Alternative Service Delivery Vehicles for Transport Services

An Options Appraisal

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1. Background

At the meeting of Cheshire East Council on 4 February 2013, full Council agreed the adoption of a revised operating model for service delivery. The council is moving toward becoming a strategic commissioning organisation, where a small core of commissioners identify and prioritise local needs, develop the outcomes that local people require, and then commission the services that will best deliver those outcomes.

Cheshire East Transport is the council's integrated transport service. It is currently responsible for ensuring the council meets its statutory obligations in respect of passenger transport, as well as a variety of additional transport and travel related functions. Substantial change has taken place since the ending of the previous Shared Service arrangement in 2011. There is a clear case for further change if the travel and transport needs of local residents and businesses are to continue to be met in an era of declining resources.

This report explores the alternative delivery vehicles that would support such change in line with the Council's aim of becoming a commissioning organisation

2. The Appraisal Process

This report summarises the output from a programme of meetings with Senior Management and staff of the Transport service followed by detailed discussions at the Environment and Prosperity Policy Development Group

The discussions focussed on the range of alternative delivery vehicles that council services could seek to adopt. Broadly, these fall into the following types of organisational model:

Charitable models
A "trust" type model, - registered charity or Industrial and Provident Society,

Social enterprise models
Community interest company / service user co-operative

Traditional outsourcing
Contracted service or joint venture

Staff mutual
Worker cooperative or staff mutually-owned company

Wholly-owned company
Company limited by shares or guarantee, owned by council

The varying models each have strengths and weaknesses. Also, what may suit one service area's needs may not suit another's. For example, the charitable trust model utilised for Leisure services will derive significant financial benefits from rate relief on buildings; something which has very little relevance to Cheshire East Transport as it controls few buildings.

The analysis at Appendix A illustrates the level of benefits from each the individual models against a number of factors critical to both the Council and future service delivery

Further consideration of the factors used allows the following conclusions to be drawn:

- **Member control / decision making**

Transport is a highly policy led area (as opposed to a transactional type service) and the individual decisions made by officers have a very high impact publically and politically. The options that place substantial decision making power in the hands of other organisations are therefore considered to be unattractive. Even with a carefully constructed contract – with appropriate high level decision making over public transport routes, home to school entitlements etc – there would still be a substantial democratic deficit. Put simply – members would be unable to ensure their views and the needs of residents are at the forefront of decision making

For this reason, it is recommended that the two options of a charity and outsourcing the service are ruled out.

Conversely, the retention of the service as a directly managed council service would retain greatest member control. The WOC option would – through an appropriate member oversight committee – ensure that the decisions are made with member control.

- **Financial / service benefits**

From the council's perspective, the desired outcome is to achieve the best possible service, whilst at the same time achieve cost reductions to contribute to corporate cost targets.

The greatest reduction of cost is likely to result from an outsourced model. However, the cost reduction would have to be shared with shareholders as profit on the contract. This is likely to negate the savings – or, alternatively, give a powerful incentive to the outsourced company to make even deeper cuts in service or radically change the arrangements for home to school transport.

Some of the models – such as a social enterprise – may have no real incentive to lower costs, and would therefore be little different to current council-operated services.

- **Ability to attract additional funding**

There are grant awarding organisations that may be prepared to consider funding some of the models but not others. For example, the charity model is generally considered to be able to access grants that are not available to councils or private sector providers. Unlike services that utilise a large number of buildings – where the government part funds business rate relief for charities - transport does not have a significant portfolio of buildings. In addition, it is unlikely that substantial additional trading opportunities exist, so there is little to choose between the various models on the basis of extra trading income.

- **Ability to take on additional CEC services**

For a charity or outsourced model, there would be a requirement to undertake a formal tender process should the council wish to transfer additional services. Conversely, it is relatively straightforward for internal council service and Teckal-compliant WOC to absorb additional services.

- **Ability to take on additional other local authority services**

There is a clear desire from central government for councils to co-manage service delivery wherever this makes good financial sense. Whilst transport - by its very nature – has to be managed and monitored locally, there are many functions that can be shared. For example, transactional services such as issuing bus passes, paying contractors, managing information provision etc can be shared and the overhead costs significantly reduced. In addition, the ability to share management costs (especially in areas such as legal, procurement, finance, ICT etc) is clearly attractive.

For this reason, the WOC model is considered the best fit as it allows for sharing with other councils, without introducing layers of bureaucracy from a council-provided shared service approach. It may allow for job preservation / creation in Cheshire East, as well as access to expertise from other council areas.

- **Change of culture / commercial focus**

Whilst an outsourced service is likely to be the most commercial in outlook, it is unlikely the council will receive the benefits as the private company would need to make a net profit of around 6% or more. It is difficult to estimate what this means in practice, but clearly the additional benefit of the commercial focus would be lost through shareholder rewards.

Whilst Cheshire East Transport has become more commercial in focus in recent times it is forced to operate within existing Council rules and restriction. However, the freedom afforded by a WOC, but with the benefits remaining within the control of the council, is attractive.

- **Additional costs**

There are additional costs – migration, additional administration and statutory requirements etc – for any of the “non-council” models. However, these are not considered too excessive and are likely to be similar for each of the non-council models.

- **Ease of transition**

Any substantial service change implies risk – to service delivery, council responsibilities, financial risks etc. However, in the case of the transport service, it would be of benefit to the council to mandate that transport delivery in any other model would be at least of equivalent standard, for the same or lower cost, for the foreseeable future. For this reason, the service delivery risks would be passed to the new delivery vehicle, and the council would be assured that the vehicle would only be paid when the cost and quality targets were achieved. Hence, the risk to the council is neutralised, and only positive “upside” risks would remain.

- **Staff engagement**

A substantial amount of staff engagement has taken place as part of the options review. The overwhelming view of staff is that the wholly owned company model is preferred, over all other options, including remaining as a council service. Members will need to take into account the substantial boost to motivation, morale and performance that would likely result if staff achieve their desired outcome.

- **Council reputation management**

Transport is by its very nature an inherently risky undertaking. More people are killed or seriously injured at work through transport activity than any other, including trips and falls. Transport of vulnerable passengers is even more inherently risky. It is therefore clear that any service delivery vehicle that can improve safety management is to be preferred. The Council’s understandable current focus on cost efficiency makes it difficult to maintain the balance between safety and expediency in service delivery

Private companies, on the other hand, accord safety the priority it deserves since their trading reputation relies on ongoing good reputation in this area. For this reason, the WOC / outsourced models perform better. In addition, should any adverse incidents occur, the company would shoulder responsibility, protecting the council’s reputation and legal position.

- **Innovation**

Councils have changed significantly in recent years. Nevertheless, their ability to innovate is hindered by lack of capacity and lack of management incentive, Therefore, external models are to be preferred, and in particular the outsourcing, charity and WOC model

- **Council strategic fit**

Finally, it is important to note that the desire of council is for service delivery to migrate to external delivery vehicles wherever possible. The analysis herein demonstrates that there is a clear rationale for migration to a WOC, even if the council had not already expressed an intention to migrate most service provision.

Conclusion

For all the reasons detailed above the recommendation of this appraisal is that Transport Services should be delivered by a wholly owned company limited by shares

APPENDIX A

	Charity / IPS	Social enterprise	Outsourcing	Staff mutual	Council wholly-owned company	Internal council service
Member control / decision making	Low benefit - Members lose control to Board of Trustees	Moderate benefit - Members can influence but not control	Low benefit - Members lose control to private company	Moderate benefit - Members lose control to staff	High benefit - Members control, but day-to-day decisions ceded	High benefit - Members retain full control
Financial / service benefit	Moderate benefit – potential savings reinvested in provision	Low benefit – no incentive to make significant savings	Low benefit – highest potential to make savings, but return on capital / profit will absorb	Moderate benefit – incentive to make savings (shared with staff)	High benefit – many of the benefits of outsourcing, but council retains benefit	Low benefit – no incentive to make significant savings
Ability to seek additional sources of funding e.g. grants	High benefit – easier to tap into other charitable funds / grants	High benefit – easier to tap into other charitable funds / grants	Low benefit – unlikely to be any more successful than council	Moderate benefit – may be easier to access central government grants	Low benefit – unlikely to be any more successful than council	Low benefit – being a council reduces links to charitable sector
Ability to take on other CEC functions / internal economy of scale	Low benefit – charity constitution would have to be amended	Low benefit – has to generate a surplus to make it worthwhile	Moderate benefit – contract can stipulate additional required services	Moderate benefit – staff would have final say on aggregation of other services; able to share overheads	High benefit – able to share overheads, management costs etc	Low benefit – no significant economy of scale; no opportunity to reduce overheads
Ability to take on other LA	Low benefit -	Moderate benefit –	Low benefit –	Moderate benefit – staff	High benefit – able to	Low benefit

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functions / external economy of scale	charity constitution would have to be amended	could offer services to other councils	contractor would secure any efficiencies from joint management	would have final say on aggregation of other services; able to share overheads	share overheads, management costs etc; however, external political sensitivities	
Commerciality / change of culture	Moderate benefit – charity ethos would lead to better value for money	Low benefit – unlikely to lead to substantial culture change	High benefit – most likely to be commercially aware; but benefits accrue to contractor	Moderate benefit – freedom to innovate and be commercial, but retain public sector ethos	Moderate benefit – freedom to innovate and be commercial, but retain public sector ethos	Low benefit – current culture (esp. of support services) hinders culture change
Sharing of risk / reward	Moderate benefit – charity risk-taking constrained	Low benefit – unlikely to wish to take risks	High benefit – but needs highly detailed contract if split is to be equitable	Low benefit – staff unlikely to take substantial risk unless very high reward	Moderate benefit – council can take additional risk and also takes full reward; mainly upside risk not downside	Low benefit – council service, not disposed to risk taking so no rewards available
Overhead reduction – savings to CEC from overhead / central service costs	High benefit – charity able to decide own needs	Moderate benefit	High benefit – but without TUPE transfer, overheads fall on remaining council services	Moderate benefit	High benefit – but without TUPE transfer, overheads fall on remaining council services	Low benefit
Additional cost	Low benefit – constraints	Moderate benefit – likely to be	Low benefit – no direct additional	Moderate benefit – likely to be relatively	Moderate benefit – likely to be relatively	High benefit

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	imposed by charitable status	relatively cost effective	costs from outsourcing, but contractor profit level of 6-8%	cost effective	cost effective	
Ease of transition	Low benefit – likely to be protracted, TUPE issues etc	Moderate benefit – may require additional expertise but not a procurement	Low benefit – likely to be most protracted, procurement, TUPE issues etc	Moderate benefit – could commence as Teckal (no procurement) and then migrate further	High benefit – Teckal would apply and staff secondment / TUPE	N/A
Staff engagement	Moderate benefit	Moderate benefit	Low benefit – least preferred option	Moderate benefit	High benefit – most preferred option	Low benefit
Council reputational management	Moderate benefit – arms length	Moderate benefit – arms length	High benefit – contractor assumes all adverse risk	Moderate benefit – arms length but staff potentially viewed as council staff	Moderate benefit – arms length but staff potentially viewed as council staff	Low benefit – council retains all reputational and legal risk
Ease of innovation	High benefit – charity sector able to easily pursue as not under council control, but risk to council	Moderate benefit – social enterprises would have to consult staff and users over new methods	High benefit –sector able to easily pursue as not under council control, but risk to council	Moderate benefit – benefits to company if staff agree	Moderate benefit – WOC not completely free to innovate as still technically public body	Low benefit – current culture is risk averse so innovation is stifled

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Strategic fit with overall council strategy	High benefit	High benefit	High benefit	High benefit	High benefit	Low benefit