



PROJECT INITIATION DOCUMENTATION

DETAILED BUSINESS CASE

Completed By:	Chris Williams & David Laycock	Project Name	Alternative Service Delivery Vehicle for Cheshire East transport
Programme Name	6.1 Develop New Delivery Models	Portfolio Holder:	Cllr David Topping
Project Reference Allocated	6.1F	Service:	Cheshire East Transport
Senior Responsible Owner (SRO):	Lorraine Butcher Executive Director of Strategic Commissioning	Project Manager	David Laycock
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1. Background

The landscape in which frontline services are designed, structured and delivered is changing rapidly in response to new legislation, government policy and changing market conditions. Cheshire East Council (CEC) is responding to these pressures and on February 2013, the Council announced its three year plan to becoming a strategic commissioning council. This consisted of 29 major change programmes covering 8 key priorities. The plan identifies the core purpose of the council, and identifies the need to redefine 'the council's role in core place-based services'.

The intention to become a strategic commissioning council is supported by a clear strategic framework. This 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. An objective of the plan is to develop a new operating model for travel and transport services.

To achieve this ambition a review of the service has been completed, identifying and reviewing the differing operating models which could be used to support the travel and transport needs of residents, businesses and other organisations. A guiding principle of this review has been the desire to create a more effective, efficient and locally responsive service, acknowledging that these outcomes are more important than the question of who actually delivers them.

The purpose of this business case is to summarise the findings of the review and demonstrate how the implementation of a Wholly Owned Company (WOC) best meets the Council's objectives.

Cheshire East Transport Scope

The service is responsible for a number of travel and transport measures, ranging from support for walking, cycling, public transport, information, home to school and social care transport needs. It has a statutory role relating to public transport support, and it discharges the Council's duties as a Passenger Transport Authority, as well as the Travel Concession Authority. It is in part a regulator of public transport, as well as having a duty to promote public transport either directly through financial support for bus routes that otherwise would not be viable, or indirect support such as mobilising on-road improvements to junctions to improve bus reliability, bus shelter and stop maintenance, provision of passenger transport information etc. The service has a duty to encourage consideration of travel and passenger transport issues in relation to major development applications, encouragement of staff travel schemes to reduce dependency on private motoring etc.

Key Service Responsibilities:

- The provision of support for public transport in accordance with the statutory duties contained in the various Transport Acts
- The provision of an application process, eligibility assessment and subsequent provision of home to school transport and travel support.
- Provision / maintenance of roadside infrastructure, such as bus stops, shelters and interchanges / stations. (These include 399 bus stops with

shelters, 1084 Bus Stop poles/lighting column signs and bus stations at Macclesfield, Nantwich, Congleton and Knutsford)

- Provision of public information through a variety of mediums including websites, national / regional databases, on-street information etc
- Support for sustainable transport measures, such as cycling, walking and integration of transport modes

Key Service Activities:

- Coordination of all travel and transport functions:
 - Home to school transport delivery and management
 - Social care transport delivery and management
 - Development and management of public transport
 - Contract delivery and management
 - Sustainable transport promotion and project delivery
 - Emergency response

A full list of all the functions proposed for transfer is attached as Appendix 1

Performance Measures and Standards

To evaluate and track performance a number of local methodologies have been developed to assess whether the service is meeting the needs of local residents and others. These will be included in the company's performance framework and are listed below.

- Cost per passenger journey
- Compliance with Construction and Use regulations
- Number of passenger journeys originating in CEC
- Number of complaints upheld
- Annual participation in national MORI Highways and Transport Customer Survey
- Participation in Association of Transport Coordinating Officers surveys, benchmarking, price comparisons etc
- Published service standards
- Customer satisfaction questionnaires
- Transport user forums e.g. LAP-supported rural transport network

It is anticipated that the Council, as commissioner, may wish to incorporate other measures focussed on corporate outcomes such as stronger communities and carbon reduction. These will be agreed by negotiation.

Staffing Resource Implications

The service has approximately 75 established posts. These members of staff are wholly dedicated to the service and responsible for all aspects of travel and transport support. A small – and reducing – element of direct transport provision is managed and provided in-house, namely 7 vehicles used solely for home to school transport for children with special educational needs. All other passenger transport is delivered by external providers. The service provides the council's school crossing patrol service, as well as transport coordination, information dissemination and infrastructure maintenance aspects.

All staff currently delivering the service as their primary role will transfer to the WOC 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.

Any known risks that may affect employees have already been recorded and included in this business case and in the developing project plan. Both formal and informal consultation and engagement activities are already underway with staff and unions. This valuable process will continually be used to promote staff involvement and engagement with feedback used to inform decisions and project planning

Service Staff Profile

The table below sets out the core cost and staffing data for the service.

STAFFING GROUP	STAFF NUMBERS
Permanent	75
Total	75

Service Budget

The table below summaries the current service budget

COST/INCOME CATEGORY	TOTAL £K
Employees (including driver attendants and school crossing patrol staff)	1,736
Premises	52
Transport operated under contract / grant	10,817
Supplies & Services	928
Concessionary fares and other transport support	3,767
Net Expenditure	17,300
Support service recharges to service	467
Gross Expenditure	17,767

Note: excluded for this budget is provision for:

- Commissioning roles, which are already funded from other budgets
- Corporate support charges. These budgets are held within the corporate services.
- Project budgets relating to capital projects, sustainable transport projects etc
- Capital and revenue schemes funded through hypothecated grants e.g. Local Sustainable Transport Fund

Out of Scope Activities

Certain activities are carried out by commercial transport providers (e.g. management of Crewe Bus Station, commercially operated bus routes) or by other providers (e.g. the issuing of concessionary bus passes and the reimbursement of

concessionary fares to bus companies). Whilst the overall coordinating and delivery role will be a company responsibility, the actual provision of the services is expected to be at the company's discretion whether they be directly delivered, delivered in partnership with a provider/other council, or through external contractors.

Future Scope

In The Council's three year strategic plan there is a clear prioritised framework to becoming a commissioning council. This recognises the necessity to phase the creation of alternate service delivery vehicles, allowing for resources to be allocated, to be prioritised and for lessons to be learnt.

Cheshire East Transport is in the third phase of this plan and will soon be followed by a much broader review of Council Services. As this review progresses the Council is seeking to identify improved delivery vehicles for many services. As the Council provides a range of customer focused services it may be advantageous for the Council, over time, to consider extending the remit and responsibilities of the proposed WOC to include other suitable services. Such considerations would necessitate the development of robust feasibility studies and business cases

2. Why is the Project needed?

Drivers for Service Change

The Council has realised the need to change the way future services are provided in order to create opportunities for innovation and provide service efficiencies. As a result the Council has determined to take a more commissioning role. This aspiration to redefine its role in core place-based services is set out in the Council's Three Year Plan.

All service areas will have to identify the most appropriate future delivery model in order to sustain current service provision, but in a more financially sustainable way. Travel and transport is a service area that – due to high levels of provision by commercial providers – gives a clear opportunity to exploit the potential to change the relationship with external providers and the council's own contracted services. By entering into significantly more commercially aware contract and partnership arrangements – along with associated incentives to align commercial provider objectives with those desired by the WOC – a “win-win” scenario is envisaged: commercial providers get more stable and secure contracts with the WOC, and the WOC benefits from reduced prices or service enhancement that will result.

The existing travel and transport service has delivered significant cost reductions over the recent past. Some of this has resulted from policy changes in areas such as social care transport and home to school transport. However, much has been delivered through aggressive cost management, operational changes (e.g. externalising service delivery where staff costs in particular have made it uneconomic to continue with direct service delivery), etc. The limits have been reached in reducing costs further – or indeed, containing industry cost pressure – without having the freedom and flexibility that an ASDV would allow. The alternative is to accept significant reductions in service provision such as termination of support for bus routes, abandonment of infrastructure, etc.

Travel and transport is a high-profile service area. Around 35,000 people a day are estimated to be supported in one form or another with their travel and transport needs. Service failure (e.g. home to school transport arriving late or not at all) is a constant risk, and when service failure does occur it is noticed by service recipients immediately. Therefore a key driver is to allow greater flexibility to improve customer satisfaction levels with services provided, and to ensure as far as possible lost mileage / service unreliability is avoided through incentives to contractors.

With the advent of greater personalisation in social care and special educational needs support arrangements, there is a need for the council as a whole and also for transport in particular to become more facilitative in meeting people's transport needs. Monolithic service delivery – where the user is in effect told exactly what transport destinations they are allowed to travel to, when and by what method – will inexorably give way to individual decision making. In the absence of a commercial solution to meeting these needs, it is likely that many clients will be unable to travel cost effectively, or even at all. By allowing the WOC to work with commercial operators – or through the freedom to trade be able to offer bespoke travel solutions – client needs will be better met and at potentially lower cost.

The adequate provision of transport to meet the needs of communities is a key priority for Cheshire East. The setting up of the WOC will enable us to meet the ever

changing demand for transport to meet employment, health, education and social care requirements, as well as more universal services such as culture, arts, sports and lifelong learning. The WOC will make a direct contribution to health and wellbeing by enabling:

- Reducing rural isolation and improved access to local services
- Increased accessibility and independence of older people and those with disabilities
- Improved social, financial and economic inclusion, social and emotional wellbeing and mental health
- Increased healthy lifestyles

The provision of safe, sustainable, reliable and economically efficient integrated local transport provision within the WOC which focuses on the health and wellbeing agenda and the opportunities for choice and control over involvement in universal activities in local communities will provide valuable assistance in assisting our Stronger Communities agenda.

Finally, transport has a number of transactional-type services that can usefully be aggregated across authority boundary areas to drive economies of scale and scope. By being amongst the first local authority transport service areas to be given freedom to trade – with the expected resultant lower costs – there could be a compelling sales proposition to offer to other authorities. For each additional authority who may wish to participate with some or all of their travel and transport services, the benefits will be multiplied through greater overhead sharing, increased purchasing power and ability to specialise.

The outcomes for the Council can thus be summarised as:

- To safely discharge the council's statutory duties in relation to home to school, social care, public transport, and other travel and transport related obligations such as promotion of walking and cycling;
- To secure the financial savings as identified within the Council's Financial Plan;
- To create a new identity for the service that enhances the user experience, and gives a single point of contact and focus for all travel and transport related activity;
- To have the option of allowing the company to increase the range of services provided by absorbing other aspects of travel and transport from within other council service areas
- To gain additional benefit by allowing the company, over time, to develop a compelling offer to other councils, within and outside the region, so that costs, expertise etc can be shared and financial and other benefits accrue to all participants
- To provide valuable assistance to our Stronger Communities agenda by delivering safe, sustainable, reliable and economically efficient transport provision

Objectives and deliverables

The primary objective is:

To create (by 1st July) an efficient, effective and profitable Wholly Owned Company (WOC), limited by shares, for the delivery of the Council's statutory and discretionary transport services which support strong and supportive communities, green and

sustainable places and a strong and resilient local economy. This will place the needs of Cheshire East residents at the heart of the company's activities

Supporting objectives

- To create (by 1st July) a wholly owned company, limited by shares, for the delivery of all current transport services that is fully equipped to succeed as possible by virtue of having
 - Robust contractual arrangements agreed by both parties
 - A positive brand identity
 - A detailed business plan and marketing strategy for the subsequent 3 years with outline plans for the succeeding 2 years
- To achieve best value and quality for Transport services and to reduce net operating costs wherever possible, as measured quarterly using an agreed performance framework, that will ensure the best possible service for customers
- To maximise the new opportunities and flexibilities to deliver services that a WOC offers hence delivering the expectations of the business plan and in accordance with the assumptions and timings contained within that plan
- To identify, retain and subsequently TUP transfer all 75 staff to the new delivery vehicle by 1st July and subsequently develop and motivate said staff to deliver service improvements and excellence as measured quarterly using an agreed performance framework

Key deliverables

- The set up and registration of a company limited by shares (this has already been accomplished)
- Appointment of a company board of Directors
- A detailed service specification and contract (including all assets, maintenance issues and performance measures) which has been agreed by both the Company and Council
- Detailed TUPE consultation with all 75 affected staff
- Successful user acceptance testing (UAT) of all supporting systems and procedures
- Formal transfer of staff and the service responsibilities detailed in Appendix 1

3. Proposed Solution

The continuing provision of the full range of travel and transport service delivery remains a key priority for Cheshire East Council as it moves to becoming a Commissioning Authority. To consider how this can best be achieved an options appraisal exercise has been completed to review alternate delivery models for running the service.

To ensure the service is best placed to meet current and future challenges the review has focused on identifying ways of delivering the service which can create greater flexibility, are more commercially focused and yet still retain and enhance existing relationships with local communities, voluntary and charitable groups, parish councils etc. A guiding principle of this review has been acknowledging these outcomes are more important than the question of who actually delivers them.

During this exercise consideration has been given to the following operating models:

- a) Continuing in house provision
- b) External tender
- c) Joint venture company (with other independent organisations or partners)
- d) Charitable models such as Industrial and Provident Society
- e) Staff mutually owned company
- f) Local authority wholly owned company

The options appraisal (Appendix 2) concluded that Cheshire East Transport should transfer to an external provider, with the most appropriate model being a wholly owned company.

This appraisal and recommendation was subsequently submitted to, and discussed by, the Council's Policy Development Group for Environment in summer and autumn of 2013. The PDG has made a recommendation to the Portfolio Holder and Cabinet that the WOC is the preferred option, subject to clarification of the governance arrangements to ensure enhanced member input into decision making surrounding transport support.

Management Arrangements

Governance

The WOC will be directly accountable to a board of directors which will include 3 appointed members who will represent the interests of the Council, as the sole shareholder for the WOC. 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. However, unlike other WOCs proposed by Cheshire East, the Board will also have an enhanced role in decisions regarding support for services such as subsidised transport, subject to appropriate controls agreed by CEC which will be incorporated in the service contract negotiated with the company.

Proposed Governance Board Membership:

ROLE	COMPOSITION
CHAIRMAN	MEMBER – Cllr Rod Menlove
DEPUTY CHAIR	MEMBER – Cllr Peter Groves
DIRECTOR	MEMBER - TBC
TRANSPORT MANAGER	OFFICER – Chris Williams

Alongside the other ASDVs that the Council is establishing, it is anticipated that the WOC will become a subsidiary company within the overarching holding company formation currently under discussion.

Within that governance structure it is critical that individual roles and responsibilities are defined in a way which allows for clear and robust arrangements which value and recognises the contribution of both organisations.

These responsibilities will clearly be set out in the 'Articles of Association' and service specification which will define the type and amount of influence that the authority will have with the WOC and will 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 the Council's Shareholder Committee.

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 the role of the commissioner to manage the contract and contractual relationships. This will include the relevant contract monitoring and management, general client relationship and any specific management requirements.

Constraints and Dependencies

Cheshire East Transport is 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 so that – at least for the short term 'incubation period' – the service can continue to function adequately while it becomes fully established. The expectation is that over time the company will be given freedom to explore alternative support arrangements where these can be more cost effectively obtained elsewhere. The support services include (although not exclusively);

- Existing Central Support Services – Includes IT, Finance, HR support
- Environment Services – Provision and maintenance of fleet

Business Planning

This business case is intended to provide a framework for planning, managing and defining the proposed business change. A separate, detailed business plan will need to be prepared and agreed which defines the business goals, the rationale behind them, the plan to achieve them and fully developed financial projections covering the first 3 years of operation.

4. SWOT Analysis

The table below identifies the relative strengths, weaknesses, opportunities and threats to the project. These are reflected throughout this Business Case and will be revisited and updated as the project develops.

STRENGTHS <ul style="list-style-type: none">• Aligns with the Councils ambition to become a commissioning Council• Company 'Wholly Owned' by local authority providing clarity and transparency in ongoing service delivery and clear governance arrangements.• Council retains assets and income – all benefits are retained in full by the Council rather than 'shared' with another partner• Ability to tailor service, products , approach and systems to meet changing demands• Reduction in bureaucracy will lead to improved service responsiveness, effectiveness and flexibility• Reduced reliance on the corporate centre• Core Council work can legitimately be devolved without a lengthy procurement exercise being required	WEAKNESSES <ul style="list-style-type: none">• Council retains statutory responsibility for service provision• Limited scope to act wholly commercially unless a subsidiary company is set up for this purpose• Initially difficult to expand commercially whilst credibility and experience are established• Potential negative impact on Council corporate services if they are not providing a service to the WOC• Council's reputation linked to Company performance• Dependant on Council for funding and workload (altering either could affect company viability)
OPPORTUNITIES <ul style="list-style-type: none">• Ability to act in a commercial way and attract/generate new income streams• Able to develop a new brand and service culture that better meets the Council's changing needs• Opportunities for partnership working and shared delivery with other local authorities• Opportunities for staff incentivisation /self determination and reward, leading to innovation and a more entrepreneurial culture• Opportunities to reduce the core cost of the service once established• Provides a vehicle which could run additional services on behalf of the Council	THREATS <ul style="list-style-type: none">• Insufficient budget provision would reduce standards, service delivery and ability to generate income• Council breaches agreement to devolve all forms of travel and transport support to the company, leading to user dissatisfaction, cost escalation, loss of staff buy-in to concept of company acting as sole deliverer of transport support services

5. Benefits and Benefit Realisation

Service Quality Benefits

The current service is of good quality and generally well regarded by service users. This quality derives from the experience, affiliation and in depth knowledge of the current team who exhibit a genuine motivation to provide high levels of service and care for service users. The staff delivering the service would TUPE transfer into the WOC ensuring their skills and abilities are retained.

Furthermore real opportunities will exist for the 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 and has been acknowledged by staff during stakeholder meetings.

With the ability to offer a broad range of services, to introduce incentivised performance management and to act quickly it is likely a WOC would offer a better and more responsive service for users.

Continued or enhanced take up of the service would create the potential for additional revenue streams to be established. This could be used to reduce unsustainable costs, to provide a source of new investment to improve the service and/or to provide a tangible means of financially rewarding staff for good performance.

Innovation and Growth Benefits

The review of service delivery options concluded that a WOC can offer one of the quickest means of delivering change, promoting cost efficiencies and effectiveness whilst managing the reputational risks associated with service delivery.

Whilst this may take time to develop, there will clearly be opportunities for employees to develop and implement their entrepreneurial skills without being constrained by the red tape found in larger organisations. Already ideas have emerged during the staff engagement process of new ways to expand the type of services offered and their scope.

There is also the possibility of incorporating the WOC, as a subsidiary within a larger group structure as well as possibilities for the WOC to expand its own operations and areas of responsibility. This could allow the Council to incorporate further service areas in an established WOC at a later date.

New Business and Income Generation

There is an expectation that from year 2 the WOC will be able to create new and additional income streams. At staff stakeholder meetings there has been a consensus that by becoming a WOC, service levels would improve through quicker decision making and greater flexibility to enhance the services provided.

From the existing meetings held already, and management discussions, the following ideas have already been suggested:

- Winning transport management contracts from other, neighbouring local authorities. This would both simplify cross-border transport arrangements and offer economies of scale. Such economies would for example; see a doubling in services delivered whilst only needing an estimated 50% growth in administrative and management capacity since contracts are likely to be with the same companies and will simply be extended. The proposal would be to share these savings pro-rata with the partner authorities
- “Works” or college transport – public or privately-hired transport provided for employee or student use – offers the potential for long-term partnering or management fees. By securing contracts on behalf of employers, the council can link such contracts to home to school / public transport contracts. In this way, even if the works contract price cannot be bettered, the WOC will be able to take advantage of the combined contract purchasing power to reduce the cost of the WOCs own transport needs. It is known, for example, that one local college employs three transport coordinators to manage a fleet of 18 vehicles. A management fee of £25K would more than halve their costs making it an attractive proposition for both parties
- Given that the WOC will be a ‘first-mover’ in externalising its transport operations it can reasonably be anticipated that other LAs will be interested in learning from the experience, even if they don’t wish to join the company. Three-day consultancy contracts valued at £3K each would not be unrealistic in terms of expectation
- All walking, cycling, rail and other sustainable transport activity is migrated to the company. This could provide a significant additional revenue stream and – coupled with the devolution of any future funding from DfT for sustainable transport measures – would ensure additional future funding.
- Coordination of non-statutory education transport. With recent withdrawals of entitlement to free travel - e.g. post-16 transport, denominational transport – there is the potential to offer services to colleges, schools, university etc to coordinate and supply the transport that they have recently assumed responsibility for.
- By being able to negotiate, (and hence reduce the costs of its contracted transport) the WOC will have a compelling proposition for other local authorities. In addition, for transactional services, the shared cost of processing the transactions will be an added benefit. Finally, the shared overheads and management costs will make unit costs lower for each authority that participates.
- Through better use of roadside infrastructure (bus stations, shelters, stops etc) there is the potential to attract a range of advertising and marketing offers. For example, displays in each bus shelter have the potential to attract and retain adverting from commercial advertisers, and for those with limited commercial appeal the WOC could offer space to other council services / public bodies to display information.
- Where home to school transport or public transport is deemed to be operating without adequate competition, the WOC could directly provide services to act as a price regulator. Historically, this was the case in parts of the Borough when the introduction of Yellow School Buses was used to directly compete down prices. Recently, the depressed nature of the market for transport has moderated pricing but – as discussed elsewhere – this downward pressure will not be sustainable. With the freedom to offer different terms and conditions to staff (hence reducing the single biggest cost element in

transport) the WOC would be able to help reduce pricing power in the industry, as well as earn additional income from profits no longer earned by external providers.

It would of course be important for the WOC to assess the viability of new initiatives, and constantly monitor the market place it operates in. This would be a key part of business planning for the WOC and ideas would have to be fully assessed, comply with the established governance structures and regulations and be approved by the Board (and hence by the Shareholder Committee) and agreed with the Council's commissioning function

However, in order to demonstrate the financial impact of some of these initiatives the top 3 on the list above have been assessed using a combination of local knowledge and soft-market testing. The results are incorporated into Appendix 3B and demonstrate a potential profit of over £2M within 5 years.

It should be noted that extra income in Appendix 3B is shown nett given that it is difficult at this stage to calculate what the extra costs will be, however they will be detailed further in the business plan

The table below illustrates the range of key benefits, both cashable and non-cashable, that will be delivered by the company. A detailed benefits realisation plan will be developed and included in the performance management framework incorporated into the service specification

Benefit	Type	Comment	Anticipated date of benefit commencement / delivery
Financial savings from different ways of working, cost growth avoidance etc	Financial	Over time, savings estimated to be £0.45m a year	2014-15 onward
Other transport delivery - savings from contract renegotiation	Financial	Savings estimated to be £0.1m a year	From 2015 onward
Other transport delivery - income from trading	Financial	Additional income / cost savings from shared overheads	From 2016 onward
Reduced non-service costs (e.g. corporate support costs) / increased emphasis on prioritising resources to front line delivery	Financial	Net impact of support cost reduction likely to be 5% per annum	2017 onward
Increased customer / partner involvement in decision making	Service improvement	Additional input into targeting energies and effort to best customer effect	2014 onward
Involvement of additional commercial expertise in board decision making, such as through appointment of bus industry experts, voluntary / public sector partners	Process improvement	Increased commercial focus will improve cost effectiveness, increase customer focus and drive process improvement	2014/15 onward
	Service improvement		
	Financial		
Greater managerial / staff autonomy leading to enhanced staff engagement and better customer focus	Process improvement	Service innovation will be driven by better incentives to staff, greater autonomy and reduction in bureaucracy	2014 onward
	Service improvement		
Ability to improve partnership working with e.g. Town and Parish Councils, local employers, voluntary sector	Service improvement	Wider and deeper understanding of local transport needs and how they can best be met	2015 onward
Single service focus will allow for increased specialisation and reduced distraction from core purpose	Process improvement	Ability to focus on core service purpose will lead to greater innovation, ability to tailor processes etc	2015 onward
	Service improvement		
Opportunity for the company to take on additional service areas should the council wish	Service improvement	Further service areas relevant to transport and travel can be included in future	2014 onward
Increased speed of decision making and response to emerging national, regional and local issues	Service improvement	Better able to react to new priorities and needs, especially devolution agenda	2015 onward
Flexibility to quickly and decisively respond to local market conditions	Process improvement	Ability to more adeptly manage commercial issues, and react to market conditions	2014 onward
	Financial		

6. Project and Investment Appraisal

In considering the financial viability of a WOC consideration has been given to the potential financial benefits for both the Council and the WOC. Two alternatives have been considered: a prudent approach which ignores new business growth and a more ambitious approach which incorporates additional business opportunities where these can reasonably be assessed. A high-level summary of the benefits of each is provided below with more detail included in the Finance Appraisal (Appendices 3A and 3B)

The 'prudent' approach demonstrates that, even if some growth initiatives are thwarted, the company still remains a viable and profitable enterprise

Summary Financial Business Case – Prudent approach

Table 1a) - Summary

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
	2014/15	2015/16	2016/17	2017/18	2018/19	5 years
	£k	£k	£k	£k	£k	£k
Total Costs	75	75	75	75	75	375
Total Benefits	(91)	(137)	(200)	(254)	(308)	(965)
Net	(16)	(62)	(125)	(179)	(233)	(615)

*Does not incorporate inflation / interest rates.

Summary Financial Business Case – Ambitious approach

Table 1b) - Summary

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
	2014/15	2015/16	2016/17	2017/18	2018/19	5 years
	£k	£k	£k	£k	£k	£k
Total Costs	75	75	75	75	75	375
Total Benefits	(117)	(171)	(507)	(632)	(959)	(2386)
Net	(42)	(96)	(432)	(557)	(884)	(2011)

*Does not incorporate inflation / interest rates.

Detailed Financial Considerations

Like any product, the total cost of transport is a function of volume multiplied by the cost of provision. In respect of volume, it is likely that over time, there will be little movement. There are unlikely to be substantial policy changes, given that there is little discretionary transport provision remaining. The exception to this is transport for children with special educational needs, where the long term experience is for an increase of perhaps 1% - 2% per year in the number of children that are entitled to transport. In addition, the complexity of the transport needs of such children is also increasing, so that the underlying unit cost of transport is increasing by around 3%-4% per year on average.

However, the greatest impact over recent years has been the relatively benign market pricing that most councils have experienced. In the deep recession starting in 2008 and the associated reduction in transport demand from other sources, the cost of transport fell in real terms. Cheshire East Transport experience in this period was that contract prices fell not just in real terms but in absolute terms when compared on a like for like basis. This is due to operators adopting “survival pricing”, where operators tendered prices that were not sustainable in the long term but allowed redundancy / vehicle disposal costs to be avoided in the short term. Recently, contract prices have started to drift upward as providers seek to rebuild margins and adopt more sustainable pricing levels.

Unchecked, the ability of the market to exert pricing pressure will result in both the volume effect as well as the pricing effect leading to higher contract values. Already, the Confederation of Passenger Transport North West survey of transport providers has highlighted that inflation in the industry is no longer being contained by operators. It is therefore imperative that the WOC quickly seek to adopt strategies to embed wherever possible the current low contract prices. The business case should therefore be viewed in the light of the 4%-6% cost pressure that Cheshire East Council will face.

The Transport service essentially currently acts as a contracting agent for the Council with over £15M of its turnover being spent on service delivery contracts with the independent sector (bus operators, taxi companies etc.). There are over 460 contracts with 150+ different companies. Each contract contains an uplift clause which obliges the Council to renegotiate contract prices annually taking due account of the Confederation of Passenger Transport cost survey which is currently showing 4.7% growth. It is anticipated that the new commercial freedoms of the ASDV will allow it the flexibility and commercial ‘nous’ to negotiate such changes downwards. This ambitious target, if met, would see an approximate 5% reduction in contract costs. There is a risk that this target is not fully met. These factors will be included in the annual negotiation between the Council and the company in which the savings targets and fees for the provision of the service will be agreed as specified in the contract. An example of such a freedom would be the ability to negotiate post-tender. This is specifically prevented by current CEC guidance on variances to contracts above £10K yet is the approach recommended by the Dept of Transport for all contracts falling below the OJEU threshold of £170K

The business case assumes an ongoing reduction of support service costs by the end of year 4 if the existing volume of transport support is maintained. This is helped by the WOC potentially being able to use CEC services / frameworks where beneficial, and establishing its own where not.

It should also be noted that the WOC would have the opportunity to generate new and additional income streams through activities such as the sale of additional services. Income streams are projected to yield further benefits to the Council and further support the business case.

Expanding the business and changing the income profile will have significant implications for the WOC and these would need to be fully considered as the WOC matures.

Typically existing operating models indicate that efficiency savings may define the former years whilst energies are focused on developing new income streams during the latter years.

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. Consequently, from year 4 onwards a notional 5% efficiency saving has been incorporated in the budget projections. In 2012/13 the recharge to the service for corporate support costs was £467k, (excluding the capital charges)

Financial Management

It is anticipated that the company and the Council would agree annually the level of funding that is required to discharge the Council's statutory duties, as well as the discretionary services that the two parties agree. Until the company has built up its reputation and hence marketability to others, it is likely that the primary objective of a financial management regime would be to ensure that the cost pressure in the industry is absorbed, and the current levels of service provision are maintained. The construction of a five year business plan will identify the key cost drivers, activities that can be undertaken to mitigate the cost pressure, and embed better contract and tender management.

Financial assumptions

- The Business Case assumes that capital expenditure on major infrastructure (such as facilitating an on-street replacement for Crewe Bus Station) would be funded by Cheshire East Council in addition to ongoing maintenance costs for all infrastructure, with ownership of the assets being retained by the Council.
- The financial case assumes that LSTF – both current and future – would continue to be delivered by the company. However, because this is a "nil net cost" to the council as all costs are reimbursed by the Department for Transport, they are not included in the financial analysis nor in the estimates of income and expenditure.
- The financial business case assumes there is no retained cost for the Council to manage the 'client' relationship as this capacity is already in place in Children's Services and Communities respectively.
- 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. New staff would, however, be likely to be refused admission to the LGPS and instead would be offered an attractive, employer-supported defined contribution pension plan.

7. Risk

A full risk log is attached as Appendix 4. This separately identifies risks to the project, the company and the Council

It is recognised that predicting future needs, demand, user responses and financial viability is an evolutionary process and the process of identifying risks and preparing suitable responses and mitigation, is a continual activity which will be a key part of the Business Case and subsequent Business Plans for the company and the Council.

8. Equality Impact Assessments

An Equalities Impact Assessment is attached as Appendix 5.

9. Resource requirements to deliver the project

<i>Resource</i>	<i>Estimate of number of days required</i>	<i>Source of Resource (corporate/service/Shared Service/external)</i>	<i>Comment from Service Manager (for example: require additional expertise, can manage within existing capacity)</i>
Project Management	100	Corporate	David Laycock – Manage within existing capacity
ICT	86	Corporate / Shared Service	Val Poyser - Can manage within existing capacity
HR	40	Corporate	Karen Begley: Can manage within existing capacity
Communications Planning	20	Service and Corporate	Michael Moore - Can manage within existing capacity
Procurement	25	N/A Corporate	Sam Clements - Likely to be managed from within existing arrangements after 01 April 2014
Legal	90	Corporate and External	Jayne McLaughlin - Can manage within existing capacity with additional locum support for novation of contracts, property issues and council / company contract drafting
	5		Iolanda Puzio – Can manage within existing capacity for issues re bus stops etc
Assets	10	Corporate and External	Denise Griffiths - Can manage within existing capacity and the resources that have been currently sourced
Finance	60	Corporate	Mike Wall - Can manage within existing capacity
Risk Management	20	Corporate	Jo Butler – Risk logs have been produced, ongoing can manage within existing capacity
Other:- please specify		N/A	

10. 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. Thereafter the Council is required to have regard to guidance issued by the (then) ODPM, which advises that the business case, once approved is used as the basis of developing a business plan to be used by the company in future years.

Up until the go-live date this document will be continuously reviewed by the Project Manager and SRO to ensure compliance with the legal requirements of establishing a trading company and refreshed with any new information. Where this has a material effect on any of the proposals for the project it will be resubmitted through the Council's approval process.

11. Exit Strategy

Any material changes that will result in failure to deliver reduction in costs or improvements in outcomes or sustainability may give rise to concerns that the WOC will not be sustainable over the long term.

It is anticipated that the additional trading opportunities will not be fully known until the WOC formally commences trading. There is a recognition that culture change, efficiency savings through different ways of working and contracting, and new business opportunities are the three main drivers for change through which we aspire to achieve a step change in the company provision.

In the event that sufficient trading potential has not been realised within a 5 year window or costs begin to spiral, the Shareholder Committee 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 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.

12. Additional Information

This business case is a summary of work carried out over the past 12 months. This work produced additional documentation which is available on request from the report's author

It includes:

- PESTLE analysis
- Reports and presentations to PDG
- Stakeholder analysis

13. Appendices:

Appendix 1: Services in Scope
Appendix 2: Options Appraisal
Appendix 3: Finance Appraisal
Appendix 4: Risk Log
Appendix 5: Equality Impact Assessment