Cheshire East Council

Executive Summary for the review of Business Cases for Alternative Service Delivery Vehicles – Leisure, Environmental & Bereavement Services

Executive Summary
23 January 2014

Executive summary

Introduction

- As part of the wider vision and move towards a more "commissioned based" approach, the Council's strategic objective is to improve service delivery in a way which puts the residents of Cheshire East first. To this end the Council is seeking to establish a series of Alternative Service Delivery Vehicles (ASDVs) with the aim of facilitating a more entrepreneurial culture and the ability to trade across a wider range of activities in the longer term.

- We recognise that a great deal of work has already been undertaken by the Council in order to progress the Business Cases and that project management arrangements have been put in place across all three service areas to deal with the detailed Business Planning phase. (Detailed review of the business planning stage and supporting project plans is outside the scope of this business case review.)

- Whilst a significant amount of work is ongoing to be delivered as part of the Business Planning stage, we recognise that in respect of many of the actions highlighted in our report, the Council is aware of these and detailed project plans have been or are in the process of being prepared to incorporate these areas.

Strategic case

- We have reviewed the strategic case for establishing the three ASDVs and acknowledge the Council's rationale for establishing each ASDV in the three specific service areas.

- We have not challenged the options appraisal as to the types of company which are being created as this was not part of our scope of work. We recognise, however, that the creation of a Leisure (Charitable) Trust Company and Local Authority Trading Companies (LATCs) are both well tried and tested routes as ASDVs.

- The Council recognises that a significant amount of work needs to be done to produce the management agreements (or "service contracts) between the Council and the ASDVs and we understand plans are in place to achieve this. In our view the amount of effort required to achieve this should not be under estimated and additional priority and resource needs to be given to this at the Business Planning Stage.

Financial case

- Our review does not constitute an audit, however we have reviewed the financial models in respect of the three service areas and overall we are satisfied that the underpinning key financial assumptions documented are reasonable and prudent based on similar business cases reviewed elsewhere. To increase the robustness of these models, we recommend that further work needs to be undertaken in support of the income proposals (e.g. bereavement and trade waste) and this is acknowledged by the Council.

- The financial benefits of establishing the Leisure Trust in terms of business rates and VAT have been reviewed and we estimate there is a net benefit but that further work is required at the detailed Business Planning stage to clarify the VAT liability on corporate support and premises costs. There is an indirect benefit to the Council of establishing the Environmental Services LATC in that it will increase the value of the Council's partial exemption limit for VAT purposes.

- The business case for change has been made and to build on the work done to date the Council needs to progress with its plans to produce detailed business plans for the three vehicles and we recommend that these cover the following areas:

- The Council needs to create projected balance sheets and cashflow statements for each of the new companies as part of the Business Planning stage. The Council should also determine its position on cashflow arrangements with the three ASDVs.

- More detailed customer and market analysis is required for potential new services that the new entities may in the future get involved in, this is especially relevant for the Bereavement and Environmental Services Business Cases in the medium term. This should be backed up by a detailed sensitivity analysis to "stress test" the likely scenarios.

- The cost of any new senior management posts needs to be factored into the detailed Business Plans at the next stage.

- Alongside the development of detailed Business Plans the Council needs to:
  - put in place arrangements to monitor the new companies against the current 10% limit set for additional income as part of the Teckal exemption;
  - consider the corporate support services projections. Experience elsewhere suggests that the cost of corporate support services may increase in the short term at both the Business Planning and implementation stages, and may extend into the first year(s) of operation. The Council recognises the need to develop a clear strategy for dealing with any cost pressures in certain areas and in our experience savings in other areas could help to mitigate or minimise this risk. Arrangements could be put in place to mitigate any increase in costs, for example ASDVs could continue with the existing arrangements and seek to purchase Finance and HR support from the Council;
  - further consider the information received from actuaries on the potential increases or decreases in contributions to the Council's pension scheme for the new entities. This needs to be built into the financial projections at the Business Planning stage; and
  - ensure the proposed split of landlord / tenant responsibilities and the associated liability are reviewed in order to ensure an optimal VAT position is achieved for the Council and Leisure Trust.

Project management and assurance

- An implementation date of 1st April 2014 is ambitious and given the proposal is to establish an independent Charitable (Leisure) Trust as one of the three ASDVs. we would suggest that the Business Plan for Leisure should be given more of a priority if the Council is to achieve this timetable.

- The successful delivery of the implementation plans will require the full and active engagement of all relevant disciplines (e.g. property and facilities management). We would also suggest that specialist internal audit resource is brought in to carry out a review role at the Business Planning stage to ensure appropriate actions are being taken to mitigate, minimise and manage risk appropriately. This should include the ongoing assurance requirements of both the council and the ASDVs post go-live as well as the specific project risks. The work planned to produce management agreement(s) (or "service contracts") needs to be prioritised to ensure the agreements reflect the priorities of the Council. We understand heads of terms for the management agreement(s) (or "service contracts") are in the process of being drafted. We would advise that this should include the need to determine a commercial position on risk and income sharing.

- We would advise the Council review the proposal to offer 25 year contract terms to the ASDVs. Whilst we understand the rationale for a 25 year lease for the Leisure Trust in order to satisfy the Charity Commission and attract future external funding (e.g. National Lottery) we see no real benefit of offering 25 year contracts (and typically see contracts of no longer than 10 years being put in place), and provided service performance was deemed satisfactory then we understand the Council could offer contract extensions and/or subject to further legal advice the Council could seek to rely on the "Teckal" exemption again in the future.

- The client side (Council) arrangements and management structures for the new ASDVs also need to be agreed and documented as part of the Business Plans.

- In our experience an accepted route for seeking Cabinet approval is to make available to all members copies of the Business Cases prior to the Cabinet meeting. The officers could then present an overall management paper to the Cabinet which summarises the Business Case, proposals and our findings.

Conclusion

The Council has made good progress in support of the feasibility work to establish the three ASDVs. The scale of the task to achieve the implementation date of 1 April 2014 will be a challenge, and the Council will need to give additional priority to both the management agreements and specifically to Leisure Services at the next Business Planning stage.