



Alternative Service Delivery Vehicles for Cheshire Skills & Growth Services

Options Appraisal

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1. Background

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

Economic growth is a top priority for the Council. A strong economy and labour market is a crucial aspect of our growth strategy, making Cheshire East a more prosperous place and reducing dependency, benefitting business, residents and the Council itself.

The borough is already home to a highly skilled workforce, strong labour demand, employment rates that are significantly above regional and national averages, and low (and falling) levels of unemployment. However, there remain pockets of deprivation and high levels of unemployment in defined areas where we need to deliver targeted intervention programmes. We need to build on our strengths by establishing a collaborative and integrated skills and growth gateway to tackle long-term unemployment and increase the productivity of our businesses.

To tackle these issues there is a need to take a fresh approach to skills and growth, ensuring an integrated and effective service aligned with the needs of our employers, designed to ensure the best employment and skills opportunities are available for all our residents, and geared towards maximising our strengths for high growth employment opportunities in science, energy, technology, and engineering.

Skills & Growth services are currently supplied by a number of disparate teams and individuals in different service areas. It is considered that a more cohesive and consolidated approach will achieve an impact greater than the sum of its component parts, thus better supporting employment, an improved labour market function, maximising growth in high value sectors and enabling more residents to access those jobs so improving productivity

There are many different forms a new look Skills & Growth service could take, each with their own advantages and disadvantages. The Council has also recognised that a mixed- economy of delivery vehicles should be developed with the most appropriate form used to suit individual service requirements.

This document reports the assessment of those forms against a number of services.

The initial appraisal was conducted on 24 June 2015 and looked at four services comprising:

- a) 14+ Skills
- b) Workforce Development
- c) Business Engagement and Inward Investment
- d) Major Projects (inc. Fairer Power and Connecting Cheshire)

Subsequent work concluded that the scope of the project be changed to exclude: b) Workforce Development. It had also developed a clearer understanding of the vision for the services moving forward. The assessment exercise was therefore repeated and re-validated at a workshop held on 16 Oct 2015 in order to take these new factors into account.

In both instances it was accepted that close links would need to be maintained with services outside the scope of the review, such as Youth Support and Youth Engagement, whose goals are closely aligned with those listed above.

The different delivery vehicles assessed were:

- No-change
- Keep it all in-house – but consolidated with all skills, employment and business engagement activities in one council team, including Work Choice and Community Learning delivery functions
- Keep it in-house with ethical walls. Distinctive roles for a provider neutral business engagement, skills/employment policy and research team; separate from any delivery functions (e.g. Work Choice and Community Learning).
- Keep policy/research/employer engagement functions in-house, set up delivery teams in an ASDV to manage risk, reduce overheads and enable more entrepreneurial management.
- Keep service delivery in-house and set up policy/research/employer engagement function teams in an ASDV to enable more entrepreneurial management. policy/research/employer engagement functions (*NB: This option was a new one added at the workshop on 16 Oct*)
- Create one ASDV for all policy, research, employer engagement and delivery functions
- Outsource to the commercial sector
- Any other options identified during the options appraisal workshop(s)
- Different company forms including:
 - Company Limited by Shares (CLS) – wholly owned by CEC
 - Company Limited by Guarantee (CLG) – wholly owned by CEC
 - Community Interest Company (CIC) limited by shares
 - Community Interest Company (CIC) limited by guarantee
 - Charitable Incorporated Organisation (CIO)
 - Industrial & Provident Society (IPS)
 - Co-operative/Mutual
 - Limited Liability Partnership (LLP)

2. The Appraisal Process

Initially the options were examined by a working party on 24 June 2015. This included a range of officers with experience designed to bring a wide perspective to the issues. Several participants also had previous experience of establishing alternative operating models and therefore contributed the lessons learned from those ventures

The group comprised representatives from:

- ✓ Human resources
- ✓ Economic Growth & Prosperity
- ✓ 14+ Skills
- ✓ Finance
- ✓ Major Projects
- ✓ Business Engagement & Investment
- ✓ Project Management Office

In addition to acknowledging that the need to take into account the “Guidance on the Power in the Local Government Act 2003 related to the General Power for Local Authorities to trade in function related activities through a Company” the group also recognised the need to take heed of:

- the Council’s Charging and Trading Strategy
- the guidance contained within Council’s ASDV Framework document

The second appraisal was conducted at a workshop on 16 Oct 2015 with representatives from the same skill/knowledge groups as before.

3. Appraisal Tool

In examining all the options available the meetings used a variation of a scoring tool proposed by both PWC and NW Employers. This tool assesses each option against a number of criteria and allocates a score for each.

The criteria had previously been agreed by the project board who had allocated a weighting for each factor. This weighting was kept ‘hidden; from the group to avoid influencing any decisions, as recommended by its authors.

Scores were first given to the ‘status quo’ and each option was then compared with the status quo with scores being given which reflected the degree by which each option was better or worse than the status quo.

It was acknowledged that the scores should not be regarded as definitive in themselves but that the methodology was designed to provoke comment and discussion to support the derivation of a sound result.

The results of the discussion are summarised in two formats: the scoring chart itself plus a ‘pros/cons’ analysis of each potential solution.

Scoring table

The final scores are given in Appendix A

Pros & Cons Analysis

STRUCTURE OPTIONS	PROS	CONS
STATUS QUO	<ul style="list-style-type: none"> Retains full control Requires no change effort or investment Avoids perception of commercialisation Reduces staff anxiety although austerity measures mean staff are feeling vulnerable in current climate Services have had good Ofsted inspection reports and employment services are working to keep unemployment low 	<ul style="list-style-type: none"> Does not support the goal of becoming a strategic commissioning council Cannot trade at a profit Some areas remain distant from residents Potential loss of funding Keeps the perception of council 'stigma' of being cumbersome and inflexible Doesn't address poor communication, silo working and duplication issues Less budgetary and staffing control Convoluting recruitment process Heightened mismatch with new vision
CONSOLIDATE SERVICES IN-HOUSE	<ul style="list-style-type: none"> Retains full control Avoids perception of commercialisation Gives some response to the changing agenda Improves the working environment creating better services Reduces staff anxiety -although this may be a false perception given current/possible austerity measures Reputational risk diminished 	<ul style="list-style-type: none"> Could need consultation Would take some time to achieve Doesn't achieve the full potential of other options
CONSOLIDATE IN-HOUSE BUT WITH SEPARATE DELIVERY TEAM	<ul style="list-style-type: none"> Retains full control Avoids perception of commercialisation Reduces staff anxiety -although this may be a false perception given current/possible austerity measures 	<ul style="list-style-type: none"> Presents management and communication issues and conflicts between different teams Has no real point – change for changes sake? Demoralising leading to poorer services Increased reputational risk if quality falls
KEEP POLICY IN-HOUSE WITH ASDV FOR DELIVERY	<ul style="list-style-type: none"> Aligns more with the Commissioning Council approach 	<ul style="list-style-type: none"> Presents communication issues between different bodies Potential business plan conflicts between separate elements Would need staff consultation Creates an us-them relationship which could be counterproductive Potential disconnect between strategy and delivery High reputational risk of failure Long set-up time
KEEP DELIVERY IN-HOUSE WITH AN	<ul style="list-style-type: none"> Some alignment with Commissioning Council approach 	<ul style="list-style-type: none"> Presents communication issues between different bodies

ASDV USED FOR POLICY DEVELOPMENT AND BUSINESS ENGAGEMENT		<ul style="list-style-type: none"> • Potential business plan conflicts between separate elements • Would need staff consultation • Creates an us-them relationship which could be counterproductive • Potential disconnect between strategy and delivery • High reputational risk of failure • Difficult to separate the two elements • Seems to be entirely the wrong way round
CREATE 2 SEPARATE ASDVs – POLICY & DELIVERY	<ul style="list-style-type: none"> • No advantages 	<ul style="list-style-type: none"> • Presents communication issues between different bodies • Disjointed and disconnected management • No economies of scale • Potential business plan conflicts between separate elements • Would need staff consultation • Creates an us-them relationship which could be counterproductive • Potential disconnect between strategy and delivery • High reputational risk of failure • Long set-up time
CREATE ONE COMBINED ASDV	<ul style="list-style-type: none"> • Avoids conflict between strategy and delivery functions and gives a common sense of purpose • Protects jobs as budgets are agreed via a contract and then accessing further funding streams provides further job security. • Aligns to Commissioning Council approach • Gives more agility and freedom, particularly when recruiting • Provides upskilling opportunities for staff • Gives greater operational flexibility • High motivation and closer alignment delivers better services • Stimulates positive behaviour change amongst staff • Creates better investment opportunities • Reduces risk elements given that full control retained • Allows for efficiencies in staffing with improved job security • Simplifies the delivery of improved image and brand awareness 	<ul style="list-style-type: none"> • Needs staff consultation • Change may create anxiety • The formation itself has some risk elements compared to status quo • Same time but less effort than 2 ASDVs • Bringing together teams from different services may mean working practises need to be modified

OUTSOURCE	<ul style="list-style-type: none"> • Matches ambitions of recent staff recruits • Provides upskilling opportunities • Could deliver better services depending on contract terms • Matches the more commercial ambitions of some team members 	<ul style="list-style-type: none"> • Complete loss of control • Would require potentially lengthy and complex procurement and tendering process • Financial risk if cost cannot be balanced over several years • Services may not be attractive meaning there may be no bidders or a desire to cherry-pick options • Reputational damage potentially very high • Rescoping has reduced the commercial appeal given the smaller size of the business • Potential loss of identity if absorbed by a larger company
STRATEGIC PARTNERSHIP/JOINT VENTURE	<ul style="list-style-type: none"> • Gives economies of scale • Fits with devolution agenda • Reduced expenditure potentially • Provides for best practice learning from other LAs • Focusses limited resources 	<ul style="list-style-type: none"> • Loss of localism and control • Loss of staff and job security • Staff anxiety re job combination and/or losses • JV would have split customer loyalties • Introduces compounded risks which could be unknown initially • Long set up time and greater effort • Difficulty in agreeing a shared vision • Unless carefully managed is no better than outsourcing

Different forms of ASDV

Co Limited By Shares	<input checked="" type="checkbox"/> This is the only form that retains control and has the ability to generate profit
Co Limited By Guarantee	<input checked="" type="checkbox"/> Eliminated since it will always be broadly the same as a company limited by shares but will score lower on the strategic element since it goes against the councils Charging & Trading Strategy of preferring Limited by Shares
Community Interest Company (CIC) Limited By Shares	<input checked="" type="checkbox"/> Eliminated since it is controlled by its members rather than the council - Teckal exemption would therefore not apply hence forcing a competitive procurement
Community Interest Company (CIC) Limited By Guarantee	<input checked="" type="checkbox"/> Eliminated since it is controlled by its members rather than the council - Teckal exemption would therefore not apply hence forcing a competitive procurement
Charity	<input checked="" type="checkbox"/> Excluded due to full loss of control by the Council meaning the Teckal exemption would not apply
Industrial & Provident Society	<input checked="" type="checkbox"/> Eliminated since: Control lost to trustees, therefore Teckal exemption would not apply; remuneration levels must be justified in the context of benefitting the community; staff could perceive a risk as co-owners. Less control due to need to demonstrate community focus in everything
Co-Operative	<input checked="" type="checkbox"/> Eliminated since its staff would have a major element of control rather than the council - Teckal exemption would therefore not apply hence forcing a competitive procurement

Limited Liability Partnership

- ☒ Eliminated since LLPs are not a vehicle available to the Council as they are not permitted as a trading vehicle under section 95 of the Local Government Act 2003.

5. Conclusion and Recommendations

Both the workshops concluded that:

After careful consideration of the factors outlined herein the option of creating a single wholly owned company limited by shares is recommended as the way forward.

This recommendation is made on the basis that it:

- ✓ Avoids conflict between strategy and delivery functions and gives a common sense of purpose
- ✓ Aligns to Commissioning Council approach
- ✓ Gives more agility and freedom, particularly when recruiting
- ✓ Provides upskilling opportunities for staff
- ✓ Gives greater operational flexibility
- ✓ High motivation and closer alignment delivers better services
- ✓ Creates better investment opportunities
- ✓ Gives motivation to staff
- ✓ Provides freedom to explore additional revenue/grant earning opportunities
- ✓ Encourages profit generation
- ✓ Ability to take a more commercial approach to income generation, with the sole aim of creating a surplus to be reinvested into expanding the services on offer.

It is also recommended that, in terms of implementation planning and the future:

- The company should utilise CEC in-house assets and support for an initial 3 year incubation period
- The company's structure and Articles of Association would permit the company to consider taking on additional services as they are identified provided that they align with it's overall vision and strategy

APPENDIX A – OPTIONS APPRAISAL SCORING

												COMPANY FORM - comments confirmed by workshops							
CRITERIA	FACTORS TO CONSIDER	Weight	STATUS QUO	CONSOLIDATE IN-HOUSE	CONSOLIDATE IN HOUSE - SEPARATE DELIVERY TEAM	IN HOUSE POLICY, ASDV FOR DELIVERY	IN HOUSE DELIVERY, ASDV FOR STRATEGY & ENABLING	TWO SEPARATE ASDVs, POLICY & DELIVERY	ONE COMBINED ASDV	OUTSOURCE	STRATEGIC PARTNRESHIP (JV)	COMPANY LIMITED BY SHARES	COMPANY LIMITED BY GUARANTEE	CIC LIMITED BY SHARES	CIC LIMITED BY GUARANTEE	CHARITY	IPS	COOPERATIVE OR MUTUAL	LLP
Local and National Strategic Fit	Fit to current vision/policy Flex with Gov't policy changes, devolution, funding Commissioning Council Residents First	25%	4	5	3	4	3	3	7	7	6	This is the only form that retains a control and has the ability to generate profit	Eliminated since it will always be broadly the same as a company limited by shares but will score lower on the strategic element since it goes against the councils Charging & Trading Strategy	Eliminated since it is controlled by it's members rather than the council - Teckal exemption would therefore not apply hence forcing a competitive procurement	Eliminated since it is controlled by it's members rather than the council - Teckal exemption would therefore not apply hence forcing a competitive procurement	Excluded due to full loss of control by the Council	Eliminated since: Control lost to trustees, therefore Teckal exemption would not apply; remuneration levels must be justified in the context of benefiting the community: staff could perceive a risk as co-owners • Less control due to need to demonstrate community focus in everything	Eliminated since its staff would have a major element of control rather than the council - Teckal exemption would therefore not apply hence forcing a competitive procurement	Eliminated since LLPs are not a vehicle available to the Council as they are not permitted as a trading vehicle under section 95 of the Local Government Act 2003.
Employment & HR	Staff friendly/beneficial? Maintaining employment Job sharing Upskilling	10%	5	6	4	3	3	2	8	6	6.5								
Customer impact	Quality & range of services Behaviour change Education	20%	6	7	4	3	3	2	8	7	6.5								
Risk & Governance	Level of risk exposure Loss of control/influence Reputational risk	10%	5	6	4	3	3	2	6	2	4								
Timetable	Timing - within 6 months? Scale of effort to change	10%	10	9	8	6	5	4	7	4	5								
Efficiency & effectiveness in delivering economic prosperity	Reduce demand on council services Increase productivity Increase tax revenue Increase employment	25%	6	7	5	5	5	4	8	7	7								
TOTALS		100%	5.70	6.50	4.40	4.05	3.70	2.95	7.45	6.10	6.10								