

Business Case

PROJECT INITIATION DOCUMENTATION**DETAILED BUSINESS CASE**

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Programme Name	Environmental Operations	Portfolio Holder:	Cllr David Topping
Project Reference Allocated		Service:	Environmental Operations
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Date endorsed at Gate 1	January 2013	Major Change project number	6.4

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Executive Summary

Purpose: This document provides a detailed business case for setting up Ansa Environmental Services Ltd and making use of the Teckal exemption to deliver environmental operations services to it from the Council without going through a costly and lengthy OJEU procurement exercise.

Scope: In scope for the proposed Wholly Owned Company (WOC) are the Waste and Recycling Management Service, the Fleet Service and the Streetscape Service.

Drivers: The primary drivers for change are based upon the need by the council to sustain the full range of high quality services currently provided and to avoid the tendency to apply "Salami like slices" from a range of services similar to the approach being taken by other Councils. Whilst at the same time pursuing the Council's own stated objective to move to becoming a commissioning authority. The council faces unprecedented fiscal and cultural challenges over the next three years and we need to change accordingly both in terms of our key service offerings and the way in which they are delivered.

Expected benefits: The formation of a series of new vehicles like this one will allow the enhanced delivery of services to residents, whilst providing a reduction of core council cost and staffing. They will also allow us greater fiscal flexibility whilst enhancing the reputation of the council through transparency and locally led services. Linking the new vehicles to performance related pay would also increase the responsiveness of our services as officers are rewarded for enterprise, creativity and effort as well as potentially greater investment in facilities.

The council will be able to utilise these vehicles to enhance revenue by greater entrepreneurial effort by officers and members in expanding services

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or service offerings. Officers and members will work together with an emphasis on a culture of delivery.

From day one of the new arrangement, the new organisation will be focussed upon continuing to deliver high quality services for the residents of Cheshire East. The culture of the vehicles will lead to becoming more entrepreneurial as their processes become more customer focused and the costs of the new vehicles will decrease as vehicles are able to procure as they choose, within EU regulations. This will be achieved by having the freedom to purchase outside existing CEC contracts. Efficiencies will also be generated by more focused, disciplined endeavour. Revenues will increase as a result of their entrepreneurial spirit being channelled into the pursuit of new opportunities with charges set at commercial levels.

Success criteria: Maintaining and improving services for residents and business community within Cheshire East. Through culture change, service transformation and new business opportunities, the WOC will deliver major efficiency savings of around 10% of its current budget over the next 5 years while also setting itself an aspirational target of creating new income streams worth an additional 2.5% of its current budget. Some of the measures to determine success will be:

- High levels of Resident satisfaction;
- Continued reduction in waste disposed at landfill sites and an increase in materials processed for recycling;
- Maintaining the high levels of community engagement when undertaking street cleansing works within the community
- Maintaining and increasing the quality of our parks and open spaces, measured independently from external award success.

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Primary objectives:

1. To maintain the high quality standards achieved as an in-house service for the residents of Cheshire East and the elected members who represent them;
2. To contribute as necessary to enhancing the environment;
3. Supporting existing businesses in a sustainable way;
4. Contributing to economic growth within the Cheshire East Business Community;
5. Achieving best value for the Council in the provision of Waste Management, Street Cleansing, Grounds Maintenance and Fleet services that the Council directly provides;
6. Encourage growth in the business with the benefits being re-invested within the Cheshire East Community;

Planned outcomes

- a. Maintain a high Quality Service for the residents of Cheshire East;
- b. Creation of a viable and sustainable Wholly Owned Company (WOC);
- c. Secure the financial savings as identified within the Council's Financial Plan and reducing the council's core costs;
- d. TUPE Transfer approx 400 employees from the Council to the new Provider;
- e. Become self financing and less dependent upon the Council's core support services;
- f. Secure new business opportunities that result in improved returns to the Council.

Added value benefits:

- a. Create a commercial environment with greater autonomy for the services offered;
- b. Increased investment in the local economy - Retention of jobs;
- c. Improved service delivery by the service with benefits retained by Council or WOC not shared with the private sector;

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- d. Opportunities for co-ownership with other Councils and a Teckal exempt model will provide opportunities for shared delivery;
- e. Ability to generate surpluses to reinvest in the growth of the business or pass back to the council as dividends;
- f. Ability to influence and drive the direction of the service and attract partners.

1. Background

1.1 Service background

Following the formation of Cheshire East in 2009, the newly formed Council inherited the different frontline services from the former legacy boroughs. In many cases these had been delivered in distinctly different ways and using quite different approaches in terms of delivery, management and operation. Of particular note within the waste service were the three different waste services which ranged from kerbside sort to co-mingled collection in a variety of containers.

A programme of change was undertaken to harmonise and rationalise these services which resulted in a complete re-organisation of collection rounds, methods of collecting and management. This created a vastly more efficient and effective set of waste management services. At the same time, a considerable amount of work was carried out to harmonise and align contractual arrangements to coincide with the termination of current joint disposal arrangements between Cheshire East and Cheshire West & Chester Councils.

This work culminated in all waste collection services being harmonised and rationalised by the end of 2011 and a default, three bin system being introduced.

Grounds maintenance and street cleansing are some of the most highly visible services for the 370,000 residents of Cheshire East. Although some services are discretionary, all are vital in determining how people judge the suitability of an area to live, work and visit. They contribute directly to the Council's corporate priorities and overall vision. There is a key focus on continuous improvement and innovation within these services which aim to

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deliver services in an economically and socially sustainable manner, developing a community sense of local pride and ownership. This is based on the understanding that our residents have differing needs and aspirations and require accessible and responsive services, which are tailored to meet the needs of local communities.

In September 2012, the decision was taken through Cabinet to externalise the Streetscape service to Ringway Jacobs¹. The activities being considered were predominantly within the highway boundaries or similar in nature to cyclical and routine activities already undertaken within the scope of the Highways Services Contract. The report explained the benefits and risks of extending the scope of the contract in respect of both the financial and service delivery aspects. The proposals were complimentary to the Council's localism agenda which was one of its key objectives and Ringway Jacobs, the contract holders, were committed to working closely with the Council to achieve localised devolution opportunities and in engaging Town and Parish Councils to form part of the decision making process.

It was resolved that;

- subject to no challenge being received during the VEAT notice period, approval be given to extending the scope of the Highways Services Contract to include Streetscape activities;
- approval be given to the publication of a procurement VEAT Notice;
- approval be given to the development of a detailed activity programme that will engage with elected members, existing employees and their Trade Union representatives and;
- It be noted that extending the scope of the Highways Services Contract will trigger the automatic application of the TUPE Regulations.

¹ <http://moderngov.cheshireeast.gov.uk/ecminutes/ieListDocuments.aspx?CId=241&MId=4285&Ver=4>

1.2 Options Appraisal

In Autumn 2012 a business case review was undertaken by AMEC Environment & Infrastructure UK Ltd to examine the existing recycling and waste service and identify potential future service delivery options². The review assessed four options to procure contracts and deliver services that would generate savings of at least £2m from the service's annual operating budget. Those options were;

1. Outsource the service through an integrated contract;
2. Outsource the service through separate or combined contracts;
3. Create and arms length company to deliver services and manage contracts and;
4. Retain the services and operations in-house.

In carrying out this assessment of options some assumptions were made around the costs of residual waste treatment, processing contracts, bulking costs, the income from the sale of recyclables, and productivity rates. Each option was also explored in relation to the appropriate procurement route and timescale, contract duration, market appeal, management implications, infrastructure, the impact on human resources and cost estimates. Risks and benefits were also identified.

Initially Cabinet was minded to pursue the outsourced solution (as indicated above – option 1), but following further engagement with employees and more detailed independent reviews focussed upon the benefits of creating a wholly owned company (WOC) it was decided that the Council would pursue the development of the WOC approach to service delivery and re-consider the full scope of services that could be included.

² [Dec 2012 Cabinet](#)

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By way of background, In September 2012, Cabinet approved to expand the scope of activities included within the Highway Services Contract (managed by Ringway Jacobs), to include Streetscape activities. This decision was subject to a call-in that was referred to the Environment and Prosperity Scrutiny Committee (and subsequently managed by the Environment and Prosperity PDG). In February 2013, Cabinet approved the PDG recommendations. The PDG report concluded that synergies existed between Mechanical Sweeping and Highway related activities and recommended to Cabinet for the inclusion of Mechanical Sweeping activities within the scope for the Highways Contract, whilst acknowledging further consideration needed to be given to the future of all other Streetscape activities. As the WOC concept has evolved, engaging more widely with employees and their Trade Union Representatives along with PDG and the wider community within Cheshire East, it was realised that by keeping the Mechanical Sweeper activities within the Cheshire East family of service activities, greater service resilience could be achieved. Furthermore, it is acknowledged that the current high standards achieved by the service would be further enhanced by this approach with increased sustainability over the longer term for the benefit of Cheshire East Residents and Business Users.

Cabinet took a decision in principle in June 2013 to further develop the already outstanding Waste and Recycling Management Service by the creation of a wholly owned company (WOC) in pursuance of continuous progress for the residents of Cheshire East. As the project has progressed and in consultation with the Portfolio Holder for Environment and engagement with the Environment and Prosperity Policy Development Group (PDG), it was recognised that other operational services needed to be considered for inclusion within the scope of activities for the proposed WOC. These include Fleet and Streetscape Services (Street Cleansing and Grounds Maintenance activities).

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Therefore, as the Council moves closer to achieving its objective of becoming a Commissioning Council, clear synergies have been identified between a number of its operational services and in particular those front line services that are depot based. As a consequence of this, it is acknowledged that operational similarities exist between the waste collection, fleet, street cleansing (mechanical and manual) and grounds maintenance (operational and technical teams) activities that when combined into one Environmental Operations WOC will generate future benefits for the residents and business community of Cheshire East.

In support of the quantitative analysis, an exercise was undertaken with Members and key officers to identify financial, strategic, political and environmental criteria against which each option could be ranked in order to help identify a preferred service delivery option. A prioritisation exercise was carried out to score the relative importance of these criteria and each of the four service delivery options was then assessed against each criterion to measure the level of applicability.

The culmination of this work showed that Option 1 was the preferred option and recommendations were made to commence work on procurement objectives and strategy, tender documentation and any short term procurement activity to ensure continuity of service.

The business case review was taken through Cabinet on 10 December 2012³ where it was resolved that Options 1 and 2 were the preferred way forward and that procurement activity should commence immediately. It was also resolved that the outcome of the procurement exercise would need to come back to Cabinet in due course and seek authority to proceed with contract award.

³ [Dec 2012 Cabinet](#)

1.3 Impact of 3 year plan on the options appraisal

Following on from Cabinet, in early January 2013 the service was instructed to halt the procurement process and take no further action as alternative options were to be sought and explored in detail. These options were closely aligned with the Council's decision to be more resident focused, choosing an alternative approach to the "salami-slicing" approach to service reduction that most other Council's are currently pursuing. The Council created its 3 year plan at the start of 2013; this involved the formation of a set of 29 major change programmes, covering 8 key priorities and identified the core purpose of the council and its desire to redefine "the council's role in core place-based services".

This period marked a fundamental shift in the way that frontline services were to be designed, structured and delivered in the future. It reflected new legislation, government policy and changing market conditions. It clearly set out the intention to become a strategic commissioning council, supported by a clear strategic framework. The framework establishes the key principles of achieving the Council's required financial savings, providing opportunities to deliver qualitative benefits and ensuring residents receive excellent services which meet the changing needs and aspirations of modern life. A clear objective of the plan is to develop a new operating model for Environmental Services.

1.4 Initiation of Environmental Operations Change Programme including WOC

At the beginning of 2013, the Council became shareholders in iESE (innovation and Excellence Social Enterprise), a not for profit organisation and through them, carried out an extensive review and investigation into a variety of different areas within the service including, operational efficiencies, procurement and, alternative service delivery models.

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The results of this review and investigation resulted in a Cabinet report on 24 June 2013⁴ which identified the inter-dependencies of these 4 projects within the Major Change Programme for Environmental Operations and the need for them to be delivered together to generate service improvements, standards and aspirations e.g. moving away from landfill as a disposal method, maintaining current levels of customer satisfaction and achieving substantial service budget reductions of £2.5m by 2015/16. Of key importance, it also identified that the most appropriate future service delivery model was that of a wholly owned company encompassing an in-house collection service.

The Cabinet on 24 June 2013 resolved to implement the efficiency review, to move forward with the improvements needed at facilities in the south of the borough and the requirement for new facilities in the north and, the procurement of interim waste contracts. Crucially, it also approved;

- the formation of a company shell and the further work required to identify the most appropriate legal form of company;
- the establishment of a shadow board of directors for the company and;
- delegated authority to key officers and the Portfolio Holder for Environment, reporting back to Cabinet for endorsement of the new company in October 2013.

Following on from the June Cabinet, a considerable amount of work was undertaken to create the company shell, register it and start the work on back office systems and procedures needed to support the company. Alongside this technical work, vital activity on branding and stakeholder engagement was undertaken including focus groups, staff briefings and the production of a newsletter. This has extended to stakeholder group sessions of late which are designed to help derive the values that the company needs in developing its own identity and philosophy of operation.

⁴ [June 2013 Cabinet](#)

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A further report to Cabinet was made in October 2013⁵ that considered the work that had been carried out to further define and scope out the overall Environmental Operations Change Programme and the five major project strands within it. This included the cost of investment and capital investment required to deliver the overall programme. The report also clarified the scope of the proposed alternative delivery vehicle.

An amendment to the report was circulated at the meeting which set out the background to the inclusion of Fleet and Streetscape Services within the scope of activities of the wholly-owned company.

1.5 Key parameters for WOC

1.5.1 Cabinet confirmed a broad range of approvals but of particular note, it confirmed that the future service delivery model;

- Would be a Teckal exempt, wholly-owned company limited by shares;
- That the wholly-owned company formed in October 2013 included the defined scope and the transfer delivery of the Waste and Recycling Management Service, the Fleet Service and the Streetscape Service with an effective operational target date of January 2014 subject to internal and external dependencies (subsequently changed to 1 April 2014) and;
- That delegated authority was given to the Portfolio Holder for Environment to commence the detailed implementation of the Environmental Operations Change Programme.

1.5.2 In line with the Framework Agreement the Company will:

- Contribute to the economic growth and prosperity of Cheshire East
- Foster a more commercial approach

⁵ [Oct 2013 Cabinet](#)

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- Introduce and promote a culture of innovation and enterprise
- Adhere to Council's existing Charging and Trading Strategy
- Provide the Council with a return on its investment in the medium to long term. This will be set out in its Business Plan which will be signed off by its Board and the Shareholder Committee
- Deliver cost efficient services
- Enable new revenue streams to be exploited
- Be tax efficient

1.5.3 Primary objectives:

- a. To maintain the high quality standards achieved as an in-house service for the residents of Cheshire East;
- b. To contribute as necessary to enhancing the environment;
- c. Supporting existing businesses in a sustainable way;
- d. Contributing to economic growth within the Cheshire East Business Community;
- e. Achieving best value for the Council in the provision of Waste Management, Street Cleansing, Grounds Maintenance and Fleet services that the Council directly provides;
- f. Encourage growth in the business with the benefits being re-invested within the Cheshire East Community;
- g. Increasing, year-on-year the return to the shareholder (Cheshire East).

1.5.4 Planned outcomes

- a. Maintain a high Quality Service for the residents of Cheshire East;
- b. Creation of a viable and sustainable Wholly Owned Company (WOC);
- c. Secure the financial savings as identified within the Council's Financial Plan;
- d. Transfer approx 400 employees from the Council to the new

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- Provider;
- e. Become self financing and less dependent upon the Council's core support services;
 - f. Secure new business opportunities that result in improved returns to the Council

1.5.5 Added value benefits:

- a. Create a commercial environment with greater autonomy for the services offered;
- b. Increased investment in the local economy - Retention of jobs;
- c. Improved service delivery by the service with benefits retained by Council or WOC not shared with the private sector;
- d. Opportunities for co-ownership with other Councils and a Teckal exempt model will provide opportunities for shared delivery;
- e. Ability to generate surpluses to reinvest in the growth of the business or pass back to the council as dividends;
- f. Ability to influence and drive the direction of the service and attract partners.

1.6 Current Service Scope

The Environmental Operations service areas covered by this business case include waste management, fleet management, streetscape services and parks operations. In total the service area has a net annual budget in excess of £30m.

In terms of resources, the service areas have approximately 400 staff, operate roughly 200 vehicles ranging from large refuse collection vehicles to small ride-on mowers and operate from a number of depots/bases, the largest of which are Pym's Lane in Crewe and Commercial Road in Macclesfield.

The due diligence process will identify employees whose roles are wholly or mainly to be delivered through the WOC and those people will be in scope to

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transfer to Ansa under these proposals. The transfer would be carried out in compliance with 'The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). TUPE regulations protect existing terms and conditions and assumptions have been included in the financial business case to cover this. This proposed transfer would only take place following full consultation with staff, unions and members.

The scale of environmental operations is vast. In Waste, collections are made from approximately 165,000 households every week and during a typical year we will collect 70,000 tonnes of residual waste, 40,000 tonnes of garden waste and a further 40,000 tonnes of recyclables from the kerbside. In addition, we collect just under 8,500 tonnes of residual, over 30,000 tonnes of recyclables and about 6,700 tonnes of garden waste each year from our network of household waste recycling centres (HWRCs). Our recycling rate is approximately 54% which puts us in 7th place of all 91 unitary authorities and 39th out of all 351 authorities across the UK.

Our Street Cleansing operation covers 2,722 kilometres of road through manual and mechanical means, manages 186,000m³ of litter, and empties 2,400 litter bins plus 900 dog bins. Grounds maintenance covers 3,000 sites including 16 formal parks, 85 sports pitches, and over 230 sports and play facilities. They also maintain over 7 million trees across Cheshire East and deal with graffiti, fly-tipping and the removal of hazardous waste. They also offer operational support to Bereavement Services during busy periods and maintain 11 closed churchyards.

The Fleet Management Service serves all Council fleet and plant needs and has over 700 different vehicles, plant and equipment to deal with. It provides and maintains 64 refuse collection vehicles for the waste service which is its biggest single customer by far, accounting for over 60% of its annual spend.

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1.7 Performance Measures & Standards

All services have attained significantly high standards including both documented satisfaction rates by the public and in attaining national recognition for a variety of high profile awards. For example, in Waste the Citizens Panel in the autumn of 2012 identified that 92% of residents were satisfied that collections were made as scheduled and overall, approximately 83% of residents were satisfied with the waste service in its entirety.

In Streetscape, a key focus for the service is the maintenance, protection and enhancement of Cheshire East's local environment and the outcomes of this are highly visible to all. To benchmark this performance and identify continual improvements a number of local indicators have been adopted to measure performance and standards, including:

- Green Flag Inspections/Awards (The Moor, Congleton Park, Bollington Recreation Ground and Sandbach Cemetery)
- 'Code of Practice' for Street Cleansing
- Achievement of 'Customer Service Excellence' Standards
- Consultation with Community Groups (including In Bloom Groups / Clean Teams / Friends of Groups and Environmental Groups)
- Consultation with partners (including Cheshire FA / Probation Service / Youth Offending Service and Town and Parish Councils)
- Annual Public Consultation across all the towns in Cheshire East
- Monitoring and Recording Compliments and Complaints
- Published Service Standards
- Play Area Inspections
- Recording of Fly tips on the National Flycapture database

1.8 Summary

The purpose of the project is to set up and have a fully operational wholly owned company (WOC), Ansa Environmental Services Ltd (ANSA) by 1 April 2014 so that it can deliver a range of statutory and non-statutory services on behalf of the Cheshire East Council. The services initially will be limited to

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waste collection, treatment and disposal, fleet management, street cleansing, grounds maintenance and parks operations. However, the future for ANSA would be to develop these current services and to identify and take advantage of any commercial opportunities that may currently sit outside of its service delivery.

2. Why the project is needed

Within the Council's three year plan 2013-16, Outcome 4 states that "Cheshire East is a green and sustainable place" and that "Cheshire East's rural and urban character is protected and enhanced through sensitive development, environmental management, transport and waste disposal policies". The sustainable management of municipal waste, its sensitive maintenance of streets and open spaces and the way in which it manages and sources its own fleet and plant clearly impacts on this outcome and as such, is intrinsically linked. This project to create a wholly owned company and deliver key services through it will enable the outcomes to be achieved in the most effective way.

One of the key principles within the three year plan is to "invest in innovative new ways of providing services" and this is supported by a clearly stated priority within the three year plan e.g. "Redefining the Council's role in core place-based services". Furthermore, one of the key change programmes is "6.4 Determine future delivery model for waste management services"

This project is focused on identifying an alternative service delivery model that will fit within the Council's new commissioning approach but at the same time deliver statutory and non-statutory front line services in an efficient and effective manner, offering greater flexibility and scope in delivery and increased entrepreneurial activity. The WOC model allows the council to retain sufficient control of what is a sensitive service balanced by the opportunity to develop new revenue streams to help offset the significant budget reductions that are challenging local authorities across the nation,

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including Cheshire East Council. If the Council does not take the opportunity now to deliver its services in a more innovative and flexible way, and develop new income streams, current projections indicate that in the near future, the whole of the Council's future budget could be swallowed up by delivering Social Services activities alone. It is therefore imperative that the Council acts now to secure the future of a service that is so valued by its residents.

The project will allow the creation and operation of a WOC to deliver the Council's environmental operations, free from many of the constraints of operating directly within the Council's policies and processes and importantly, with greater freedom to develop services and business opportunities than is currently available when operating as part of a local authority.

The WOC will be a 'Teckal' exempt company and as such, it will enable other local authorities to award work directly to the WOC without the need for lengthy and expensive procurement. Potential business from other local authorities and public bodies are expected to form the main target market for the WOC.

3. Vision Statement

Ansa will be a commercial environmental services company based on public sector customer relationship principles. By virtue of its origins, Ansa brings together award-leading parks and event management, grounds maintenance, waste collection, treatment and disposal, street cleansing, training and fleet management services to offer cross-cutting, competitive, responsive and flexible solutions to a range of challenges.

Successful, thriving and prosperous communities are characterised by streets, parks and open spaces that are clean, safe and attractive. The quality of these spaces are consistently ranked amongst the highest of public priorities and are a measure for how people judge the suitability of an area to live, work and visit.

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Ansa is in a strong position to offer stand alone and integrated services to community organisations, commercial enterprises, educational establishments, hospital grounds, retail and business parks, private estates and residential premises.

The company will also be able to use its public service ethos to strengthen its relationships with community organisations including other councils (including Town and Parish Councils), within and outside of Cheshire East boundaries, as a means of creating economies of scale/critical mass and additional income streams.

A number of commercial and growth opportunities have been identified across the business units and these are summarised below.

3.1 Parks Management

Having well-tended and inspiring green spaces engenders a sense of pride among communities and shows that they are treated with the care they deserve. Neat and professionally maintained green areas – whether they are the parks and gardens around historic buildings, libraries, offices, residential homes or school playing fields – make our communities happier and healthier places in which to live, work and learn. Growth opportunities include:

- The expansion of the use of parks for cultural, entertainment and sporting events (for example) that appeal to the whole community;
- The development of facilities to increase parks usage and attractiveness; and
- Licensing of the commercial use of the parks (for example fitness boot camps etc.) to ensure fair usage of facilities.

3.2 Fleet Management

As an operator of a diverse fleet (vans, road sweepers large and small, refuse collection vehicles, skips wagons, ride-on mowers etc) Ansa will operate its

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own maintenance and repair facilities. These provide us with the opportunity to open up our vehicle servicing and repair facilities to LGV and PSV vehicles, taxis, minibuses and cars. Additionally we intend to extend the hours we offer MOT testing to be more flexible for customers.

3.3 Waste Management

There are around 165,000 households in Cheshire East and these each receive a waste collection of some description on a weekly basis. This service generates significant quantities of materials that can be recycled and composted for the benefit of industry, agriculture and the economy. These services can be extended to other users and we can make better use of our waste-related assets. We can;

- Introduce the collection of commercial waste generated by the Borough's businesses offering services that are flexible, attractive to both SMEs and larger organisations alike. We will collect dry recycling and non-recyclable waste, investigate the opportunities to expand services to include commercial food waste; and
- Open up our waste transfer stations to commercial enterprises for the legal, responsible, environmentally focused and cost effective disposal of their waste.

3.4 Street Cleansing

The cleanliness of our local environments is very important firstly to residents, visitors and local businesses. Ansa will be helping CEC meet its clean and green aspirations as well developing services to help other organisations such as offering;

- Routine and ad hoc litter picking of private land (through Ansa's own staff and community groups);
- Sweeping (mechanical and manual) of private land; and
- The servicing of litter and dog waste bins on privately owned parks and estates.

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3.5 Grounds Maintenance

The specialist Landscaping Development Team will be able to carry out a wide range of hard and soft landscaping for local authority customers, schools and the private sector. The team is also skilled in sports facility construction, such as new bowling greens and sports fields.

Opportunities for the business unit include;

- The provision of advice on, and the scheduled and ad hoc maintenance and upkeep of, green environments such as business and retail parks, educational campuses, hospital grounds, social landlord premises;
- Winter maintenance – gritting and snow clearance;
- All aspects of grass and vegetation management including design and implementation;
- Arboriculture – provide advice and guidance in all areas of tree work carried out to British Standard;
- Sport facility management;
- Hard landscaping – installation of fencing, paths, street furniture, dropped kerbs and play equipment; and
- Land drainage schemes to residential house problems.

3.6 Integrated Solutions

As a single entity, Ansa will have greater flexibility to develop and offer cross-cutting services to a broad range of customers such as;

- Site management support packages to organisers of events (for example concerts, fairs and specialist shows at venues such as Tatton Park, Capesthorne, Cholmondeley Castle etc.) including waste/recycling collections and litter picking during and following events and;
- Providing hard and soft landscape management services for facilities such as hospital grounds, social landlord premises, educational campuses and retails and business parks including waste/recycling collection, plant management and maintenance, mechanical sweeping, litter picking, winter gritting, snow clearance and emergency response.

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3.7 Teckal Contracting

The Teckal exemption from public procurement rules offers Ansa the opportunity to work on behalf of other local authorities which will provide revenue generating opportunities and deliver benefits to the other party without the need to enter into a costly and protracted procurement exercise. This would be through a share ownership arrangement. This is likely to be more acceptable to elected politicians and employees in the target market as it is likely to be seen as a collaborative approach rather than a takeover or full outsourcing.

3.8 Sponsorship Opportunities

Subject to the approval of CEC Ansa will seek opportunities to increase income from the sponsorship of bins, vehicles, parks, events, roundabouts, floral displays etc.

Summary

The development of Ansa generates a number of commercial opportunities that were not necessarily available to CEC. Capitalising on these opportunities will create a commercially successful organisation returning a dividend to its shareholder, Cheshire East Council.

4. Proposed Solution

4.1 Options Appraisal

The initial assessment of options was performed in Autumn 2012 through a business case review was undertaken by AMEC Environment & Infrastructure UK Ltd to examine the existing service and identify potential future service delivery options, as follows;

1. Outsource the service through an integrated contract;
2. Outsource the service through separate or combined contracts;

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3. Create and arms length company to deliver services and manage contracts and;
4. Retain the services and operations in-house.

Following on from the cultural change that the Council was going through with the creation of the 3 year plan at the start of 2013 and its move to a commissioning model, further work was carried out on service delivery options through iESE. The subsequent Cabinet report in June 2013 identified that the most appropriate future service delivery model was that of a wholly owned company encompassing an in-house collection service.

Further details are given in the Background section and the relevant appendices to this detailed business case.

4.2 Management Arrangements

4.2.1 Governance

The WOC will be directly accountable to a board of directors which will include 3 appointed members. There will also be a nominated officer representation on the board. There will be no private interests.

The Board will primarily focus on the strategic management of the business and will be supported by an internal 'Intelligent client' team within the WOC who would manage the delivery of agreed objectives.

4.2.2 Proposed Governance Board Membership:

ROLE	COMPOSITION
CHAIRMAN (Non-Exec Position)	MEMBER
DIRECTOR (Non-Exec Position)	MEMBER

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DIRECTOR (Non-Exec Position)	MEMBER
MANAGING DIRECTOR	Executive Officer

The governance function is still being clarified and it is critical that these roles and responsibilities are defined in a way which allows for clear and robust arrangements which values and recognises the contribution of both organisations.

These responsibilities will clearly be set out in the 'Articles of Association' which will define the type and amount of influence that the authority will have with the WOC and may cover key issues such as:

- Financial responsibilities
- Management of Risk
- Business Planning
- Service Standards

It should be noted that the on-going viability of the project will continue to be monitored by the Board of Directors and Project Board Team.

4.2.3 Contractual arrangements

The WOC will have a strategic contract, a tailored element to the contract, a detailed method statement and a set of outcome based Key Performance Indicators. To oversee the delivery of this it is acknowledged that CEC will need to develop its own 'intelligent client' function to manage the contracts and contractual relationships in addition to any 'key account management' role within the WOC. The client role will include the relevant contract monitoring and management, general client relationship and any specific management requirements.

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4.2.4 Constraints and Dependencies

Environmental Operations Services within ANSA are currently reliant on a number of support services provided by CEC directly. These are critical in allowing the service to perform and would need reflecting through service level agreements.

- Existing Central Support Services: Includes IT, Finance, HR support, Legal and physical assets.
- Asset Management: The development, infrastructure maintenance and cleansing of premises and sites.

Likewise, there are a number of services outside of the core Environmental Operations for Waste & Recycling & Streetscape functions that CEC will in future be directly reliant on from ANSA. Again these will need reflecting through service level agreements with CEC.

- Bereavement Services Support: emptying of skips and bins, completion of arboricultural works, maintenance of closed churchyards, provision and maintenance of fleet.
- Provision & Maintenance of fleet: for all other none environmental services clients.

4.2.5 Business Planning

This Business Case is intended to provide a framework for planning, managing and defining the proposed business change. A separate business plan will need to be prepared and agreed which defines business goals, the rationale behind them, and the plan to achieve them.

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5. SWOT Analysis

Strengths	<ul style="list-style-type: none"> Aligns with the Council's shift to a commissioning Council and the cultural change required by that shift Benefits of improvements are retained in full by the WOC and Council rather than diluted through a private sector service provider. Ability to influence and drive the direction of the service and attract new partners. The ability to deliver dividends to the Council. Higher and more focused engagement of staff enabling the company to be driven forward with a shared purpose, culminating in higher service standards and a resilience to external pressures. The company will be free from local authority bureaucracy and be able to manage its internal affairs more efficiently and effectively. The Council will have less day-to-day control over the direction of the service.
Weaknesses	<ul style="list-style-type: none"> The newly formed company will have little credibility in the commercial environment, making it difficult to compete effectively from the outset. The Council retains the statutory duties to deliver the services through the company. The Council cannot delegate its legal responsibility. Commercial acumen within the company may not be sufficient at the outset and this may hinder the initial development of commercial activity. The Teckal exempt model will place limitations on the nature and extent of commercial activity unless a subsidiary company is set up to take commercial activity forward.
Opportunities	<ul style="list-style-type: none"> Ability to operate under commercial terms and make the most of greater autonomy for services, resources, staff and assets. Opportunities for partnership working and shared delivery with other local authorities through the Teckal exempt model. The ability to generate surpluses that can be re-invested in the company or shared back with the Council. Less reliance on Council corporate services after a reasonable period of time will enable the company to 'shop around' for the best service at a price it deems appropriate.
Threats	<ul style="list-style-type: none"> Insufficient budgets from the outset make it impossible for the company to deliver services as required and in accordance with the contract specification.

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- External competition or lack of public sector interest in collaborative working makes it more difficult than anticipated to break into the wider market.

6. Benefits

Success criteria: Maintaining and improving services for residents and business community within Cheshire East. Through culture change, service transformation and new business opportunities, the WOC will deliver major efficiency savings of around 10% of its current budget over the next 5 years while also setting itself an aspirational target of creating new income streams worth an additional 2.5% of its current budget.

The graph below contrasts the benefits of creating the WOC compared with continuing the service delivery in-house. It incorporates planned efficiency savings as well as new business.

The benefits of this project are that a WOC closely aligns to the needs of the Council in its new commissioning role whilst remaining flexible enough for the Council to take full advantage of future innovative service improvements.

Specifically:

- Flexible and Innovative
- Alignment to charge and trading strategy
- Efficiency
- Culture change
- New business opportunities
- Diversification
- Council retention of benefits
- Shared delivery model.

6.1 Flexible and Innovative:

The creation of the WOC aligns with the Council's objective and ambition to invest in innovative ways to deliver services and to be a commissioning organisation. The benefit will be immediately realised once the WOC is fully operational which is currently estimated to be 1 April 2014. The formation of

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the WOC is being managed through a dedicated project team consisting of stakeholders from all service support areas e.g. Legal, Finance, HR, Communications etc and is being steered by a Project Manager, Programme Manager, Senior Responsible Officers (at Project and Programme levels) and is adhering to the Council's project management guidelines. The ASDV Steering Group are also providing support and direction and seeking to ensure lessons and key documentation are shared thus helping to mitigate risks and reduce duplication of effort.

6.2 Alignment to Charging and Trading Strategy:

The formation of a WOC aligns with the Council's Charging and Trading Strategy, the principles of which are to make appropriate charges for discretionary services (balanced by Council priorities), engage in trading for profit where it is possible to support the delivery of local priorities without minimising the risk to public finances and, to allow the Council to take advantage of greater freedoms and a more commercially orientated approach to operations. Again, the benefit will start to be realised once the WOC is operational on 1 April 2014 and is controlled, threats reduced or weaknesses corrected by the project management arrangements in place. There is a recognition that it may take some time for the WOC to become fully established and be ready to trade more widely so the financial benefits associated with wider trading opportunities may not start to show themselves until at least year two.

6.3 Efficiency:

Savings of approximately £2m have been identified through the efficiency project and procurement activity, as part of the major change programme in Environmental Operations. Specific timescales for these projects are detailed within the associated Project Initiation Documents and again, are controlled, threats reduced or weaknesses corrected by the project management arrangements in place.

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6.4 Culture change:

The WOC will enable service standards to be maintained as a minimum and improved where necessary, or as guided by the waste strategy to be adopted and implemented by the Council in 2014. Linked with service standards is the underlying cultural change that will be fostered by the creation of the WOC through a fully engaged workforce which will encourage and engender discretionary effort from all of its workforce and promote creativity in decision making and problem resolution. The amalgamation and integration of currently separated services will move away from silo-working, crucially building capacity and resilience within the workforce to combat service issues, economic variations, technological change and legislative pressures. Greater commitment from staff through share opportunities or performance related pay will be evident, creating higher service standards and a more responsive workforce. These benefits will start to be realised within the first year of operation and again, will be monitored, controlled and augmented through the company Board and assisted by a wider stakeholder group. The Stakeholder Working Group recently set up includes a wide range of individuals from all service areas, and representative from the unions and this group will play a major role in developing company values and philosophy.

6.5 New business opportunities:

One of the key benefits of the WOC will be that it is a flexible organisation that can respond to opportunities quickly and effectively without the need to adhere to lengthy policies and procedures, as is currently the case within the local authority environment. It can proactively seek out business opportunities and take advantage of local knowledge and contacts. It is likely that this proactive business approach will not be realistic within the first year of operation as the company will need to ensure that business as usual is unaffected. However, by the second year of operation, it is expected that the WOC will be proactively seeking commercial opportunities. The WOC Board will be the method of ensuring the benefits are realised and that threats are reduced or controlled.

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6.6 Diversification:

The WOC will have the ability to operate under commercial terms and have greater autonomy for the services it provides. This is clearly linked with the benefits around discretionary effort, avoiding silo working, integration of service areas etc as described previously. However, on a practical note it will provide greater flexibility to make on-ground changes to the services to increase service efficiency and effectiveness and therefore, to generate surpluses to re-invest in the growth of the business. A by-product of this autonomy will be the benefit of expanding the training and development of staff more readily to suit real service needs in a timely fashion. This will also allow the company to set up an accredited training centre for example, for Fleet related matters or arboricultural services, and again, attract customers from outside of its current sphere of influence. There will also be options to provide services through apprenticeship schemes; work with the 3rd sector more fully than at present; liaise and work with community groups in vital activities and, engage in social responsibility programmes. This benefit will start to be realised by the second year of operation and again, the WOC Board will be the method of ensuring the benefits are realised and that threats are reduced or controlled.

6.7 Council retention of benefits:

Any improvements to services or profits generated will be retained by the Council and/or the WOC rather than a separately owned commercial company (as would be the case if the services were outsourced). This translates into the retention of full benefits from any efficiency measures; profits accrued and therefore promotes the ability to re-invest in services and staff. It is expected that the generation of profits will not materialise until year 3 or 4 of operation but it will be governed through the WOC Board.

6.8 Shared delivery model:

The WOC will provide opportunities for co-ownership with other Councils and a Teckal exempt model will provide opportunities for shared delivery. This will increase opportunities to trade for partner councils and have a direct benefit to

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the WOC (and by default, the Council) such as, a greater opportunity to spread overheads, the creation of a wider income base and hence create growth over a wider service area; in turn, this will create greater stability and a more robust and resilient company and spread any financial risk. The WOC will have the ability to influence and drive the direction of the services and potentially attract partners and create additional efficiencies. The benefit can be realised within the first five years, depending on opportunities that surface and that are explored by the WOC Board and senior management team within the company.

7. Risk

7.1 Business risks and their significance

The risks associated with permitting Ansa to trade are summarised below and have been subject to scrutiny by EMB. Some of these risks are currently high which reflects the fact that mitigation activities are in progress but are not yet fully delivered. All of the risks identified have a schedule of mitigating controls and once fully implemented will mitigate the risk to an acceptable level.

Reference	Risk Summary
6.4BRWOC 1	Opportunity to create fit for purpose operating model
6.4BRWOC 2	Future proofing / capacity
6.4BRWOC 3	Business continuity – Insufficient Assets or Supplier Failure
6.4BRWOC 4	Challenge to legal validity of set up
6.4BRWOC 5	Business plan and long term viability <ul style="list-style-type: none"> • Lack of control of key assets and infrastructure • Open ended Assets liabilities • Under capitalisation of the WOC Resources / Capability
6.4 BR WOC 6 1-15	General trading risks <ul style="list-style-type: none"> • Service Disruption • Supply chain risks • Exit strategy • Big society risk – eg social enterprise challenge to

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	award of contract <ul style="list-style-type: none"> • Inadequate specification / contract arrangements /client function • Statutory duties / legal compliance • Fraud/Bribery/Breach of Conduct policy • Poor financial control/business planning • Governance – too much or too little control • Fleet risks • Reputation • Communication – stakeholders and customers • Corporate manslaughter risk and wider Health and Safety risks • Insolvency – self or suppliers
6.4BR WOC 7	Capability
6.4BR WOC 8	Economies of Scale
6.4BR WOC 9	Scope

7.2 The biggest threats to future success

7.2.1 Set up with insufficient assets. This is an existing service risk which is being mitigated by projects within the Environmental Operations Change Programme.

7.2.2 Supplier failure. This is an existing service risk which is being mitigated by the Procurement Project within the Environmental Operations Change Programme.

7.2.3 Any inability to novate large scale contracts could delay implementation by 6-9 months to allow for OJEU procurement and increase costs of set up.

7.2.4 In addition, Ansa will face the usual trading risks faced by any business with both the additional complexity and the benefit of operating as a Wholly Owned Company of the Council.

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7.3 Opportunity

Opportunities will exist for the 'Ansa' team to shape how the service is delivered, designed and provided. This increased level of involvement in running the service, coupled with the ability to act promptly on decisions is undoubtedly a key way of engaging and motivating the team. This has already been confirmed through focus groups with Staff, Residents and Members as well as wider staff consultation.

10. Project and Investment Appraisal Cost of project and Investment Appraisal

10.1 Budget Forecast

Table 1 - Current Cost of Service, Forecast Trading Position Years 1-4 and impact of implementing growth proposals (Cumulative Presentation)

Expenditure	Service budget	Current cost of delivery	Year 1	Year 2	Year 3	Year 4	(Saving) or Growth**
Year	2013-14	2013-14	14-15	15-16	16-17	17-18	4 year cumul
	£000	£000	£000	£000	£000	£000	£000
Employees	9,876	9,766	9,248	8,557	8,617	8,617	(928)
Premises	789	666	789	789	789	789	0
Transport	6,390	5,825	6,089	6,193	6,359	6,359	0
Supplies & Services (incl. accounting adjustments)	878	981	930	940	960	960	(76)
3rd Party Payments	12,594	13,295	13,433	13,813	13,483	13,483	0
Transfer Payments	0	0	0	0	0	0	0
Support Services	2,458	2,458	2,458	2,335	2,212	2,089	(738)

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Capital Financing costs	0	0	0	0	0	0	0
Total Expenditure	32,985	32,991	32,947	32,627	32,420	32,297	(1,742)
Income	£000	£000	£000	£000	£000	£000	£000
Fees & Charges	(782)	(793)	(874)	(882)	(882)	(882)	0
Grants	0	0	0	0	0	0	0
Other Income	(1,235)	(858)	(1,285)	(1,315)	(1,315)	(1,315)	0
Recharges	0	(70)	0	0	0	0	0
Total Income	(2,017)	(1,721)	(2,159)	(2,197)	(2,197)	(2,197)	0
Net cost of service	30,968	31,270	30,788	30,430	30,223	30,100	(1,742)
Efficiency Savings / New Business - Trading Opportunities*	0	0	(109)	(395)	(805)	(1,215)	(2,524)
Additional 2.5% New business turnover (based on 8% return)	0	0	(7)	(14)	(27)	(57)	(105)
Proposed Net cost of service	30,968	31,270	30,672	30,021	29,391	28,828	(4,371)

* Efficiency / New Business - Trading Opportunities position above reflects an aspirational target for the new company based on a 2.5% growth in income/ 8% return over 4 years

** Refer to General Comment within assumptions (See Appendix A2).

Please see Appendix A2 for detailed assumptions regarding the budget forecast.

10.2 Financial Benefit

The financial case for the establishment of a WOC is based primarily on the delivery of major efficiency savings of £2.5m (10% of its current budget) over the next 5 years, plus a further aspirational target of creating new income streams worth an additional 2.5% of its current budget relative to the vision statement set out in section 3.

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Of the £2.5m efficiency savings to be delivered through the WOC (as also referred to in the Council's business planning process), in the above table, £1.297m (4%) has been reflected as business as usual activity as this is linked to the following and therefore isn't captured in the cumulative growth/savings column:

- Elements of the efficiency plan that are already in progress/planned for delivery in 14/15 & 15/16, and
- Procurement/interim contract savings, again already in progress and planned for completion by 31st March 14 for delivery of full year savings in 2014/15.

The remaining 6% of further efficiency savings (£1.765m) is reflected in the table above, £550k in the main table linked to the specific benefits in table 1 above with a further £1.215m reflect beneath the main table as further efficiency savings/new business opportunities.

Expanding the business and changing the income profile will have significant implications for the WOC and these would need to be fully considered as part of the Business Plan and during the early years of the WOC's establishment. Whilst, emphasis in the early years (years 1-3) will be set against delivery of the planned efficiency savings the development / focus on new income streams will be targeted mainly for delivery from year 3 onwards however some earlier trading savings are forecast but of a lower value.

In addition, the business case assumes an ongoing reduction of £369k (15%) in support service costs by the end of year 4 (note that this is currently based on the indicative 12-13 support costs totalling £2.4m). Whilst it is acknowledged that through growing the commercial nature of the business, also during this time period, that this may give rise to an increase in certain areas of support service cost. However, this is balanced by the assumption that the impact of the efficiency measures, particularly around resource levels (key support cost drivers) mitigate such growth.

10.3 Cost of Investment

It is recognised that there are certain specific costs attributable to setting up the new company, these have been itemised in Appendix A2 and in total are currently forecast as £110k in 2013/2014 funded through existing cost of investment monies approved in the 2013/14 budget.

In addition to these specific one off Ansa costs it is recognised that there are further corporately funded costs which are supporting the whole programme of ASDV's and are estimated at approx £600k, including the following:

- Oracle system build to deliver financial separation of accounts
- External audit of the business case
- Actuarial and legal advice on general pension issues including the potential decision to close the LGPS to new entrants in all wholly controlled ASDVs.
- Additional legal costs of dealing with generic ASDV issues such as governance and standard contracts.

10.4 Corporate core costs

Corporate core costs are still being fully evaluated. It has been confirmed that there will be an incubation period for this transition where support services will continue to be used for a period up to 3 years. After this period there is the potential to further enhance financial viability by achieving savings on the back of reduced 'back office' support costs and corporate overheads. In 2012/13 the recharge to the service for corporate support costs was £2.4m, (excluding the capital charges)

10.5 Financial Management

Ansa will operate a separate bank account and all existing income streams will be paid directly to Ansa's Bank account, as such, it will be liable to Corporation Tax. Currently, the budget for external income stands at approx £2m (pre-trading) whereas gross operating costs (including indicative support costs) are £30.9m; therefore the forecast management fee is likely to be in the order of £28.9m.

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As current income is relatively low compared to gross costs, arrangements will have to be made to ensure the Company has sufficient financial resources to operate and to prevent cash flow issues.

A key principle of establishing the WOC is that it will be challenged to generate new income streams and as such the trading vehicle which will be subject to Corporation Tax. As the WOC is 'wholly owned' it is still to be decided how future profits would be divided in a way which satisfies the Council, as the shareholder, and allows for the WOC to invest and develop the service and offer real incentives for staff.

10.6 Financial assumptions

- It is assumed that capital expenditure is incurred by Cheshire East Council (CEC) to ensure the South Depot infrastructure project and fleet replacements are replaced during 2014-15 and that the North Depot/WTS Infrastructure project is also taken forward by close of 2015-16.
- The management fee involved (including support costs) will be approximately £31m. This includes Waste & Recycling, Streetscape (excluding Devolution), both including fleet costs, some of the budgets held in Assets for premises related costs and repairs and maintenance and also includes the buyback of corporate support functions which could be approximately £2.4m. Note that this figure is approximate and is subject to agreement on where costs/budgets should reside.
- The financial business case assumes there is a retained cost for the Council to manage the 'client' relationship (including that also for the Bereavement Company Orbitas).
- If the WOC is established and a TUPE Transfer takes place, pension provision will be provided by the WOC as either designated or admitted body status. This means that employee's pensions will continue to be provided through existing arrangements. As yet there have been no assumptions made in the business case with regard to pensions in terms of additional costs or savings.

See Appendix A2 for further details.

11. Equality Impact Assessments

See Appendix A3.

12. Review Monitoring & Evaluation

There is a statutory requirement that a business case is prepared and approved by the Council before the Council may trade through a company. In addition to the Company Board, the business once operational will be monitored through the Shareholder Committee which will evaluate business performance and through the Client Function within the Council which will monitor performance outputs of the service. It will be required to supply Annual Business Plans to the Shareholder Committee for any future development. It should be noted that, in future, the Council and the directors of the company will need to have regard to statutory guidance issued by the (then) ODPM which, amongst other things advises that the business case is further developed into a business plan for the company, amended to reflect the then current trading environment.

13. Exit Strategy

It is anticipated that the real trading opportunities will not be fully known until the WOC formally commences trading. There is recognition that culture change, efficiency savings and new business opportunities are the three main drivers for change through which we aspire to achieve a step change in the way Ansa Environmental Services Ltd will deliver the services commissioned by the Council. In the event that sufficient trading potential has not been realised within a 5 year window or costs begin to spiral, the Shareholder Board will have the power subject to Cabinet approval to review the on-going viability of the WOC and what steps if any it needs to take in the way the WOC is governed and/or managed to achieve the required benefits. Given that the Council is the sole shareholder, it potentially has the power to bring

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the service back in-house or to conduct a formal outsourcing exercise or indeed to sell the WOC subject to any agreed processes or relevant legislation. It should be noted that the sale of the company or of any part of it, to the private sector will remove the *Teckal* exemption and all contracts then held by the company in reliance on the *Teckal* exemption would have to be re-procured.