

Report to Overview & Scrutiny Committee



Report reference: 3 November 2022
Date of meeting:

**Epping Forest
District Council**

Portfolio: Finance – Cllr J. Philip

Subject: Transfer of Service to Qualis

Responsible Officer: Andrew Small (07548 145665).

Democratic Services: Vivienne Messenger (01992 564243).

Recommendations/Decisions Required:

Overview and Scrutiny Committee are requested to consider the proposed transfer to Qualis of the Grounds Maintenance service on 1st April 2023 in accordance with the broad terms and approach proposed within the report and subject to satisfactory conclusion of the statutory consultation exercises, including those staff proposed for TUPE transfer to Qualis and:

- (1) Make such comments and recommendation to Cabinet as the Committee consider appropriate.**

1. Executive Summary

- 1.1. With the Council's support, Qualis has established a vision for itself as a property company promoting and undertaking property development, management and maintenance.
- 1.2. The Council has the opportunity to use this vehicle to group together and transfer services which fall under this heading to Qualis Management with the intention that they can be run in a more agile way, benefiting from a private sector performance approach, and by using their skills and equipment to attract other new – non-Epping Forest District Council – business.
- 1.3. However, before any transfer can take place, Members need to be assured that there is tangible benefit to the Council from doing so. This can either be through reduced cost to the Council or improved performance, but ideally both. This report provides a high-level summary of the current costs of delivering the current in-house service, as well as suggesting an indicative Contract Payment in the event of the transfer of the Grounds Maintenance service.
- 1.4. The current direct cost of providing the service (indexed linked to CPI), less a retained client side supervisor, will be paid to Qualis in the form of an annual Contract Sum together with a Management fee of £162,458 for running the service on the Council's behalf. This will allow Qualis to reduce its Management Fee on Housing Repairs works by an equivalent amount. Across all Council services the cost to the Council will remain the same but recognising there is a movement between the Housing Revenue Account and the General Fund.

- 1.5. The transfer will enable further savings to be delivered in the Council's back office and its management structures. This is facilitated by the cumulative transfer of direct services from the Council to Qualis. As explained within the report, these Council overhead savings cannot be directly hypothecated to this individual transfer, but are the result of cumulative service transfer, thereby reducing the Council's back office and management cost of operating. In turn this will help the Council to close its expected budget gap for 2023/24 and contribute towards presenting a balanced budget.

Detailed Report

2. Staffing Structure

- 2.1. The Epping Forest District Council Grounds Maintenance service undertakes general grounds maintenance and landscaping on District and County-owned land, as well as work on behalf of local Town and Parish Councils and other external stakeholders. The service also provides a weed-control program.

- 2.2. The service is sub-divided on a geographical basis as follows:

Grounds Maintenance North – based at Townmead Depot in Waltham Abbey – a team comprising 15 FTEs (all full time) as follows:

- 1 * Team Manager (Grade H)
- 1 * Senior Grounds Officer (Grade G)
- 2 * Lead Gardener (Grade D)
- 1 * Lead Gardener (Nursery) (Grade D)
- 1 * Craft Gardener (Grade C)
- 8 * Gardener (Grade B); and
- 1 * Tractor Driver (Grade C).

Grounds Maintenance South – based at Oakwood Depot in Loughton – a team comprising 14 FTEs (all full time) as follows:

- 1 * Team Manager (Grade H)
- 1 * Grounds Officer (Grade F)
- 2 * Lead Gardener (Grade D)
- 1 * Craft Gardener (Grade C)
- 7 * Gardener (Grade B); and
- 2 * Tractor Driver (Grade C)

3. Financial Analysis

- 3.1. There are a range of (mostly) Revenue and Capital costs associated with the delivery of the Grounds Maintenance service.

Revenue

- 3.2. The proposed transfer of the Grounds Maintenance service is expected to take place during the 2023/24 financial year. Therefore, as a starting point, the adopted (and unadjusted) revenue budgets for 2022/23 – which total £953,120 (net) – are presented in the table below, but it is recognised that inflation would need to be applied once the figure assumed by the Council in developing its budgets has been agreed.

Grounds Maintenance: Revenue Budget Summary 2022/23			
Description	North	South	Total
	£'s	£'s	£'s
EXPENDITURE			
Salaries & Wages	478,000	432,830	910,830
Essential Mileage	3,060	3,060	6,120
Fuel	22,440	22,440	44,880
Regular Charges (mower fleet contract)	29,310	29,310	58,620
Additional Charges (large plant)	11,290	11,290	22,580
Equipment – New (minor/ hand tools)	7,400	7,400	14,800
Equipment – Maintenance (minor/hand tools)	4,160	4,160	8,320
Stock Issues	14,970	14,980	29,950
Materials	5,580	6,020	11,600
Protective Clothing	2,340	2,340	4,680
Professional Fees	6,000	6,000	12,000
Refuse Removal	1,700	1,560	3,260
Mobile Phones	360	360	720
Other	640	640	1,280
Sub – Totals	587,250	542,390	1,129,640
INCOME			
Contributions from Other LAs	0	(152,520)	(152,520)
GM Work – Other	(12,000)	(12,000)	(24,000)
Sub – Totals	(12,000)	(164,520)	(176,520)
Net Budget 2022/23	575,250	377,870	953,120

Transfer of Activity and Costs

- 3.3. The transfer proposal assumes all the existing direct cost of providing this service transfer to Qualis in the form of an agreed, but index linked (CPI), Contract Sum.
- 3.4. The workforce will transfer under full TUPE conditions, subject to the satisfactory conclusion of a statutory consultation exercise, in the same way as the Housing Maintenance staff transferred in September 2020.

- 3.5. TUPE protects the existing terms and conditions of employees at the point of transfer thus providing reassurance that terms and conditions will not be diluted.
- 3.6. Existing contracts provided to Parish Councils and other bodies will be novated to Qualis and they will take responsibility for existing delivery and future renegotiation and pricing. Qualis will also inherit the financial risk of retaining these contracts and any loss of income associated with losing these contractors will impact upon their business model.
- 3.7. Qualis will be expected to lever the capacity, knowledge and equipment to gain new profitable contracts which will increase their profit and ultimately provide value to the Council as Shareholder.
- 3.8. Qualis has also indicated that they would evaluate the operational delivery and ICT capability, alongside the skills of the team. This would allow measures of success to be set and, through the use of technology, to develop KPIs. These would be set by utilising private sector contract knowledge. It is expected that over a 12 month period this would drive efficiencies and increased productivity. However, realistically, gaining a full understanding of the current business model will take a period of many months and only then can all efficiency focused changes be implemented.
- 3.9. In addition to the transfer of the Council's Base Cost, in the form of a contract sum, Qualis have indicated they will require a Management Fee of £162,458 which will contribute to their group overheads. This will increase the total direct cost of Ground Maintenance to the Council from £953,120 to £1,115,578 before any wider savings are identified. Taken in isolation, the increase in direct cost ignores the other benefits to the council and therefore a holistic view of the opportunities created and efficiencies delivered across all Council operations needs to be taken.
- 3.10. As Qualis currently only apportion their Group Overhead over their Housing Repair work contract, the additional Management Fee for Grounds Maintenance will enable them to make a proportionate reduction in their charge for Housing Repairs. The net effect across all Council services will therefore be neutral, although in practice the Housing Revenue Account will see a reduction whilst the General Fund will see an increase in cost. This is stated prior to any efficiencies enabled in the Council's management structures and back office cost as a result of fewer direct services to deliver.

Depot Costs

- 3.11. The Revenue budget presented above excludes the costs associated with running the Oakwood and Townmead depots. It is assumed that, if the Grounds Maintenance service transfers, Qualis would occupy the depots rent free, so such costs are ignored for the purposes of determining potential contract payments.
- 3.12. Any charge levied to the Contractor for use of the depot would ultimately be charged back to the Council, together with a profit element applied by the Contractor. Providing the Depot as part of the contracting arrangements is therefore an accepted and often adopted approach that represents a more efficient way of procuring the contract as the Council retains control of a proportion of the cost. In an outsourcing scenario the same approach would be applied to all bidders.
- 3.13. Ultimately, nearly all of the services being delivered out of the Depots will be services provided through Qualis and this opens the door to future opportunities for rationalising or redeveloping the facilities as Qualis explores more efficient delivery models and opportunities. The Council will seek to review the arrangement yearly through the contract and will expect Qualis to come forward with proposals that reduce the cost to the Council.

Fleet Management and Workshop Costs

- 3.14. The Council currently owns or leases the key pieces of equipment used in the provision of the Ground Maintenance service. Lease and contract costs are charged directly to the service, (as shown in the

costings above), whilst Council owned vehicle and plant are charged to the Fleet Management cost centre.

- 3.15. As with Depot conversation, the Council's officers and Qualis have explored the options for transfer via sale or lease. The equipment is maintained, serviced and repaired by the Council and options for providing this in different ways have been explored.
- 3.16. Whilst sale was initially considered, ultimately it was recognised that the Qualis cost of acquiring the fleet from the Council would have to be recharged to the Council by Qualis through the contract fee, together with the Qualis cost of managing and maintaining the fleet plus the Qualis profit element.
- 3.17. Similarly to the Depot consideration above, the Contractor's costs of sourcing, acquiring and maintaining the Fleet will ultimately be recharged to the Council. So, whilst the Council's contract makes up the majority of the Qualis Ground Maintenance work it remains financially advantageous to continue to provide the Fleet to the contractor.
- 3.18. Options were explored to lease the equipment to Qualis, but for reasons previously stated, any lease cost would simply be recharged to the Council and so the proposed transfer includes the provision of fleet, free of charge to the contractor but subject to annual review. The same arrangement would likely apply had the contract been offered to the market.
- 3.19. For at least the first year of the contract, Qualis has indicated they wish the Council to continue to manage and maintain the Grounds Maintenance Fleet. Thereafter, they would wish to review this arrangement. As with its consideration of maximising use of the Depots, Qualis intends to seek opportunities to harmonise the maintenance and management of the Grounds Maintenance fleet together with its existing Housing Maintenance fleet to deliver the greatest operational flexibility and ultimately a reduced cost.
- 3.20. Again, as part of the Contract with Qualis, the Council will expect an annual review of the Fleet Operations with the expectation that Qualis can present to the Council options for delivering this element of the contract at a lower cost to the Council.
- 3.21. As the Grounds Maintenance Fleet makes up approximately half of all the fleet owned and managed by the Council, any proposals coming forward from Qualis for the future management and maintenance of the Grounds Maintenance Fleet will need to consider how the Council will manage and maintain its residual Fleet, together with arrangements for the inspection of Taxis and the future utilisation of the workshop space at the Oakwood Hill Depot.
- 3.22. As Qualis seeks to grow its Ground Maintenance activities by taking on new non-Council business Qualis will wish to use the Council's Fleet to deliver these new contracts. This will accelerate the wearing out of the equipment and so the Council will contractually expect to receive a share of revenues from these external contracts, to reflect its greater cost of managing, maintaining, and replacing the Fleet for as long as the Council continues to own this part of its Fleet.
- 3.23. This rate at which the Council is recompensed is still to be agreed but will need to reflect the true fair additional costs of utilising the fleet on external contracts.

4. Contract Management and Arrangements

- 4.1. Robust Contract Management is critical to the overall success of all outsourcing arrangements, but it is essential that the Council and Qualis do not duplicate cost unnecessarily in doing so, else the arrangement becomes inefficient and adds cost to both parties.

Client Staffing

- 4.2. There is a balance that needs to be struck if the Council is to adequately mitigate operational and financial risk. Maintaining quality and achieving further service improvements also continues to be a priority.
- 4.3. It is proposed to maintain robust in-house (“client”) Contract Management capacity covering the full geographical spread of the contract. There are currently two supervisors managing delivery of the service split between the North and the South of the District. It is proposed that these two (“Grade G”) FTE Contract Managers would be split, one transferring to the Contractor and the other remaining with the Client. Their knowledge of the district and delivery standards will then be equally shared, providing reassurance over continued high standards of delivery. The Council and Contractor will work closely to ensure continued smooth delivery without duplicating cost.
- 4.4. In accordance with the Council’s “net zero” carbon commitment, the opportunity will also be taken to switch transport arrangements from the current use of officers’ own vehicles (with paid mileage) to the use of Council-owned electric vehicles.
- 4.5. The overall Client Staffing (including transport) costs with effect from 2022/23 moving forwards are assumed at **£69,000** as follow:

1 * Contract Managers (Grade H)	= £59,000 (including on costs)
Transport Costs (1 * EVs)	= <u>£10,000</u> (mileage claims IRO £5k-£6k)
Total	= £69,000

Contract Arrangements

- 4.6. The Initial Contract with Qualis will be in place for a period of 3 years commencing from 1st April 2023, with an annual contract review focusing on cost and quality reported to Stronger Place.
- 4.7. The specification will remain the same as currently applies, with the areas and frequency remaining unchanged.
- 4.8. Monitoring will be undertaken by the Council’s retained Ground Maintenance Supervisor working closely with equivalent Qualis role.
- 4.9. Wider Qualis financial reporting will continue to be undertaken via the Council’s shareholder representative and reported quarterly through to Stronger Council.
- 4.10. Because of the close relationship and the ownership structure of Qualis, the Council has the opportunity to raise performance issues and seek enhancements or reductions to the service specification on an open book basis with Qualis.

5. **Risk Sharing**

- 5.1. The future success of Qualis is important to the Council. To this end, the achievement of an equitable risk transfer in a transparent way is an important ingredient in the future success of any new service delivery arrangements for Grounds Maintenance. Notable financial risk factors in the contract include the Local Government Pension Scheme (LGPS), robustness of the Budget Estimates and security of income from external contracts.

Local Government Pension Scheme (LGPS)

- 5.2. A total of 18 out of 22 permanent staff (62% of the current overall establishment) are members of the Local Government Pension Scheme (LGPS). In recognition of the protected benefits enjoyed by LGPS staff for past service, and as part of any TUPE transfer arrangements, the Council would indemnify Qualis for any future liabilities arising from accumulated past service for LGPS members at the point of transfer.
- 5.3. Current LGPS employer contributions (21.2%) are reflected in 2022/23 Staffing budgets. The financial risk (and rewards) of future service costs (from the point of transfer) would be expected to be borne by Qualis, including any potential increase in employer contributions (if applicable) at the next Triennial Valuation.

Robustness of Estimates

- 5.4. The importance of achieving an equitable risk transfer in a transparent way is recognised. To this end, the robustness of the budget estimates presented above is an important consideration.
- 5.5. It is the view of the Council's Section 151 Officer that the budget estimates for 2022/23 are reasonable.

Security of Income from External Contracts

- 5.6. The Grounds Maintenance Service currently benefits from income of £176,000 per annum from external work. Qualis aim to both expand and grow its business to increase the income it generates from this activity. Trading rules (Teckal) limit the amount of Qualis income that can come from the private sector to 20%, but the ability to win business from the public sector has fewer constraints.
- 5.7. Qualis will accept the risk of retaining this business, but the Council will adjust the contract sum for any loss of work that the Council has already been notified of, or over which it is having active discussions over. This is on the basis that the Council would have had to absorb this lost income in any event.

6. **Summary**

Indicative Contract Payment

Net Revenue Budget (2022/23)	=	£953,120
Less: Retained Client Contract Supervisor	=	(£ 69,000)
Qualis Overhead and Profit Requirement	=	£162,548
Indicative Contract Payment (basic)	=	£1,046,668

- 6.1. The contract payment shows an immediate increase in the direct cost to the General Fund of providing this service of £162,548. However, this will be offset by a proportionate reduction in costs charged to the Housing Revenue Account for Housing Repairs work of the same amount. The cost across the Council is therefore neutral. In addition, it is expected that outsourcing this service will allow for indirect savings to be made in the Council's management structure and in back-office costs.
- 6.2. It is also expected that Qualis can use its position to drive out inefficiencies in the delivery of this service over time and increase the amount of external business generated. External income generated by Qualis will help spread its costs over a wider range of activities and speed up the point at which it will return a profit and dividends to the Council.

7. Financial and Resource Implications

- 7.1. Qualis is structured and set-up to provide direct services and duplicating these services across two entities (the Council and its Trading Arm) is inefficient and more costly to the residents than needs to be. Ultimately the structures of both the Council and Qualis should be ordered in such a way that each specialises in a particular area, giving each organisation the best opportunity to focus and excel. For the Council, this should be in defining the strategic objectives, setting goals, delivering statutory and regulatory services, (where transparency in decision making is important), and then commissioning others to deliver the remainder. Qualis, Biffa and Places Leisure fall in the category of commissioned service providers.
- 7.2. Organising and structuring in this way allows the management and support services structure of the Council to reduce over time, although this will not always happen immediately as often the benefits can only be captured when the cumulative change become sufficient to make significant corporate changes.
- 7.3. This is exemplified in the case with Grounds Maintenance, where transfer of the delivery structure to Qualis cannot automatically be hypothecated into direct reductions in the Council's back office and management structures. Nevertheless, the Council is able to reduce the direct costs of providing certain support services and from the management structure and this can be partly attributed to reductions in workload and transactions associated with the transfer of employees and activity to Qualis as part of the Housing Maintenance and Ground Maintenance transfers. There will be fewer transaction to process, fewer employment matters to be dealt with, etc., cumulatively leading to the need for smaller teams. This benefit will be captured as part of developing the budget proposals for 2023/24 and will be valuable in helping the Council to put together a budget proposal which protects service delivery as far as possible but cannot individually be attributed to a specific service transfer.

8. Legal and Governance Implications

- 8.1. None contained within this report.

9. Safer, Cleaner and Greener Implications

- 9.1. None.

10. Consultation Undertaken

- 10.1. None

Background Papers

Group Company Governance Document – Cabinet 6 February 2020