not seek to put the partnership into any threat of insolvency.*

*The Partnership's ability to service the 8% charge rests entirely with its ability to generate a profit and to be cash positive. Once that point has been reached in line with the business plan, Jarvis may well request that the arrears of the management charge are repaid in a form commensurate with the liquidity of HJS.*

*The likelihood in this instance is that the debt would need to be released before any dividend or profit share is payable to Herefordshire Council.*

*With regard to your question concerning Jarvis's inclination to impose an interest charge on the arrears of the management charge, I advise that this is not currently our intention and it is unlikely that we would seek to do so in the future."*

- 8.8 The Group was concerned about the solvency of HJS in these circumstances. It has been advised that there are two tests that are generally used to determine whether a company is insolvent. The tests are important, in that it is unlawful for a company to trade when insolvent. The first test is that, at common law, insolvency arises when a company is unable to meet its debts as they fall due. This could arise if the support of a parent company or overdraft facility was suddenly withdrawn or if a major creditor failed to discharge its own debts to the company, causing a financial crisis. The test was therefore a cash flow-based test. The second test was for an analysis of the balance sheet to be undertaken. Where assets were outstripped by liabilities, the company could be said to be insolvent. If a company was being supported (by overdraft facility or parent-company support) – it could very well have a net deficit on its balance sheet, but still be regarded as solvent and able to meet its debts as they fell due – albeit from borrowed working capital.
- 8.9 The Group considers that the position of HJS is unlikely to remain tenable unless steps are taken by Jarvis PLC to write off this accrued debt. It also considers that the Joint Venture Company has received little in return for this fee. Accordingly it considers that this matter should be discussed further with Jarvis PLC.
- 8.10 As the Group could find no evidence that the Joint Venture Company received value for money from this fee it further considers that the Council explore whether it is possible to ensure that future payments for management services are only made when evidence is received that these have been provided and that the payment therefore does represent value for money. A breakdown of costs of past services should be requested to inform this discussion.

### **Recommendations**

**That it be clearly understood that the 8% recharge relates only to that part of the turnover of the Company that is related to the work undertaken for the Council under the Service Delivery Agreement.**

**That the issue of the accruing HJS deficit needs to be addressed and firm representations should be made to Jarvis PLC to write this sum off.**

**That as the Group could find no evidence that the Joint Venture Company received value for money from this fee it further recommends that the Council explore whether it is possible to ensure that future payments for management services are only made when evidence is received that these have been provided and that the payment therefore does represent value for money. A breakdown of costs of past services should be requested to inform this discussion.**

## 9. The Contingency Plan

- 9.1 The Group has been assured by officers that service delivery would continue in the event of failure of HJS and has considered a document described to them as the Council's Contingency Plan.
- 9.2 This document was drawn up after Jarvis PLC indicated their wish to sell their majority shareholding in a number of subsidiary companies including Herefordshire Jarvis Service Limited. The Group considered that the document as submitted to them was unsatisfactory. Whilst it identified various scenarios it did not identify the detailed actions which would be required in the event that HJS was unable to continue to operate. It was also clear that further updating was also needed.
- 9.3 As part of the contingency planning the Group has also identified the need for systems to be in place to ensure that the services are being and continue to be delivered to the quality, cost and standard required.

### Recommendation

**That a robust updated contingency plan be prepared.**

## 10. Working Relationships

- 10.1 The Strategic Service Delivery Partnership Annual Report 2005 presented to Cabinet in July 2005 contained the following paragraph on new ways of working:
- "The level of success achieved by the Partnership is dependent upon how well the parties can work together to deliver service and overcome problems. The contracts establish all the required mechanisms to allow this to develop. Even so, success is not a given. Both Jarvis and Owen Williams were selected as modern flexible partners for a cultural fit with the organisation that the Council wishes to become. Council staff are still resistant to change and this issue presents a real risk to the Partnership's success, and has resulted in a number of operational difficulties to date."*
- 10.2 The Group did not find evidence that there were any particular difficulties in working relationships between Owen Williams and officers.
- 10.3 However, the Group was particularly concerned to find that there was an apparent breakdown in relations between elements of HJS and the Client Side Officers of the Council.
- 10.4 Earlier in this report the Group commented on the possibility that neither side had performed according to the other's expectations and that this had led to disillusionment. Each partner needs to refocus on the aims of the Partnership and seek to forge a common sense of purpose.
- 10.5 The importance of dealing with this issue is clearly reflected in the extract from the Annual Report. That was published in July 2005 but it is clear that it remains unresolved. This needs to be addressed promptly and progress closely monitored by Senior Management/Corporate Management Board.

- 10.6 The Group also felt that in relation to how the contract with HJS was working the perception of senior officers of the Authority was in some instances, and to varying degrees, different from that of middle ranking staff and in turn those below them. It also appeared that there were different levels of understanding of the contract and its provisions. This must be detrimental to the operation of the contract and needs to be addressed.

## **Recommendations**

**That emphasis be placed on the development of good, closer working relationships between HJS and client officers and progress closely monitored by Senior Management/the Corporate Management Board.**

**That the need for staff to be familiar with the detail of the Contract with HJS should be reinforced and appropriate training provided, with refresher sessions for trained staff at appropriate intervals and a clear formal induction programme for new staff.**

## **11. Operation of Owen Williams**

- 11.1 As mentioned earlier in this report the contract between Owen Williams and the Council is a typical contractual arrangement for the provision of technical consultancy services.
- 11.2 It replaced two sets of arrangements previously used to provide technical consultancy support to a number of service areas: a contract with a firm for engineering consultancy work and ad hoc tendering for other architectural and technical services.
- 11.3 The arrangements with Owen Williams provide that although the Council reserves the right to use others to deliver the services it does not carry out in-house the expectation is Owen Williams will be used and the expectation is also that other contractors would only be used following consultation and agreement with Owen Williams. Owen Williams is guaranteed a minimum annual budget of £500,000 which is subject to an inflation adjustment each year. If the Council does not provide that minimum budget then Owen Williams are entitled to compensation calculated on additional costs/losses attributable to the shortfall.
- 11.4 In terms of Property Services the work undertaken by Owen Williams is the work previously done on a competitive fee basis by local practices. The in-house staffing in Property Services is therefore unchanged. For capital works there are two Architects, one Technologist, one Quantity Surveyor and a Building Economist.
- 11.5 There is an in-house design resource in the Highways Maintenance Construction team with 10 members of staff involved. The work covered includes bridges (design, assessment and maintenance), highways structures, new road schemes, traffic calming, cycle and pedestrian improvements. Some additional work is undertaken throughout the service that has the potential to be carried out by consultants but tends to be less "design focused". In the traffic team there are another 10 members of staff involved in design and development of schemes. Work includes assessment, feasibility studies, consultation, detailed design, public & statutory consultation, implementation and monitoring of traffic/parking schemes.

- 11.6 In contrast to the arrangements with HJS the Group was advised that the expectations of both parties were by and large being met. Owen Williams was strong in some areas such as engineering and construction but had limited capacity in other areas such as public transport policy. However, Owen Williams had been open about this and had agreed to the Council going direct to other contractors for certain kinds of specialist work, for example in the case of a contract for traffic modelling. It was suggested that culturally the arrangement was very different to that with HJS. There were regular discussions and risks were identified at an earlier stage.
- 11.7 Some issues of concern were drawn to the Group's attention. These included some failures to complete jobs within the agreed timescale and issues over pricing and the need to ensure that quotes matched the end price.
- 11.8 There was also an issue in that only one architect was based at Hereford the rest being at Lewes (East Sussex), with some reluctance on their part to travel to project meetings.
- 11.9 The Group was also made aware in the context of education schemes that there had been a need to address the relationship between architect, council and Headteacher and the need for architects not to assume that they were in a position to instruct contractors. It had now been made clear to the Consultant that the Council would not pay for works which had not been processed in the agreed way and approved by the Council.
- 11.10 The Group also touched on the issue of retention of in-house capacity but reached no firm conclusion on this point. The Director of Environment explained that the principle was to retain sufficient in-house resource to ensure the Council could attract, develop and retain staff with the skills to carry out this type of work and provide a comparison with the private sector.
- 11.11 However, the picture overall presented to the Group was that Owen Williams had sought to develop a responsive local team that sought to provide a good service. If problems did occur Owen Williams were ready to seek a constructive solution. One example of improvement provided to the Group was the development of a standard model brief used for each scheme to be undertaken by Owen Williams. This enabled both parties to be clearer about the requirements associated with particular schemes and address the issue of quotations not matching outturns. In response to the agreed brief Owen Williams were required to produce a project quality plan setting out how they proposed to respond to the brief. This included a schedule of staff, the hours it was predicted they would spend on the project and the rate per hour.
- 11.12 The Group was also informed that there were some benefits of working with a large firm of consultants. Owen Williams had a design team comprising architects, mechanical engineers and quantity surveyors. This meant that they had one account manager for the whole scheme and the Council would have one person working with them. It was also suggested that the quality of the architecture was better. The Group was informed that in terms of the large Education Schemes which had been carried out the quality of design and service had been good. It was also suggested that a consultant was better placed to keep pace with the requirements of new Regulations and Good Environmental Management Practices. The transfer of risk from the Council to the Consultant was another benefit.
- 11.13 The Group therefore felt that on the whole the arrangements with Owen Williams were working much better than the previous arrangements.

However, there were some concerns about the level of fees charged, whilst noting that only a small number of schemes had so far been completed.

- 11.14 It was noted that whilst there were some benefits of working with a large firm there were higher overheads to be met. There was a view that if each job was tendered on the open market it might be possible to get a lower cost. However, this had to be balanced against the cost of the tendering process which the Council incurred and the costs of insurance. The Group obtained no conclusive evidence on this point.
- 11.15 The Group was assured in relation to the Owen Williams fee structure that work was charged on a time basis and that the work of each consultant was charged to the Council at the appropriate rate. It was noted that there was a “pain and gain” element to the agreement with any saving being shared and similarly any overspend. However, to date there had not as yet been any gain for the Council.
- 11.16 The Group also tested the proposition that whilst there were benefits in reducing the work associated with putting every job out to tender there could be a danger in the relationship with the consultant becoming too relaxed. No evidence was found to suggest that this was currently an issue.
- 11.17 The Group did however have a concern over the fee levels of Owen Williams and considered that this was one aspect of the arrangement that did require further investigation. It was noted that the fee rates had been achieved through a competitive process and comparisons of fee outturns for a variety of schemes. However, examples were quoted of payments for schemes, with fee levels ranging from 7% to 34% of the cost of a scheme. Whilst no evidence was presented to suggest that these fees were necessarily out of line with the industry rates the fee levels on some schemes were such that it still seemed to the Group that they would be worth further investigation, monitoring and examination. The Group was aware that a regional benchmarking exercise was underway and that this should inform the monitoring and evaluation process.

## **Recommendation**

**That the fee levels charged by Owen Williams require careful monitoring and examination with clear procedures in place to ensure fee levels are controlled.**

## **12. Operation of the Partnership as a whole**

- 12.1 The main area of overlap between the work of the three partners is in Highways work. This amounts to some £10 million of work and represents about 70% of the value of the contract with HJS. HJS has first refusal on Schemes under £200,000 in value and can tender for larger schemes.
- 12.2 The Partnership operates through a number of Boards and Working Groups. A Partnership Board (not to be confused with the Board of the Joint Venture Company) is in place comprising the Director of Environment, a Director of Jarvis PLC and a Director of Owen Williams Limited. This is reported to by a Partnership Project Management Team comprising the Project Manager from Herefordshire Council, the Project Director from Herefordshire Jarvis Services and the Contracts Manager for Owen Williams.
- 12.3 At an operational level a framework is in place for the co-location and establishment of Project Teams with “Early Contractor Involvement” and post

project reviews. This is designed to lead to better planning of works, commencement and completion of schemes on time and at agreed costs.

- 12.4 A Joined Up Programme (JUP) for highways and property schemes is in place. HJS expressed the view that arrangements between partners for planning work as part of this Programme were not yet as effective as originally intended but were improving.
- 12.5 Owen Williams felt that their relationship with HJS had improved over the life of the Contract. It was suggested that more could be achieved if there was more commitment from Jarvis PLC at a senior level, continuity having been a particular problem.
- 12.6 There was evidence from HJS that it was not consistently being given the opportunity to be involved in the design of schemes at an early stage. It considered that it had a lot to offer in achieving practical and cheaper solutions and was not being allowed to contribute as it could.
- 12.7 The Annual Report 2005 stated that, "the Joined Up Programme for 2005/06 was in place and although not currently operating to 100% effectiveness the improvements are a big step forward and it can be expected to improve each year."
- 12.8 The 2006/07 JUP has recently been developed through collaborative effort from a multidisciplinary team comprising representatives from the three partners. Finalised after a number of iterations, the 2006/07 joined up programme includes some £6.6m of expenditure with HJS and Owen Williams on highways and transportation programmed works and some £0.7m on property programmed works. The Programme is expected to facilitate the smooth planning and deployment of partnership resources through the year.
- 12.9 A number of those who presented evidence to the Committee commented on how co-location of Council Staff and the partners at the Thorn Offices had improved working arrangements, allowing a number of issues to be resolved quickly face to face.
- 12.10 The Group comments that there would appear to be considerable scope for improved efficiency as closer working relationships develop but this will not happen by accident.

## **Recommendation**

**That the Partnership Board renew its focus on developing the Partnership to maximise the potential benefits.**

### **13. The Name: Herefordshire Jarvis Services**

- 13.1 The Review Group considered the implications for HJS of the negative image of being associated with the Jarvis name.
- 13.2 In its initial meeting with representatives of HJS it was suggested to the Group that the problems experienced by Jarvis PLC had had an effect on HJS although this could not be quantified. However, the view was that the HJS brand was working and it was not thought that the Jarvis name would affect growth. Consideration had been given to changing the name but it was thought this might have appeared cynical. HJS was a brand which was considered to be steadily building credibility and was growing regionally.

13.3 At a subsequent meeting HJS said that the view expressed to the Group in October that the name would be retained was not necessarily a final one and could well be the subject of further discussion.

13.4 The Group considers that both the words Jarvis and Herefordshire might be unhelpful in seeking to secure external work and that there is nothing to suggest that this will not continue to be a problem.

### **Recommendation**

**That HJS should change its name and adopt a new name which does not include the words Jarvis or Herefordshire.**

### **14. Next Steps**

The Review Group would envisage that subject to the outcome of the consideration of the report by Cabinet that it would wish to review the progress made in response to its recommendations in six months time.

### **15. Recommendations**

- 1. That the scope for further improvements in the working practices of both HJS and the Council should be vigorously explored.**
- 2. That each partner needs to have a clearer understanding of what each can contribute to the Partnership to improve service delivery and consider what can be done to remove the barriers which are impeding progress, with the Council proactively seeking to draw on the expertise available from Jarvis PLC which HJS representatives have said is available.**
- 3. That HJS be encouraged to revisit its business planning process.**
- 4. That action should be taken to ensure compliance with the provisions of the Shareholders agreement.**
- 5. That the Council's Observers on the Board should take a more proactive role.**
- 6. That monitoring reports should be presented to the Corporate Management Board and to Cabinet by the Council's observers on a quarterly basis.**
- 7. That it be clearly understood that the 8% recharge relates only to that part of the turnover of the Company that is related to the work undertaken for the Council under the Service Delivery Agreement.**
- 8. That the issue of the accruing HJS deficit needs to be addressed and firm representations should be made to Jarvis PLC to write this sum off.**
- 9. That as the Group could find no evidence that the Joint Venture Company received value for money from this fee it further recommends that the Council explore whether it is possible to ensure that future payments for management services are only made when evidence is received that these have been provided and that the payment therefore does represent value for money. A breakdown of costs of past services should be requested to inform this discussion.**
- 10. That a robust updated contingency plan be prepared.**

- 11. That emphasis be placed on the development of good, closer working relationships between HJS and client officers and progress closely monitored by Senior Management/the Corporate Management Board.**
- 12. That the need for staff to be familiar with the detail of the Contract with HJS should be reinforced and appropriate training provided, with refresher sessions for trained staff at appropriate intervals and a clear formal induction programme for new staff.**
- 13. That the fee levels charged by Owen Williams require careful monitoring and examination with clear procedures in place to ensure fee levels are controlled.**
- 14. That the Partnership Board renew its focus on developing the Partnership to maximise the potential benefits.**
- 15. That HJS should change its name and adopt a new name which does not include the words Jarvis or Herefordshire.**



**THE STRATEGIC SERVICE DELIVERY PARTNERSHIP REVIEW  
SCOPING STATEMENT & TERMS OF REFERENCE**

**1. TERMS OF REFERENCE**

- To review the Strategic Service Delivery Partnership between Herefordshire Jarvis Services, Owen Williams Limited and Herefordshire Council.
- To review the nine high level Aims and Objectives contained in the Service Delivery Agreement
- To review the “Value for Money” aspect of the Partnership.

**2. DESIRED OUTCOMES**

- To establish that the aims and objectives contained in the Service Delivery Agreement are being met
- To establish that the Council is getting value for money
- To establish that the Partnership is meeting the priorities of the Council’s Corporate Plan

**3. KEY QUESTIONS**

- Consider the method of measurement of the Aims and Objectives
- Consider the method of measurement of value for money
- Consider the ability of the Partnership to meet the aims of the Council’s Corporate Plan
- Review the successes of the Partnership

**THE STRATEGIC SERVICE DELIVERY PARTNERSHIP REVIEW  
LIST OF DOCUMENTATION CONSIDERED BY THE REVIEW GROUP**

<b>Ref.</b>	<b>Title/Subject</b>
1	Introductory presentation on the Strategic Service Delivery Partnership
2	Briefing paper on the HJS Shareholders Agreement
3	Briefing paper on Legal Framework for the Herefordshire Jarvis Joint Venture
4	Briefing paper on the Owen Williams contract
5	Report to Cabinet on 14 July 2005: The Herefordshire Strategic Service Delivery Partnership Annual Report 2005
6	Slides from presentation by Owen Williams Limited to the Review Group
7	Summary of required content for Owen Williams project briefs for schemes
8	Note submitted by G Salmon – comments on the Strategic Service Delivery Partnerships
9	Note on the financial issues in relation to the Council's contract with Herefordshire Jarvis Services
10	Briefing Note by Herefordshire Council Legal Practice Manager on share allocation
11	Explanatory statement on Britain in Bloom involvement
12	Letter from Andrew Martin, Managing Director, Prismo Roads, concerning payment of Herefordshire Jarvis Services Management Charge
13	Contingency Plan – Herefordshire Jarvis Services Limited, report by County Secretary and Solicitor, as revised November 2005
14	Slide presentation of Herefordshire Jarvis Services Business Plan Update July 28 2003
15	Slide presentation of Herefordshire Jarvis Services Revised Business Plan January 26 2004
16	A review of Owen Williams consultants fees, report by Director of Environment

**APPENDIX III**

**THE STRATEGIC SERVICE DELIVERY PARTNERSHIP REVIEW  
LIST OF INTERVIEWEES AND INTERVIEW SCHEDULE**

<b>Name(s)</b>	<b>Position (s)</b>	<b>Date/time of interview</b>
Andrew Martin Mike Williams Mark Thomas Peter Marrs Andrew Lake	Managing Director, Prismo Roads Project Director, Herefordshire Jarvis Services (HJS) Operations Manager Highways, HJS Operations Manager Facilities Management, HJS Commercial Manager, HJS	Thursday 20 October 2005, 9.30 am
Dennis Hill Alan Rimmer	Divisional Director, Owen Williams Limited Contract Manager, Owen Williams Limited	Thursday 27 October 2005, 10.25 am
Councillor R J Phillips	Leader of the Council, Herefordshire Council	Thursday 27 October 2005, 11.40 am
Antony Featherstone	Parks, Countryside and Leisure Development Manager, Herefordshire Council	Thursday 3 November 2005, 10.00 am
Richard Ball Peter Evans	Transportation Manager, Herefordshire Council Area Services Manager (Highways and Transportation), Herefordshire Council	Thursday 3 November 2005, 11.05 am
James Farrell	Client Manager, Building Cleaning, Catering and Grounds, Property Services, Herefordshire Council	Thursday 10 November 2005, 10.50 am
George Salmon	Head of Policy and Resources, Education, Herefordshire Council	Thursday 10 November 2005, 11.20 am
Stephen Oates	Head of Highways and Transportation, Herefordshire Council	Thursday 17 November 2005, 10.30 am
Colin Birks	Property Services Manager, Herefordshire Council	Thursday 17 November 2005, 11.25 am
Mike Williams Mark Thomas Peter Marrs Andrew Lake	Project Director, HJS Operations Manager Highways, HJS Operations Manager Facilities Management, HJS Commercial Manager, HJS	Thursday 1 December 2005, 10.00 am

### **BACKGROUND ON HEREFORDSHIRE COMMERCIAL SERVICES POSITION PRIOR TO TRANSFER AND THE PROCESS FOLLOWED**

The report to Cabinet in July 2002 recommending externalisation of Herefordshire Commercial Services (HCS) described the increasing financial pressures facing that organisation. The proposed large scale housing stock transfer was the single largest pressure on HCS with 25% of turnover associated with housing work. Agreement that that proportion of HCS involved in housing work would be transferred to the new housing company made the continued viability of HCS increasingly uncertain.

A number of options to structure an externalisation were considered:

- Setting up a corporate entity owned by the Council which was then sold to the private sector;
- A trade sale of the businesses as a going concern;
- A joint venture such as a privately influenced company;
- Contracting out the service, whereby the successful bidder for the service took transfer of the staff and other assets comprising the “undertaking” (a TUPE transfer).

Different legal considerations applied to each of these cases. The two options which were seriously considered by the officer project board established to review the matter involved either a formal partnership in the form of a joint venture or a contracting-out of the service to one successful bidder (or consortium of bidders).

It was reported that the joint venture company route was of particular benefit where the venture would require funding, assets and resources from the partners to the venture as opposed to central Government funding. Many of the services under consideration in relation to the proposed externalisation would involve the need for new funding to allow the services to improve in line with public expectation. The legislation which empowered this option had been designed to encourage local authorities to ensure that such companies were structured to be private sector led and to ensure that the risk of such ventures lies with the private sector and there was no recourse to the public sector if the venture turned out not to be commercially viable.

The other option would be to seek a partner to whom the services would be contracted out. The advantage of seeking a partner rather than enter a simple contract was to ensure that services were provided to the best of the abilities of both parties. The complex nature of the services provided made it difficult to write a simple contract which would not fall prey to “loop hole” exploitation if circumstances changed over time.

The joint venture company also had the attraction of allowing the Council to be involved in the future running of the company by the appointment of directors. Additionally, the Council could control certain aspects of the company’s operation by the means of a golden share.

Cabinet agreed to advertise for an external provider or partner to enter into either a joint venture company or to contract out the service with HCS being externalised.

Alternative Options considered and none of which was recommended were as follows:

#### **Alternative Option 1**

Retain HCS and resize. This was only viable if HCS could maintain a critical mass of contracts which would provide sufficient investment to fund capital purchases. 98% of its turnover was from work derived from the Council. Each time a contract was lost the pressure of overhead costs increased on the remaining contracts until the whole financial viability was challenged. HCS had been reviewing practices and staffing provisions but with a restriction in its ability to seek work outside the government arena the organisation would simply contract until it was too small and would simply cease to exist.

#### **Alternative Option 2**

Absorb HCS into the client Directorates. There was little scope to split HCS and allocate staff to each client section. This would restrict flexibility and the ability to manage the desegregated staff would vary across the services.

#### **Alternative Option 3**

There was no interest shown by the management to buy HCS. In the financial situation this position was unlikely to change.

#### **Alternative Option 4**

Externalise HCS with its current contracts. The financial position of HCS was such that there was likely to be little or no interest in a simple externalisation. The financial position of HCS was clear and without long term contracts or the guarantee of work in the future no value existed in HCS. It was possible to market test this option.

#### **Alternative Option 5**

Restructure HCS to remain in house and form a partnership with existing external providers. HCS had already established a partnership arrangement of this sort with Ringway. Although providing benefits, it did not address the underlying investment problems and the overall benefits would not sufficiently overcome the problems facing HCS. HCS could enter a partnership with one or more other local authorities. Here again, there might have been some broad advantages but the selection of a partner was problematic. The majority of surrounding authorities had externalised. In order to secure the long term future of HCS the selection of a single partner was critical but the geographic problems of Herefordshire limited this option.

Having decided to externalise Herefordshire Commercial Services given this position a process for the procurement of contract services was followed involving four stages to ensure that the Council complied with EU procurement rules and best value legislation:

#### **Stage 1 – Invitation to tender**

28 companies responded to the invitation to tender. Their submissions were measured against the selection criteria. 10 companies proceeded to Stage 2.

#### **Stage 2 – Pricing**

A limited pricing exercise was undertaken to:

- Determine whether there was a financial advantage to the Council by letting separate contracts for some activities

- Establish a baseline for detailed cost negotiations in Stage 4

The prices showed that there was a financial advantage in putting all the services into a single package. Six companies proceeded to stage 3, with Jarvis quoting the lowest price followed by Accord.

### **Stage 3 – Culture and Quality Assessment**

This was a key stage in the process designed to ensure a “fit” with the Council. Each company was assessed against the following criteria:

- History and background
- Leadership and people management
- Partnership working
- Service delivery
- Performance management
- Quality assurance

Staff undertaking the assessments were drawn from Herefordshire Commercial Services and client staff from Environment and Policy and Community Directorates. The consensus scores placed Jarvis first followed by Accord.

### **Stage 4 – Negotiations**

As reported to Cabinet on 10 April 2003, negotiations were authorised to commence for the externalisation of Herefordshire Commercial Services (HCS) with Jarvis PLC as preferred bidder and Accord PLC as reserve. The desired outcome was a joint venture between the Council and Jarvis, which contracted to provide services to the Council and other organisations. Essential elements of the contract were targeted cost reductions and quality improvements over time. The contract was to be for ten years with the option to extend.

(The Group was advised during the Review that the projected annual deficit for Herefordshire Contract Services assessed prior to the transfer to Herefordshire Jarvis Services was £600,000. This was an annual projected deficit and was not a one-off sum. It was also advised that client officers had been reluctant to give work to HCS.)

### Strategic Partnerships between Herefordshire Council, Prismo Ltd (Jarvis plc), Owen Williams Limited

