

# CHESHIRE EAST COUNCIL

## Cabinet

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**Date of Meeting:** 11<sup>th</sup> November 2014

**Report of:** Lorraine Butcher, Executive Director of Strategic Commissioning

**Subject/Title:** Transport Service Solutions Ltd (Ref CE 14/15-30)

**Portfolio Holder:** Cllr D Topping, Service Commissioning

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### 1.0 Report Summary

- 1.1 Cheshire East Council has over the preceding 5 years been successful in securing improved transport provision for residents in the Borough while simultaneously securing better value from the financial investments made. These improvements have been secured by having a stronger focus upon the needs of residents while also bringing a strengthened approach to the contractual arrangements with providers. In order to build upon these strong foundations and with a focus on stimulating further innovation, efficiency and staff involvement whilst delivering against challenging budgetary targets Cabinet approved (29 April 2014) the implementation of Transport Service Solutions Ltd (TSSL), a council owned and controlled company, for the delivery of transport services.
- 1.2 That proposal was in accord with the Council's declared intent of becoming a strategic commissioning authority with a hard split between commissioning and service delivery.
- 1.3 Since the original approval was secured, further 'due diligence' work has been undertaken, along with the detailed work regarding the Contract between the Council and TSS Ltd. This work required the 'go live' date for staff to transfer to the new company to be paused.
- 1.4 Notwithstanding this development, new governance arrangements are being put in place through a Service Level Agreement with TSS Ltd which encourages the management team and staff to adopt the commercial culture that will support the company's ambitions. This interim arrangement will continue until the proposed revised go-live date of 1 Jan 2015.
- 1.5 The work that has subsequently been undertaken has resulted in some changes to the business case that had previously been approved. This report seeks approval to establish a contract between Cheshire East Council and TSS Ltd for the delivery of its transport functions as identified in the previous Cabinet report (29<sup>th</sup> April 2014), based upon the revised financial detail contained in section 11 below.

## **2.0 Recommendations**

- 2.1 Consider the revised financial detail set out in section 11, including the income targets from year 3 onwards.
- 2.2 Reconfirm the earlier decision to establish the company.
- 2.3 Approve, through a contract, the transfer of Council transport services business to the TSSL company on 1 January 2015.
- 2.4 Give any necessary delegated authority to the Executive Director of Strategic Commissioning, the Head of Local Communities, the Head of Legal Services and the Chief Operating Officer, in consultation with the Portfolio Holder for Environment to proceed with that implementation in accordance with the project plan. That plan includes negotiating appropriate contractual arrangements, arranging leases and central support services plus novating contracts where necessary.
- 2.5 To agree to the commencement of a formal consultation period with all the staff who might be affected by any proposed TUPE transfer.

## **3.0 Reasons for Recommendations**

- 3.1 The Council has recognised the need to change the way services are provided in the future in order to create opportunities for innovation and provide service efficiencies. As a result the Council has determined to take a more strategic commissioning role.
- 3.2 The Council has developed a Three Year plan and the development of a new delivery model for transport services is identified as one of the major change projects within that plan: Priority 6; Redefining the Council's role in core place-based services; 6.1 Develop new delivery models; 6.1F Transport.
- 3.3 As part of the development of the service contract and the due diligence required by ODPM guidance the need to update and re-base the financial projections has been identified. This will ensure that the ongoing contractual relationship is robust and delivers against the Council's expectations and that the Council can properly demonstrate all relevant factors have been considered when taking the decision to proceed.

## **4.0 Wards Affected**

- 4.1 All wards are affected.

## **5.0 Local Ward Members**

- 5.1 All local Ward Members.

## **6.0 Policy Implications**

6.1 The project is identified in the Councils Three Year plan as part of the major change programme to re-define the council's role in the commissioning and delivery of services.

## **7.0 Financial Implications**

7.1 The revised financial projections are shown in detail in section 11 and demonstrate that the company will deliver a net surplus of £1.8M over the first five years of operation.

## **8.0 Legal Implications**

8.1 The Council must adhere to good practice principles and ODPM guidance when assessing the business case for proposed transfers to an alternative delivery vehicle. Such considerations were part of the development of the original proposals. They included:

- Ensuring there is a good case for change and that the business case states whether any relevant parties have been consulted;
- Clarifying how the change will affect the accountability of the Council;
- Undertaking a thorough options appraisal to ensure the most cost-effective and efficient option is chosen;
- Identifying and managing the costs associated with the proposed reorganisation as accurately as possible;
- Identifying and realising the benefits of the proposed change;
- Ensuring the proposed change is well managed and delivered;
- Putting in place effective review arrangements to monitor whether the long-term objectives of the proposed change have been achieved.
- Identifying the scope of the company and its objects and the relationship with the Council;
- Identifying the Board of Directors and how their role is to be reconciled with any role within the Council, taking into account actual and perceived conflicts of interest and bias;
- Considering the necessary constitutional and administrative processes which the Council has and making any necessary amendments to these to ensure that the subsidiary can be used effectively and efficiently to improve service delivery;
- The effective drafting of the Memorandum and Articles of Association of the Company, to give the Council the necessary degree of control (e.g. the Council would approve any Business Plan (i.e. the overarching "envelope" of the Company's activities), scrutinise the Company's performance and Board activities (directing the Board where necessary to act or not act in a certain way) and exercise a veto at Board level on all or key, strategic decisions affecting the Company), without hampering the day-to-day operations of the Company or discretion of its Board so it retains agility and flexibility.

8.2 The due diligence exercised during the above processes has identified the changes proposed in this report and its submission therefore complies with that good practice. The deferral of the 'go-live' date ensures that there is sufficient time to follow due process in establishing the company.

## **9.0 Risk Management**

9.1 The risks within the ASDV programme are identified and managed at 3 levels: Project, Programme and Corporate.

9.2 The project risks for this company were detailed within the original business case and will be used as a living document; being revisited and updated and ultimately moving into the ownership of TSSL.

## **10.0 Background**

10.1 At the meeting of Cheshire East Council on 4<sup>th</sup> February 2013 it was agreed that the Council should proceed to becoming a strategic commissioning organisation where a small core of commissioners under the strategic direction of the Executive, identify and prioritise local needs, develop the outcomes that people require and then commission the services most appropriate to the delivery of those outcomes.

10.2 The basis of this decision was recognition that the landscape under which local public services are designed, purchased and delivered is changing rapidly under new Government policy and legislation. The establishment of Police and Crime Commissioners, the creation of Clinical Commissioning Groups for health and well being services, and the transfer of Directors of Public Health to become statutory officers of local authorities, all represent this strategic shift in how public services are secured and delivered. In order then to align public services locally, the Council is changing the way it operates to become a strategic commissioning body.

10.3 Since LGR significant progress has been made in transforming the model of transport delivery previously inherited, resulting in the formation of Cheshire East Transport Service and significant financial savings of approximately £6.6m. The service has implemented policy changes from both the Adults and Children's Services resulting in the following:

- Decommissioning of internally-provided adult social care transport
- Withdrawal of entitlement to home to school transport – faith education
- Reduction of entitlement to home to school transport – post 16 education

Additionally, further savings have been secured in the following areas:

- Reductions in supported public transport
- Reductions in associated support for public transport

We have now reached the point where it is difficult to deliver further contributions to the Council's challenging budget targets without the freedoms, flexibilities, greater entrepreneurship and business development options that an ASDV will allow

10.4 It is expected that there will be efficiency savings, business development and growth opportunities arising from having a trading arm with the potential to generate additional income. These will continue to be developed during the interim period prior to go-live and beyond. Delivery of these will be included in the company's business plan and monitored in accordance with the performance regime specified in the service contract.

## 11.0 Financial Detail

11.1 The services under consideration currently have a gross budget of £16,432,000 in the current financial year. This now incorporates all the savings identified in the Council's Medium Term Financial Strategy (MTFS).

2014/15 GROSS BUDGETS	TOTAL £K
Employees (including driver attendants and school crossing patrol staff)	1,504
Premises	55
Transport Fleet	128
Transport operated under contract / grant	10,555
Supplies & Services	621
Concessionary fares and other transport support	3,102
Net Expenditure	15,965
Support service recharges to service	467
Gross Expenditure	16,432

The figure in the original business case presented to Cabinet was a baseline budget £17,767,000. The main differences are the incorporation of the MTFS savings for 2014/15 of £460K (Home to School Transport), £300K (Concessionary Fares), £379k reduction in LSTF funded expenditure and a number of cross cutting savings related to staffing and procurement.

11.2 Close working between the Transport Team and Commissioning service managers has already identified savings of £469,000 in 2014/15 (part year effect). This work is planned to continue, ultimately delivering savings of over £1,000,000 per annum as reflected in the MTFS. Revised financial projections for the company are shown below delivering an operating surplus of £1,801,000 by the end of year 2018/19. This is less than the projection of £2,011,000 set out in the original business case.

	YEAR 1 CEC Apr-Dec	YEAR 1 TSS Jan-Mar	YEAR 2	YEAR 3	YEAR 4	YEAR 5	* TOTAL TSS only
	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	5 years
	£k	£k	£k	£k	£k	£k	£k
<b>Gross cost</b>	12,443	3,989	15,352	15,128	15,078	15,029	64,576
<b>Service income</b>	1,141	381	741	1,016	1,082	1,349	4,569
<b>Net Operating cost</b>	11,302	3,608	14,611	14,112	13,996	13,680	60,007
<b>Management Fee</b>	11,182	3,616	14,548	14,548	14,548	14,548	61,808
<b>Net profit/loss</b>	120	(8)	63	(436)	(552)	(868)	(1,801)
<b>Revised Management Fee</b>	0	3,616	14,611	14,485	14,548	14,548	
<b>Net cost</b>	120	(8)	0	(373)	(552)	(868)	(1,801)

*\*The 5 year Totals column excludes the figures allocated to CEC shown in italics in column 1 above*

11.3 The projected underlying trading position for 2015/16 will result in an anticipated deficit of £63k. This results from the removal of LSTF grant funding, which along with the one off project work it funded, also financed some core service costs. This cost has now fallen to the service budget and led to the small deficit in that year. The deficit will be financed, if necessary, through a temporary uplift in the 2015-16 management fee payable by the Council. This one off funding of £63k will be repaid by the company in 2016-17 and the projected surplus of £373k shown for 2016/17 reflects this. The projected Management Fee to be paid to the Transport Company reflects the existing MTFS policy options. As such it does not include any allowance for additional funding for any inflationary pressures in transport contracts.

11.4 The income variations shown above are due to the following factors in each year

- Year 2 – cessation of LSTF Funding (value £782k)
- Year 3 onwards – growth from new business as detailed in section 11.5

11.5 The original estimates for new business generation remain unchanged and are included in the table above. They arise from:

- Year 3 – Operating contracts with other local authorities (£200K), Contracts with local companies/educational establishments (£65K) and consultancy work (£9K)
- Year 4 – Operating contracts with other local authorities (£200K), Contracts with local companies/educational establishments (£130K) and consultancy

- work (£9K)
- Year 5 – Operating contracts with other local authorities (£400K), Contracts with local companies/educational establishments (£195K) and consultancy work (£9K)

TSSL's proposals to deliver these challenging targets from year three onwards are key elements of its first business plan which will need a clear focus on specific actions and initiatives to ensure its financial viability. At this stage these targets are not yet based on any detailed plans.

11.6 Transport for pupils with Special Educational Needs (SEN) will continue to be a pressure during 2014/15 but will be addressed by close working between the Transport service and Children's services in order to re-assess and robustly challenge the needs of individuals taking into account the long term goal of fostering independence and inclusivity.

## **12.0 Access to Information**

The original detailed business case and supporting documents can be found at: [Moderngov](#)

Other background papers relating to this report can be inspected by contacting the author:

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