

NORTHAMPTON BOROUGH COUNCIL
Overview and Scrutiny Committee

Your attendance is requested at a meeting to be held in
The Holding Room, St. Giles Square, Northampton, NN1 1DE. on
Tuesday, 29 November 2016 commencing at 6:00 pm

D Kennedy
Chief Executive

If you need any advice or information regarding this agenda please phone Tracy Tiff, Scrutiny Officer, telephone 01604 837408 (direct dial), email ttiff@northampton.gov.uk who will be able to assist with your enquiry. For further information regarding **Overview & Scrutiny Committee** please visit the website www.northampton.gov.uk/scrutiny

Members of the Committee

Chair	Councillor Jamie Lane
Deputy-Chair	Councillor Graham Walker
Committee Members	Councillor Brian W Sargeant Councillor Tony Ansell Councillor Rufia Ashraf Councillor Mohammed Azizur Rahman (Aziz) Councillor John Caswell Councillor Vicky Culbard Councillor Janice Duffy Councillor Terrie Eales Councillor Elizabeth Gowen Councillor Mary Markham Councillor Dennis Meredith Councillor Samuel Shaw Councillor Zoe Smith

Calendar of meetings

Date	Room
2 February 2017 6:00 pm 27 March 8 May 26 June	All meetings to be held in the Jeffery Room at the Guildhall unless otherwise stated

Northampton Borough Overview & Scrutiny Committee

Agenda

Item No:	Title	Pages	Action required
1	Apologies		Members to note any apologies and substitution
2	Deputations/Public Addresses		<p>The Chair to note public address requests.</p> <p>The public can speak on any agenda item for a maximum of three minutes per speaker per item. You are not required to register your intention to speak in advance but should arrive at the meeting a few minutes early, complete a Public Address Protocol and notify the Scrutiny Officer of your intention to speak.</p>
3	Declarations of Interest (Including Whipping)		Members to state any interests.
4	Call-In of Cabinet Decision of 16 November 2016: Item 11: Re-Provision of the Environmental Services Contract	1 - 48	<p>Called in by Councillors Danielle Stone and Anamul Haque (copy attached.)</p> <p>Item 11: Re-Provision of the Environmental Services Contract:</p> <p>Decision</p> <ul style="list-style-type: none"> i. Cabinet agreed that with effect from the 6th June 2018, to Contract Out Environmental Services to an external provider selected through an OJEU procurement process. ii. Cabinet delegated authority to carry out the OJEU procurement process to the Director of Customers and Communities, in consultation with the Cabinet Member for Environment. iii. Cabinet approved a supplementary estimate to create a budget for the OJEU procurement process of up to £400,000, to be funded from the 'Delivering the Efficiency

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			<p>Plan' reserve, in accordance with paragraph 4.2.8 of the report.</p> <p>iv. Cabinet agreed to receive quarterly update reports on progress against the programme.</p> <p>Procedure for the Call-In Hearing</p> <p>Public speakers will be asked to address the Committee; a maximum of three minutes is given to each to make comment.</p> <p>The Call-In Authors, Councillors Danielle Stone and Anamul Haque, will be invited to expand upon their reasons for concern, following which the Overview and Scrutiny Committee will question the Call-In Authors.</p> <p>Councillor Jonathan Nunn, Leader of the Council, and Councillor Mike Hallam, Cabinet Member for Environment, will be invited to make a presentation outlining his main reasons for the decision. The Committee will then put questions to the Cabinet Member and Officers.</p> <p>Officers will be invited to give evidence and respond to the Overview and Scrutiny Committee's questions. The Officers will be asked to give their reasons for any recommendations or advice to Members. A question and answer session will follow.</p> <p>The Call-In Authors will then be given the opportunity to add any points of clarification before any resolution or recommendation is moved.</p> <p>The Chair will then sum up the findings regarding the Cabinet decision. If there are still concerns, the Chair will lead in the</p>
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			determination of the recommendation with reasons for consideration by Cabinet. At the conclusion of the debate and following response to all matters raised, the Chair will ask the Committee to vote to determine whether or not it upholds the decision of the Cabinet.
5	Exclusion of the Public and Press		<p>The Chair to Move:</p> <p>“that the public and press be excluded from the remainder of the meeting on the grounds that there is likely to be disclosure to them of such categories of exempt information as defined by section 100(1) of the Local Government Act 1972 as listed against such items of business by reference to the appropriate paragraph of Schedule 12a to such act.”</p>

Call -In

We wish to 'call-in' the Cabinet decision (Item 11, Wednesday 16th November 2016) as the reports failed to provide sufficient information to support the Cabinet decision.

A. "Cabinet agreed that with effect from the 6th June 2018, to Contract Out Environmental Services to an external provider selected through an OJEU procurement process."

The current contract is £6.9 million. It is assumed the next contract will be higher but there is no indication of what will go into the contract. There are questions to be answered on -

Costs

- i. What will be the added profit margin for the contracted out service?
- ii. What are the pension costs?
- iii. Will we lose recycling credits?

Service

- iv. We need to know what the performance standards are?
- v. What is in and what is not in the service design?
- vi. Will we be implementing the living wage as according to the Living Wage Foundation?

B. "Cabinet approved a supplementary estimate to create a budget for the OJEU procurement process of up to £400,000, to be funded from the 'Delivering the Efficiency Plan' reserve, in accordance with paragraph 4.2.8 of the report."

There is insufficient explanation about costs for

- i. Expert consultancy support
- ii. OJEU procurement process

We need clarification on

- iii. What "both internal and external support will be required". What does that mean?

C. Cabinet has expressed a preference for Contract Out. Why? We need to have more details on the three options (in-house, local authority company and private sector provider) regarding their costs and expected service performance.

Proposer: Cllr Danielle Stone
Seconded: Cllr Anamul Haque



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Environmental Services Re-provision - Selection of Service Delivery Option
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	19 th October 2016
Key Decision:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Customer and Communities
Accountable Cabinet Member:	Cllr Alan Bottwood
Ward(s)	Borough Wide

1. Purpose

- 1.1 The purpose of this report is to approve the choice of a service delivery option for the future delivery of environmental services when the current arrangement comes to an end on 5th June 2018.

2. Recommendations

That Cabinet:

- 2.1 With effect from 6th June 2018, agrees to Contract Out Environmental Services to an external provider selected through an OJEU procurement process.
- 2.2 Delegates authority to carry out the OJEU procurement process to the Director of Customers and Communities, in consultation with the Cabinet Member for Environment.

- 2.3 Approves a supplementary estimate to create a budget for the OJEU procurement process of up to £400,000, to be funded from the 'Delivering the Efficiency Plan' reserve, in accordance with paragraph 4.2.8.
- 2.4 Requires quarterly update reports on progress against the programme to Cabinet.

3. Issues and Choices

3.1 Report Background

- 3.1.1 For the purposes of this report, services that sit under the environmental services banner are waste and recycling, street cleansing and grounds maintenance, including maintenance of parks and allotments, and other ancillary services.
- 3.1.2 Environmental services also currently include some highway services for which the council and Northamptonshire County Council (NCC) have agreements in place, namely tree maintenance, grass cutting, weed spraying and shrub maintenance on highway land and services to Northampton Partnership Homes (NPH), namely grass cutting, litter picking and shrub maintenance.
- 3.1.3 It will be determined at a later stage of this project whether the services referred to in paragraph 3.1.2 will continue to be provided within the council's environmental services contract.
- 3.1.4 Until June 2011, environmental services were delivered in-house.
- 3.1.5 On 9th February 2011, following a robust procurement process (the then) Cabinet took a decision to enter a joint contract with Daventry District Council (DDC) with Enterprise Managed Services Ltd (EMS).
- 3.1.6 EMS was acquired by Amey PLC in April 2013, however this change in company ownership has no direct bearing on the current contractual relationship between NBC/DDC and EMS.
- 3.1.7 The contract between NBC/DDC and EMS was for a period of seven years, with the option to extend for an additional seven years, subject to the agreement of all three parties to the contract. DDC has already taken the decision not to extend the contract and the option to extend for this reason falls away without the need for NBC to undertake the otherwise necessary evaluation of the extension option.
- 3.1.8 The environmental services contract will therefore expire on 5th June 2018.

Commissioning Options Evaluation Process

- 3.1.9 In order to put a new environmental service in place from 6th June 2018, the Council needs to decide how it wishes the service to be delivered in the future. This has necessitated the requirement to undertake a robust evaluation of potential service delivery options.

3.1.10 The Council worked closely with waste industry experts, Eunomia Research & Consulting Ltd (Eunomia), to undertake a commissioning options review. The Executive Summary of their Report is attached at Appendix 1 of this report. Their full report contains commercially sensitive information and is therefore a confidential background paper available to Members of the Council under the guidance of the Borough Secretary. Where appropriate, information has been extracted from the Eunomia Report into this Cabinet Report.

3.1.11 At the start of the commissioning options review, it was determined that a single package covering all services was likely to deliver best value for reasons of synergy and economies of scale.

3.1.12 A high level evaluation of a long list of service delivery options was then undertaken. This was used to develop a short-list of the three options, which were then appraised in detail against the criteria of cost and quality/risk. Cost was given a weighting of 40% and quality/risk was given a weighting of 60%.

3.1.13 A brief description of the three short-listed options is provided below:

- Contracting Out – going back to the market to conduct a new procurement exercise.
- Insourcing – bringing the services in house to be delivered through a Direct Services Organisation (DSO) or similar.
- Local Authority Company (LAC) – delivering the services using a local authority owned company, either starting a new company or using an existing company founded by another authority.

3.1.14 Before the detailed option evaluation could commence, it was necessary to undertake a preliminary process to model and benchmark the current household waste collection service against agreed waste collection options in order to select the most appropriate service baseline to carry forward to the commissioning options stage.

3.1.15 The detailed options appraisal was undertaken in two stages as set out in paragraph 3.1.16 below (figure 1). Stage 1 entailed determining the baseline position for the waste collection services (as per paragraph 3.1.14) and stage 2 consisted of the commissioning options review.

3.1.16 Fig 1 - Key Modelling Stages



3.1.17 A Target Operating Model (TOM) had previously been developed to enable risks to the continuity of the environmental services contract to be mitigated. It was decided that the TOM was of sufficient robustness to be used to create the baseline for street cleansing and ground maintenance services.

Cost Modelling

3.1.18 Detailed financial models were developed so that each commissioning option could be compared against key cost components.

3.1.19 A key conclusion of this step of the review was that all three delivery options are likely to deliver a more expensive service than the current contract.

3.1.20 The analysis was subject to extensive challenge from the Council's Finance service to ensure the assumptions made were reasonable and robust, in particular around the differences between the options.

3.1.21 The analysis appeared to conclude that the contractor is currently delivering the service at a loss, which was confirmation of what the Council already understood the case to be.

3.1.22 The assumption for the commissioning options review was made that the predicted loss in the current contract arising from the modelling is not carried

forward into a future contract and thus the modelled service cost increased compared to the current contract.

3.1.23 Results of the cost modelling indicated relatively small differences in cost between all three options, the difference between each being insufficient to differentiate between them with a high level of confidence, in any case, but particularly so, once even a small margin of error is allowed for.

3.1.24 The Local Authority Company (LAC) option delivered the lowest modelled cost solution for running environmental services, partly because it avoids the generation of profit for a private sector contractor, whilst operating with unit labour costs similar to those in the private sector.

3.1.25 However, it must be noted that the low cost of the LAC is also due to a working assumption about the treatment of staff pensions which would be highly sensitive to the Council choosing to take a different approach to staff pensions than the lowest cost option that has been modelled, and to changes in required pension contribution levels.

3.1.26 The Contracting Out option delivered a higher modelled cost to that of the LAC and a comparable modelled cost to Insourcing. The estimated cost associated with this option is sensitive to the profit margin that the market would be seeking which it is not possible to predict with a high level of certainty.

3.1.27 The Insourcing option delivered a modelled cost solution which is marginally higher than the Contracting Out option and is therefore the most expensive modelled solution overall.

Quality/Risk Assessment

3.1.28 The methodology used for the qualitative assessment of the commissioning options review is based on a detailed risk analysis of key criteria predominantly focused on the following strategic aspects:

- budget certainty and financial risk
- flexibility and control
- performance
- market conditions
- best value
- operational risk, and
- pension contribution and pension scheme provided to the workforce.

3.1.29 The quality/risk assessment concludes that the Contracting Out option performed best in the quality and risk assessment by some margin. The LAC option was middle ranking in the assessment, and the Insourcing option performed less well than the other two options.

Overall Results – Options Comparison

3.1.30 The two criteria of cost and quality/risk were subsequently combined into a single 'score' using the agreed weighting, as per paragraph 3.1.11, to determine the overall ranking as set out in Table 1.

Table 1: Overall Results

Criterion	Cost *	Quality and Risk **	Total	Rank
LA Company	40	55	95	2
Contracted Out	39	60	99	1
In-house	38	52	90	3
Notes:	<p><i>* For cost, the points achieved by each option are determined as follows: the maximum number of points are awarded to the option achieving the lowest modelled cost solution and the other options are awarded points using a deviation from the lowest scoring option.</i></p> <p><i>**For quality and risk, the points achieved by each option are determined as follows: the maximum number of points are awarded to the option achieving the lowest quality/risk score and the other options are awarded points using a pro-rata assessment of the difference between the maximum available risk score and the lowest achieved risk score.</i></p>			

3.1.31 A sensitivity test of the weighting agreed for the two criteria of cost and quality/risk was also undertaken by considering a scenario where a 50/50 weighting is applied to the two criteria and a scenario where the cost criteria is weighted more than the quality/risk criteria. The sensitivity test concluded that the ranking shown in Table 1 is unchanged.

Commissioning Options Review - Conclusion

3.1.32 The commissioning options review provides a very robust analysis of a wide range of data, but there is inevitably a margin of error due to a variety of factors that have a level of inherent uncertainty associated with them over the lifetime of this type of contract.

3.1.33 The overall conclusions of the commissioning options review must be viewed with the reality of paragraph 3.1.32 in mind.

3.1.34 Overall the process identifies that the Contracting Out option delivers the best result overall and the best balance of benefits and risks, although this is only marginally so and therefore any service delivery option would be a suitable commissioning option for the Council from a cost and quality/risk perspective.

Audit

3.1.35 To add an additional layer of assurance to the commissioning options review process, the Council's internal auditors, PWC, undertook a short, sharp review. The executive summary of their report is attached at appendix 2.

3.1.36 The field work for the audit was completed in September and it was therefore used to inform the outcome of the commissioning options review process. It focused on the robustness of the process which the Council followed to appraise the options for renewing the Environmental Services contract; and the adequacy and completeness of the evidence on which the decision is to be made.

3.1.37 Particular attention was paid to ensuring decision makers could be assured of the rigour of the financial analysis and the assumptions that underpinned the modelling.

3.1.38 The overall conclusion of the audit was that the governance process was robust.

Procurement

3.1.39 The selection of Contracting Out as the preferred option for the delivery of future environmental services requires the development of a procurement strategy and an associated procurement process.

3.1.40 To deliver the procurement strategy/process it will be necessary to appoint expert consultancy support, through the Council's proper procedures.

3.1.41 In addition to the support referred to in paragraph 3.1.36 above, both internal and external resource will be required to carry out a successful procurement of environmental services, from areas such as environment, finance, legal, HR, and assets.

3.1.42 The procurement will need to be carried out through an OJEU procurement process.

3.1.43 The procurement will be undertaken in full accordance with the Council's corporate governance procedures. The programme will continue to be led by the Management Board, acting as the Programme Board, and a cross-discipline Project Team led by the Director.

3.2 Choices (Options)

- 3.2.1 Cabinet could choose, with a high level of confidence, any of the three service delivery options that have been evaluated for the future delivery of environmental services.
- 3.2.2 No option strongly emerges as being significantly better than either of the other two.
- 3.2.3 In light of the outcome of the commissioning options review and after consultation with the Director of Customers and Communities, Cabinet has expressed its preference to further Contract Out environmental services.
- 3.2.4 Cabinet has been advised by officers including the Chief Executive, the Director, Borough Secretary and Chief Finance Officer that this is a reasonable choice for it to make given the close ranking of each option that has emerged from the evaluation process and the allowance that should be made for a margin of error.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 There are no policy implications directly arising from this report.

4.2 Resources and Risk

- 4.2.1 The cost of the current environmental service contract for NBC is £6.9m per year.

Commissioning Options Review – Cost

- 4.2.2 It should be noted that the commissioning options review is not an exercise that is intended to predict the future cost of environmental services as there are a range of factors that are not yet known, or are yet to be determined, which will have a major impact on future cost, e.g. recycling credits, performance standards, service design.

- 4.2.3 There are however some key financial differences between service delivery options that will have either a positive or negative impact on cost, e.g. profit margin, overheads, pension contributions. The purpose of the commissioning options review (from a cost perspective) is to provide a high level comparison based on these variable cost factors.

Commissioning Options Review - Risk

- 4.2.4 Risk was determined to be a major factor to be considered in selecting the preferred commissioning option. Therefore, to augment the assessment of risk contained within the qualitative assessment, a detailed risk assessment of

key strategic criteria was carried out. A summary of the outcome is set out in the table at paragraph 3.1.30.

Procurement

- 4.2.5 To develop and deliver the procurement strategy/process it will be necessary to appoint expert consultancy support, through the council's proper procedures. Other internal and external resource will also be required from areas such as Environment, Finance, Legal, HR, and Assets.
- 4.2.6 The estimated cost of implementing the Contracting Out service delivery option is £280,000, which compares favourably to the one off cost assumptions for the other two commissioning options. This figure is an estimate and actual costs may be higher or lower than this sum.
- 4.2.7 In order to ensure a high level of consultation and communication with all stakeholders across the town it is estimated that a budget of £120,000 is put in place. Again, this figure is an estimate and actual costs may be higher or lower than this sum.
- 4.2.8 It is therefore proposed that a total budget of up to £400,000 is established from reserves, to be spent as appropriate and necessary for all and any aspect of the project to ensure its successful delivery.
- 4.2.9 These costs to be funded from the 'Delivering the Efficiency Plan' reserve and in year service underspend, and monitored by the Programme Board.
- 4.2.9 The Chief Finance Officer sits on the Programme Board.

4.3 Legal

- 4.3.1 The commissioning options review has had the benefit of ongoing legal oversight. The Borough Secretary is on the Programme Board.
- 4.3.2 The commissioning options review itself, and the decision arising from it to select Contracting Out as the preferred service delivery option, is legally sound.
- 4.3.3 The forthcoming procurement will require a high level of legal advice and support. An experienced set of legal advisers will be appointed and will be put in place in good time to ensure sound progression of the procurement process and a sound outcome to the Contracting Out process.

4.4 Equality and Health

- 4.4.1 An equality impact assessment (EIA) has been undertaken and has been used to inform the recommendations of this report.
- 4.4.2 There will be full compliance with relevant equalities legislation as service design and service standards are developed and implemented and a further EIA will be undertaken as the process progresses.

4.5 Consultees (Internal and External)

- 4.5.1 A community engagement framework has been developed to ensure stakeholders are fully involved in the environmental services re-provision process. The community engagement framework is drawn from a broad range of stakeholder groups, including Resident Associations, Parish Councils, Friends Groups, Park Management Committees, partner agencies, Councillors and staff.
- 4.5.2 In addition to the consultation undertaken via the community engagement framework, an Ipsos MORI survey has been commissioned. The survey entailed 1,000 interviews with residents from across Northampton which sought their views on various aspects of environmental services. Once fully completed, the Ipsos MORI survey information will be used to inform service design going forward.
- 4.5.3 A Cabinet Advisory Group was set up, at the request of the Leader of the Council, to oversee the environmental services re-provision process. The decision to involve key elected members from all political parties reflects the strategic importance of environmental services to the future of Northampton.

4.6 How the Proposals Deliver Priority Outcomes

- 4.6.1 Environmental Services contribute to 'Creating Empowered Communities' in Northampton by making Northampton cleaner, greener, tidier and more attractive.

5. Background Papers

Eunomia – Commissioning Options Review, October 2016 (partly exempt for commercial reasons)

Internal Audit Report 2016/17 – Environmental Services

Julie Seddon, Director of Customers and Communities

Appendix 1

Environmental Services Re- provision Project

Commissioning Options Review

Report for Northampton Borough Council

Joe Papineschi
Maxine von Eye
David Pietropaoli
Sarah Kemp

10th October 2016

Report for Julie Seddon, Northampton Borough Council

Approved by



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Joe Papineschi
(Project Director)

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Acknowledgements

Our thanks to Northampton officers and staff at Amey for providing the data used in this report.

Disclaimer

Eunomia Research & Consulting has taken due care in the preparation of this report to ensure that all facts and analysis presented are as accurate as possible within the scope of the project. However no guarantee is provided in respect of the information presented, and Eunomia Research & Consulting is not responsible for decisions or actions taken on the basis of the content of this report.

Executive Summary

Eunomia Research & Consulting (Eunomia) has been commissioned by Northampton Borough Council (the council) to support the following areas of the Environmental Services Re-provision Project. This is a project set up to identify the most suitable commissioning option for the future delivery of the council's environmental services and to subsequently implement the preferred commissioning option by June 2018 through:

- 1) providing project management functions;
- 2) supporting market research and community engagement activities;
- 3) undertaking a review of agreed commissioning options; and
- 4) advising the political and officer leadership group on the selection of the preferred commissioning option.

This report summarises the outcome of stages 3 and 4 above.

The importance of the engagement with senior officers and the political administration cannot be understated within the context of a commissioning options review project. Eunomia is a market leader in the review of commissioning options and the impartial and objective support is based on the use of models and tools developed over many years that have undergone continuous refinement and testing. However, the decision on commissioning options cannot become entirely focused on the modelling detail. Engagement with senior officers and the political administration is crucial to the success of such a project, so that the emerging evidence from the modelling can be tested and discussed at the right level. This also helps to ensure that the qualitative assessment and the operational and political issues with each option can be explored together.

Ultimately, the implementation of any new commissioning options will entail a major operational and cultural change for the council and decisions on the service commissioning route for universal front-line services as the environmental services are complex. The commissioning options modelling cannot identify a fundamentally 'best' option and is intended instead to serve as a decision-support framework to help members and senior officers arrive at the right and balanced decision for the council.

The council and Eunomia agreed that the following commissioning options would be considered and appraised as part of this project:

- Contracting out – going back to the market to conduct a new procurement exercise.
- Insourcing – bringing the services in-house to be delivered through a Direct Services Organisation (DSO) or similar.
- Local Authority Company (LAC) – delivering the services using a local authority owned company, either starting a new company or using an existing company founded by another authority.

Eunomia assessed the three commissioning options against two primary criteria:

- cost; and quality and risk.

Cost Modelling

Eunomia created detailed financial models so that each commissioning option could be compared based on variations in key cost components.

Financial pressure on the council, which is only likely to increase over the next few years, sets a key part of the context for decisions on future commissioning of environmental services. The main factors driving the results of the financial modelling relate to differences in assumptions on unit labour costs and corporate overheads and profit.

The key assumptions that drive the cost modelling are described below:

- Workforce pensions: the outsourced option pension costs are assumed to remain 'as is', whereas the in-house option is based on 100% enrolment in the LGPS. The LAC option is somewhere in between, albeit considerably closer to 'as is' than LGPS. In reality, enrolment rates may be different to those assumed. Pension policy for the LAC could also be set by the council and could be more or less generous than assumed. These assumptions drive a considerable proportion of the cost difference between the options.
- Corporate overhead and profit: assumptions here are estimates based on the kinds of target margin that the market aims to achieve, but are clearly somewhat speculative. In practice, the procurement process generates a wide range of results, with many recent contracts operating at lower margins.
- Productivity: all options are assumed to achieve the same underlying service delivery productivity. For labour intensive services such as these, variations in productivity can make a significant difference to service cost. Many believe that the private sector generally delivers greater productivity and that competitive procurement processes drive efficiency. There is no evidence from the market as a whole that one option generally delivers better value for money, so the 'no productivity difference' assumption avoids distortion of the financial model.

The results of the cost modelling show that:

- the LAC option delivers the lowest modelled cost solution for running the environmental services;
- the Contracting Out option delivers a modelled cost that is approximately £400k higher per year than the LAC; and
- the In-sourcing option delivers a modelled cost solution which is marginally higher than the Contracting Out option.

Another key conclusion of this step of the review is that all three commissioning options are likely to deliver a more expensive service than the current contract cost. Eunomia's approach to the development of the cost model was to build a bottom-up model of the service to reflect the current commission and this stage of the analysis concluded that the contractor is likely to be delivering the service at a significant loss, which is a confirmation of what the council already understands to be the case. Future commissions assume to cover the cost of the service (i.e. the loss is not carried forward into a future contract), and thus the service cost increases compared to the current contract.

Quality and Risk Assessment

The methodology used for the qualitative assessment of the commissioning options review is based on a risk assessment of criteria developed with officers and the Cabinet Advisory Group.

The quality and risk assessment concludes that:

- the Contracting Out option performs best in the risk assessment by some margin;
- the LAC option performs reasonably well in the risk assessment; and
- the In-sourcing option performs worse than the other options in the risk assessment.

The rationale for the scoring achieved by the options is as follows:

- Financial and Overspend: For the contracted out option, the contractor bears overspend risks. Management in the in-house option may not be subject to the same commercial pressures to manage budgets and deliver profits, and in any event the council bears the overspend cost risk. For the LAC option, whilst the council still bears the overspend risk, the LAC management and commercial mind-set may be more likely to keep costs in check.
- Flexibility and Service Change: Service change in the contracted out option would involve contract negotiations, whereas in the other options, change would be easier to implement, although considerable flexibility can be built into contracts.
- Performance: The contracted out option may be more likely suffer poor performance since the council has less direct control over the delivery of the services and the contractor is motivated by profit as well as customer service.
- Expertise acquisition: The contracted out option would involve selecting a contractor with the relevant experience. For the in-house option it would be necessary to recruit highly experienced management which presents a risk; a LAC may be a somewhat more attractive proposition for experienced candidates.
- Market conditions: There is a risk of attracting few bidders and having low levels of competition in the contracted out option, but the LAC and in-house options be exposed to the labour market for key talented senior managers and be impacted by reduced buying power in the procurement of key service assets.
- Best Value: For the contracted out option, it is assumed that the competitive tender process would result in a contract price that demonstrably provides Best Value to the council through market testing, while the LAC and in-house options do not undergo a procurement process and are therefore less certain to represent best value.
- Political Stakeholders: based on soundings taken, it is assumed that the political stakeholders are neutral on all commissioning options and do not rule out any option.
- Operational Risks: The contractor largely bears operational risks in this option, but for the LAC and in-house options, operational risks are ultimately the responsibility of the council.

Emerging Commissioning Option

The two criteria of cost and quality and risk are subsequently combined into a single 'score' using the weighting agreed with senior officers and the Cabinet Advisory Group:

- cost – 40%; and
- quality and risk – 60%.

The application of the weighting determines the overall ranking presented in Table E - 1.

Table E - 1: Overall Results – Comparison of Options

Criterion	Cost	Quality and Risk	Total	Rank
LA Company	40	54	94	2
Contracted Out	39	60	99	1
In-house	38	51	89	3
Notes:	<i>We applied a normalisation to the scores achieved by each option on the basis of a deviation from the lowest scoring option, so that the lowest modelled cost option achieves 40 points and the lowest risk scoring option achieves 60 points. The other options score points in proportion to the lowest scoring option.</i>			

Eunomia carried out a sensitivity test of the weighting agreed by considering a scenario where a 50/50 weighting is applied to cost and quality/risk and a scenario where the cost criteria is weighted more than the quality and risk criteria. The sensitivity test concluded that the ranking shown in Table E -1 is unchanged.

The commissioning options review concludes that the Contracting Out option delivers the 'best' result overall and could be selected by the council as the preferred commissioning solution. It must be stressed however that, taking into account the cost modelling results, the LAC option would also represent a viable solution for the council.

The selection of the Contracting Out option would also deliver the 'best' balance of benefits and risks to the council:

- A well understood solution with predictable implementation costs and timetable;
- The ability to transfer most of the financial risks to the selected contractor; and

The opportunity to attract competition during the procurement process to secure best value and to deliver an innovative contract.

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Internal Audit Report 2016/2017

Environmental Services

**Northampton
Borough Council**

FINAL

October 2016



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Appendices

A. Terms of reference
B. Limitations and responsibilities

4

Distribution list

For action:
Julie Seddon, Director of Customers & Communities
Francis Fernandes, Borough Secretary and Monitoring Officer

For information:
Glenn Hammons, S151 Officer
David Kennedy, Chief Executive
Audit Committee



Executive summary (1 of 4)



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Summary of findings

We have reviewed the governance and decision making processes in place supporting the Council's assessment of the re-provisioning of its environmental services. Background to the project and a summary of the work undertaken is set out in Appendix A. Our key observations are set out below.

Overall governance processes

From discussions with key stakeholders, attendance at a Project Team meeting and review of project management documentation, it appears that the governance processes put in place around the project are robust and include, for example:

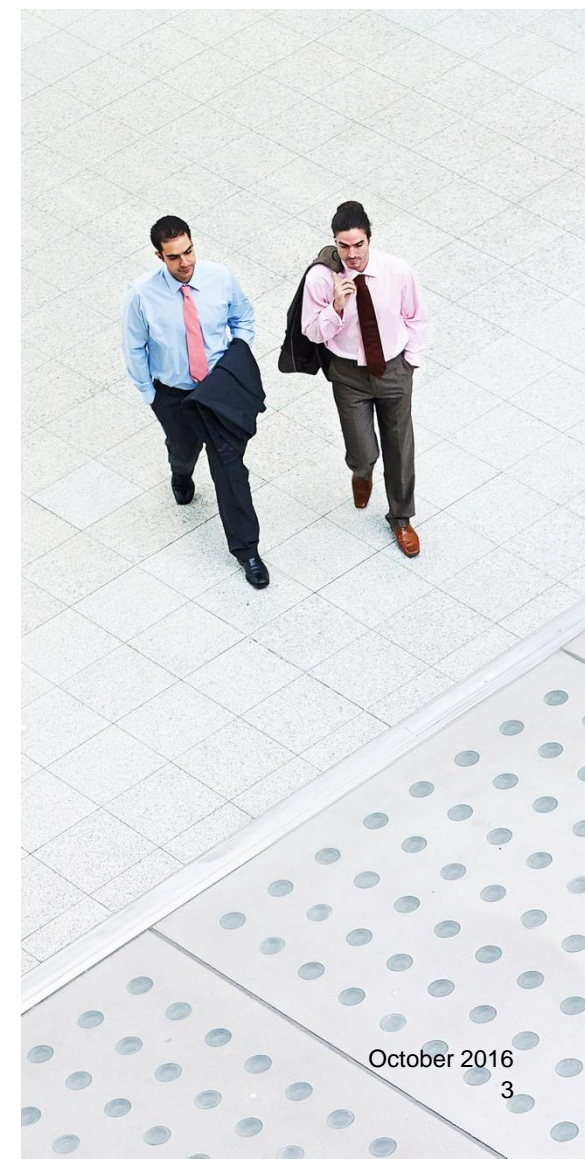
- good reporting structures to regularly highlight project performance, risks, progress and potential issues;
- involvement in the project from key areas of the Council, including operations, finance, HR, legal, community and assets in Project Teams and Programme Boards;
- mechanisms in place to ensure good linkage and accountability between these groups;
- capture and tracking of minutes and actions; and
- terms of reference to define the activities and roles of each group.

Certain aspects will need to be finalised as the Council moves into the delivery phase of the project, such as developing the Business Case for the chosen commissioning option, defining appropriate objectives, benefits and performance indicators and updating the project plan accordingly.

As in all projects of any size and complexity, the proof of pudding with governance arrangements is the ability to sustain them meaningfully throughout the project; there are always risks here, including changes in personnel, distraction and business. The Council will need to keep this project under regular review.

Decision making process

The recommendation to the Programme Board and Cabinet will be based on a combination of financial modelling supported by an external consultant (Eunomia), a qualitative assessment of what the Council wants from the service (flexibility, cost certainty etc) and consultation with the community to get their views.



Executive summary (2 of 4)



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Financial modelling

Eunomia has supported the Council by completing cost modelling around different service configurations and service delivery models to provide an indicative cost for the preferred commissioning solution. This financial modelling has been based on a build-up of costs for the current service, as provided by the incumbent, along with assumptions such as financing options, pension arrangements, recycling levels, expected profit margins etc.

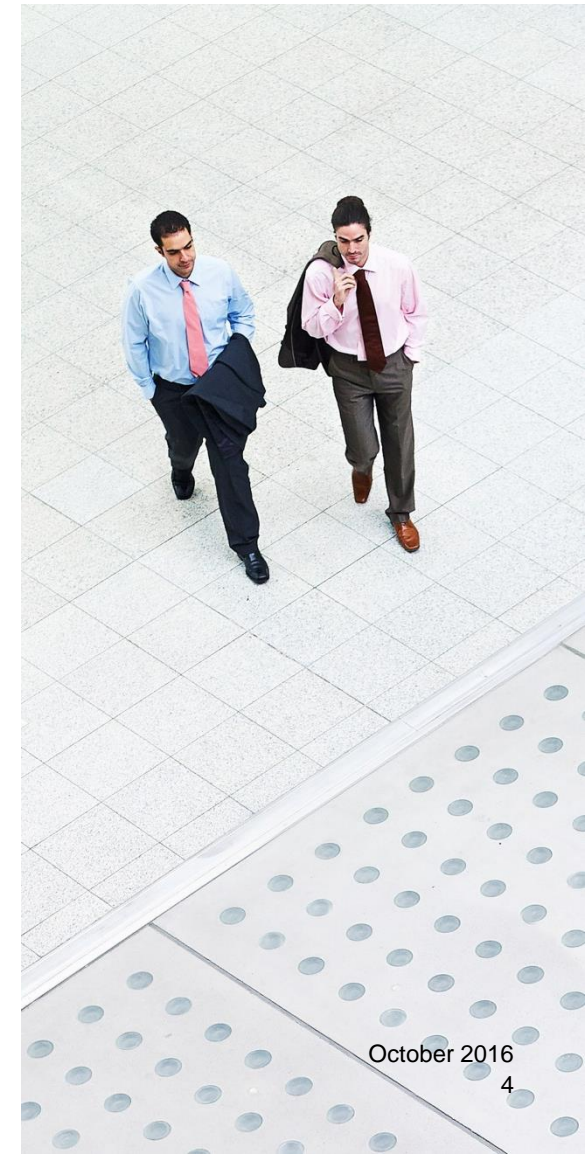
From our attendance at the Project Team meeting and review of Eunomia's presentations, it was not clear what assumptions had been used in modelling each of the potential commissioning options, or how those assumptions changed from one option to the next. We also noted that at the time of our review, there had been limited involvement from the Council in determining/agreeing/challenging these assumptions as part of the cost modelling process.

We understand that the purpose of this exercise was not to prepare a detailed costing of a future service and that subsequent to our review, further work has been undertaken with Eunomia to understand the model they have used and how, at a high level, the assumptions impact the result of that process.

However, we believe it would be beneficial for the Programme Board to understand what key assumptions have been used in preparing the indicative costs so that they are clear on what basis the figures have been prepared and what decisions around the service these assumptions show so that the recommendation put forward to Cabinet off the back of these financial indicators is as informed as possible.

Commissioning costs and assumptions

We have discussed with Eunomia outcome of the commissioning options modelling, based on consideration of three options, being a return to in-house provision of the service, continuing to out-source to service to a third party or creation of a Local Authority Company ('LAC') to provide the service going forward. We have considered the reasonableness of the approach followed and information used and believe it would be advisable for the Council to consider the following points:

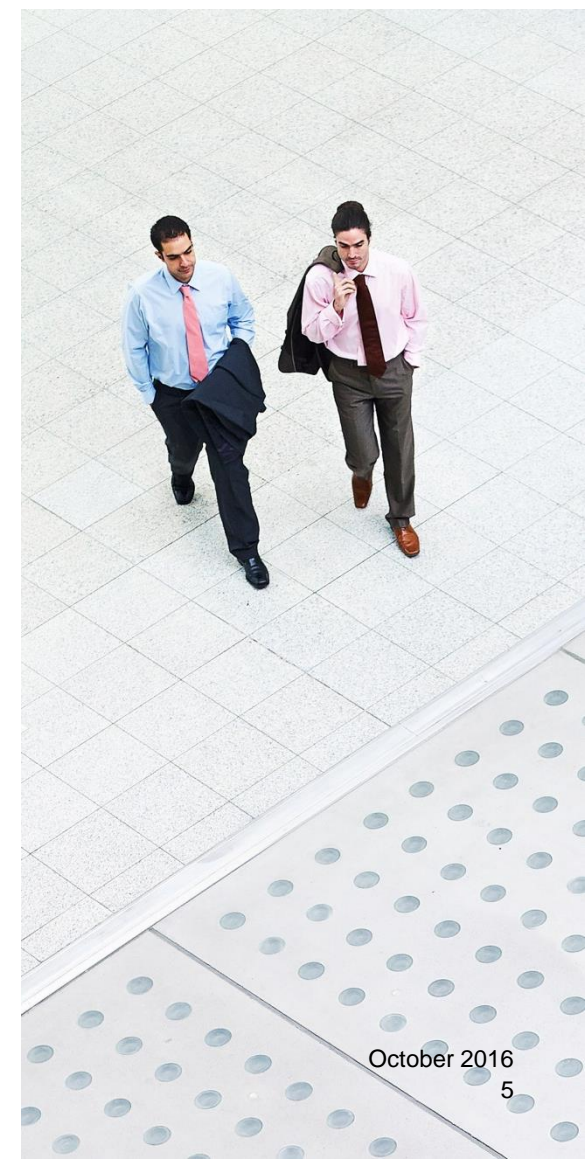


Executive summary (3 of 4)



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- * The commissioning options modelling indicates that the difference in annual cost between the out-source option and the LAC of £400k equates to the profit made by a contractor as underlying operating costs are consistent between the two scenarios. We would note that this represents a relatively low margin for risk against a service which has historically been seen to suffer from cost overruns.
- * An out-sourced solution comes with the ability to transfer risk that is not offered by the LAC option, with the profit element being the cost to the Council associated with the transfer of the risk of managing cost overruns or service issues. The lower price for the LAC model therefore needs to be viewed in this context. It also allows for no consideration of the risk retained by the Council which, depending on further more detailed analysis of the underlying costs, could be more than the cost differential projected by Eunomia.
- * As the commissioning of a LAC would be a new model for the Council, and would not involve the underlying experience of a professional contractor, it would be expected that some cost should be considered for the management of risk which we believe could lead to an increased projection for the LAC above that presented by Eunomia.
- * We would also note that whilst a LAC can operate on a non-profit basis, this does not necessarily mean that prudent management of the LAC would not involve generating some surplus which will help manage the risk and allow for future investment in innovation or transformation. Our discussions with Eunomia have not suggested that any surplus is projected in their costs.
- * Eunomia has not factored in any transformation or development of the delivery model. Whilst this is appropriate for like for like comparison of new models against the current spend, if the Council has any ambition to transform the services in the future, the cost modelling does not reflect the fact that the cost of transformation may be different under each model.
- * The cost modelling exercise provides a clear indication of the relative expense of the different commissioning options. However, it does not provide any indication of the relative risks (or transfer of risk) and opportunities that each option can present (such as the access to increased buying power, or technological advances with an out-source option) which can have significant cost implications. We believe this to be a key consideration in any decision making process that needs to be carefully assessed and clearly identified when communicating any recommendation.



Executive summary (4 of 4)



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Qualitative assessment

A key aspect of the commissioning option decision for the Council has been consideration of the qualitative aspects of the service delivery – what kind of service does the Council want, how flexible does it need to be, what certainty is required over the service cost and what control does the Council want over its delivery.

In order to assess the Council’s views, Eunomia has shared a number of key questions with the Project Team. Responses to those questions drove a recommendation of the most appropriate commissioning option from a qualitative perspective. We noted that it would be beneficial for the output of this exercise to be shared with the Programme Board to ensure that the Board members were also in agreement with this assessment, particularly as it has been agreed that the weighting of qualitative/cost in terms of the overall recommendation is 60/40. We understand that these responses were shared with the Programme Board at its meeting on 22 September.

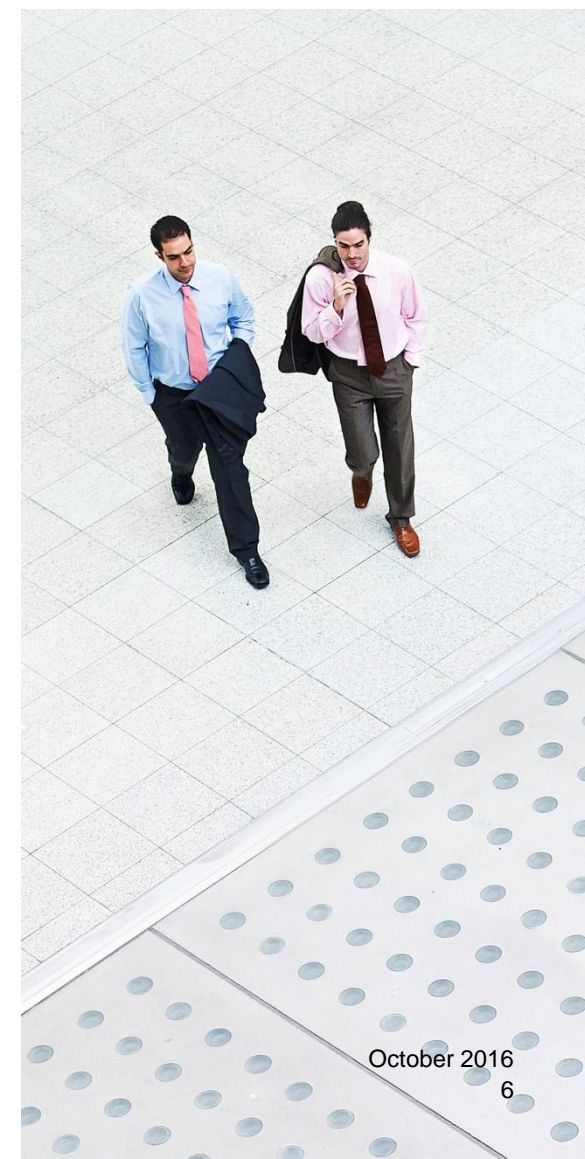
Scope of work

We have undertaken this review in line with our agreed terms of reference. However, as agreed with Julie Seddon, we have not been required to attend the Programme Board to observe the governance process at this level and or reviewed Eunomia's final presentation on the output of the cost modelling as presented to the Programme Board, or the Cabinet report.

Overall conclusion

The governance processes in place around this stage of the project is considered robust, although as the project moves into the next stages of implementation and mobilisation, it will be important that these sustained.

It is also important that there is sufficient clarity over the information used to support the decision around the preferred commissioning option. This includes ensuring that there is visibility over the assumptions used to drive the cost modelling, that the qualitative assessment truly reflects the Council’s requirements of the service and that appropriate consideration is given to the respective risks and opportunities presented by each commissioning option. These factors were not all clear to the Programme Board at the time of our review.



Background and scope (1 of 2)



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Background

Northampton Borough Council (“the Council”) currently outsource their environmental services contract to Enterprise Managed Services Limited (“Enterprise”). The contract includes a range of outsourced services including refuse collection, recycling, street cleansing and grounds maintenance. The seven year contract was awarded in June 2011 on behalf of Northampton Borough Council and Daventry District Council.

The Council is currently determining the most appropriate option for the future provision of the Environment Services contract, by looking at three service delivery options: a full retender and external procurement exercise; bringing the service back in house or establishing a Limited Company. This is a complicated decision involving a significant financial commitment and numerous different inputs. The Council have engaged a third party provider, Eunomia, to help assess the service configuration options based on both a qualitative and quantitative information, and also need to consider the findings from consultations with the general public. The Environmental Services team are preparing an options paper which will be presented to Cabinet in October 2016.

The Council has established a project to identify and implement its preferred commissioning option for the future provision of the service. Stage one of this project - the ‘Definition’ stage – is to obtain Cabinet approval of the preferred service configuration and service delivery model. Given the expiry of the current arrangement in June 2018, it is key that this decision is made by mid October 2016 to allow sufficient time to implement and mobilise the preferred solution, as part of subsequent phases to this project.

We have been requested, as part of the Definition stage, to assess the robustness of the process followed by the Council to appraise its options for the service and to consider the adequacy and completeness of the evidence upon which this decision will be made.

Using our subject matter experts, we will critically review the option paper to ensure that consideration has been given of all the typical elements and that the conclusions reached are supported by the evidence base. We will understand and review the governance arrangements that are in place to support the decision and ensure that these are being adhered to.



Background and scope (2 of 2)



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Scope

We have completed a short, sharp review during the time critical period between the data being gathered ready for the project team and a decision being reached on the preferred option(s). Our assessment has focused on the robustness of the process which the Council has followed to appraise the options for renewing the Environmental Services contract; and the adequacy and completeness of the evidence on which the decision will be made.

Using our waste management subject matter experts we have:

- critically reviewed the cost modelling process to ensure that the recommendations are supported by appropriate evidence; and
- assess the inputs to the cost modelling process to identify any significant gaps.

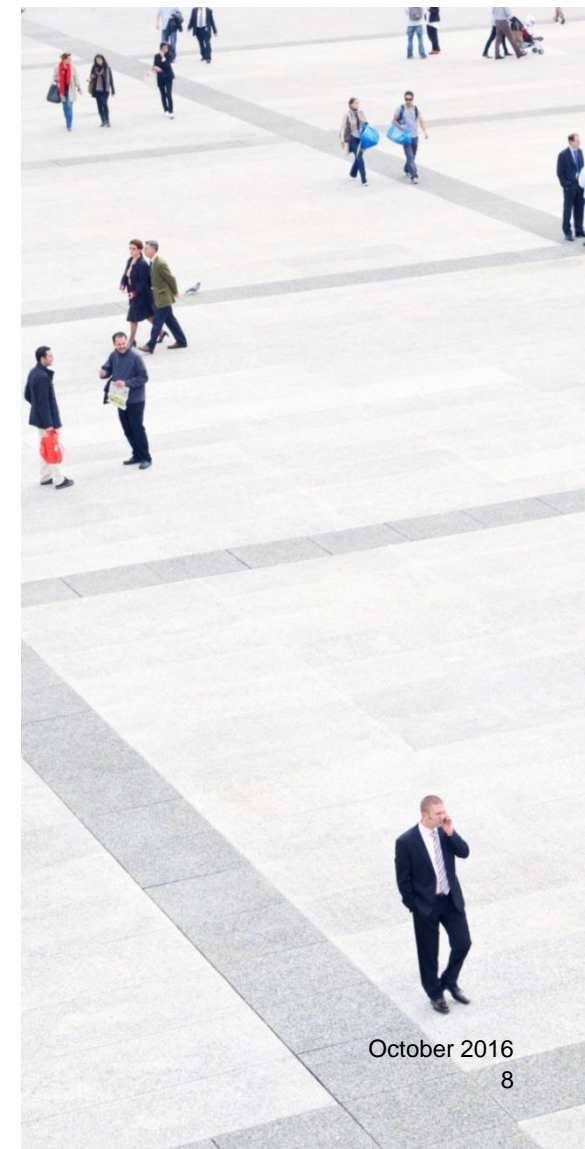
Additionally, we have:

- reviewed the decision making process for robustness;
- reviewed the adequacy of information for enabling the Council to make an informed decision;
- understood the governance arrangements in place and reviewed the current progress; and
- attended one Project Team meeting to observe the governance process in practice.

Limitations of scope

The scope of our work will be limited to those areas outlined above. We are not providing an assurance opinion on this work. Our review has been focused on the process which has been followed in assessing the options available to the Council in relation to the Environmental Services contract. We are not forming any view on the overall conclusion reached by the Council.

It should also be noted that we have not, as part of this review and on the instruction of the Council, attended the Programme Board meeting where a decision was made on the preferred commissioning option, reviewed the final report prepared by Eunomia or reviewed the Cabinet paper.



Current year findings (1 of 4)

Governance processes

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1

Observations

The Council has established a strong governance process to support this project. Given the high profile of this service, both in terms of the significant financial cost over the contract term and the level of community interest, it is important that there is a robust decision making process in place. In particular, we noted that:

- A Project Team, Programme Board and Cabinet Advisory Group/Community Steering Group have been formally established, are governed by terms of reference which set out accountability, responsibilities, attendees and logistics and are attended by a representative spread of key stakeholders across key functional areas of the organisation, community and employee base
- The project is managed by a dedicated project manager, supported by detailed project plans, risk assessments and budgets and minutes from each meeting are captured. Project 'Highlight reports' are shared at each meeting, capturing factors impacting the plan or budget, new risks etc.
- Clear linkage has been established between the members of the Project Team and Programme Board to ensure that the Programme Board members are sufficiently informed, involved and engaged in their respective areas and have visibility of the key decisions, assumptions and activities impacting their areas.
- While the Highlight reports are part of the LGSS suite of programme assurance tools, a more detailed project plan, project risk register, issues and action logs have been implemented by the Eunomia project manager to support greater visibility over the project progress.

Current year findings (1 of 4)

Governance processes

27

1

Areas to consider

At the Definition stage, it is worth noting that:

- The project’s focus is on reaching the Cabinet decision point by the mid October deadline so the detailed project plan, risks and issues are all geared around what deadlines need to be hit to achieve this and what could de-rail the process eg delays in the receipt of information from Enterprise, Cabinet disagreeing with the recommendation from the project teams etc. There has been no assessment, at this stage, of other risks associated with the service itself e.g. whether a suitable out-sourced provider would bid or whether suitably skilled personnel could be recruited for the in-house solution. This assessment will be conducted once the decision has been made around which option to pursue.
- There is no detailed Business Case for this first stage of the project. The final report from Eunomia on the recommended commissioning option will form the basis of the Business Case for the rest of the project, and there will be the need to refresh this ‘Business Case’ as the project continues.
- These governance processes need to be sustained meaningfully throughout the project to manage risks such as changes in personnel or the business. The Council will need to keep this project under regular review.

Current year findings (2 of 4)

Visibility of financial assumptions

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2

Observations

Significant reliance is being placed on the experience of Eunomia in supporting this project and the outcome of the Definition phase, particularly in modelling the indicative cost for each commissioning option.

Underlying each of the options is a series of assumptions – such as how the acquisition of assets will be financed, what decision the Council will take in respect of pensions in each scenario, the extent of food waste collection etc. These assumptions will impact the indicative cost of delivery, and could therefore potentially impact the decision around choice of commissioning option.

We have seen evidence, through a review of meeting minutes and discussions with key stakeholders, of some challenge around these assumptions. However, there has been limited visibility to the Council during the process of the specific assumptions driving each of the options. The results of the commissioning cost modelling were presented to the Project Team for the first time on 15 September, but it was not clear what assumptions had been made, or how these assumptions changed from one scenario to the next. It was therefore difficult to understand what key decisions would need to be made by the Council in each option, for example, whether to allow employees to join the Council pension scheme or not.

There has also been limited involvement from Finance during the process in the run up to the Eunomia presentation in terms of agreeing or challenging these assumptions. While Eunomia have been engaged due to their knowledge of the sector and previous experience in this area, it is considered necessary that the Council has sufficient involvement in this part of the process to ensure that:

- they are properly engaged in the outcome of the cost modelling and are fully committed to the recommendations being made to the Programme Board and Cabinet
- local knowledge of the service, its current delivery and outcomes are appropriately brought into the decision making process – we have seen some evidence of challenge in this area
- the financial consequences of any decision are understood and have been considered, from a sensitivity perspective (ie what impact might changes in the assumptions have on the cost modelling output)
- assumptions are aligned to the Council’s objectives in this area

Current year findings (2 of 4)

Visibility of financial assumptions

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2

Observations (continued)

Timescales have been tight in terms of turning around the cost modelling exercise. From a decision on baseline service configuration through to presentation of the results of the commissioning option modelling to the Project Team was only one week. While we understand that the modelling is being used to provide indicative costs only to inform the Definition phase, there is a need to ensure that the Council has been adequately involved in this part of the process as significant decisions (such as the option to kick off a complex procurement process should the out-source option be chosen) will be made of the back of this analysis.

Areas to consider

In order to address this:

- Finance should spend time with Eunomia to understand the model and its underlying assumptions in more detail so that the Council is comfortable that the assumptions made are reasonable and reflect their circumstances. We understand this has been undertaken since our review.
- A summary of the key assumptions should be shared with the Programme Board to support their review of the output from the cost modelling exercise.

Current year findings (3 of 4)

Commissioning costs and assumptions

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3

Observations

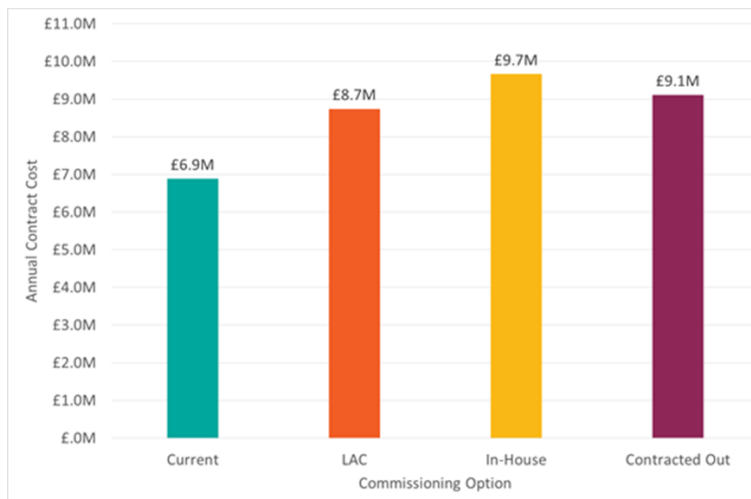
In considering the Council’s approach to developing indicative costs for the various commissioning options, we have discussed with Eunomia the approach followed and assumptions used to calculate the current environmental services contract costs and the three other proposed commissioning options.. We have used, as a basis for this discussion, Eunomia’s report shared on 27 September (as set out opposite). It should be noted that this was the latest version of the costs available at that date, although it was understood from Eunomia that the costs were still subject to amendment.

In modelling the three commissioning options, Eunomia modelled the base annual cost of delivering the current service, using a bottom-up approach. This approach involved using the baseline service configuration model agreed with the Council, estimating the cost of the services using the current contractor, Enterprise's costs and applying assumptions on productivity, staff, vehicles, overheads, margins and other cost items. These assumptions were assessed against industry knowledge and benchmarks to derive this base annual cost.

Using this base annual cost, Eunomia applied broad assumptions to arrive at the costs of the three commissioning options:

- For the LAC option, it was assumed that most LAC staff will not be on Local Authority pension, and that there would be a zero profit margin;
- For the In-House option, it was assumed that all staff would receive Local Authority pensions.
- For the Contracted Out option, it was assumed that a profit margin and corporate overhead were applied, but minimal staff on Local Authority pension.

In all cases, Eunomia has informed us that upfront costs (e.g. company setup/ procurement) were beyond the scope of the cost modelling and has therefore not been included in these annual costs.



Current year findings (3 of 4)

Commissioning costs and assumptions

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3

Areas to consider

Based on our discussion with Eunomia and a review of the cost outputs of the commissioning options modelling we believe it would be advisable for the Council to consider the following points:

- Eunomia has indicated that the difference between the out-source option and the LAC option costs is the profit made by a contractor with the underlying operating costs being consistent between the two scenarios in their modelling. We would note that the modelled profit of £400k represents a relatively low margin for risk against a service which has historically been seen to suffer from cost overruns. We would also note that an out-sourced solution comes with the ability to transfer risk that is not offered by the LAC option. The price will be contractually agreed, with the profit element being the cost to the Council associated with transferring the risk of management of cost overruns or service issues. The lower price for the LAC model therefore needs to be viewed in this context. It allows for no consideration of the risk retained by the Council which, depending on further more detailed analysis of the underlying costs, could be more than the cost differential projected by Eunomia. As an example, a single additional vehicle (a 26 tonne RCV) could cost up to or over £75,000 to purchase.
- As the commissioning of a LAC would be a new model for the Council, and would not involve the underlying experience of a professional contractor, it would be expected that some cost should be considered for the management of risk which we believe could lead to an increased projection for LAC above that presented by Eunomia.
- We would also note that whilst a LAC can operate on a non-profit basis this does not necessarily mean that prudent management of the LAC would not involve generating some surplus which will help manage the risk and allow for future investment in innovation or transformation. Our conversations with Eunomia have not suggested that any surplus is projected in their costs above.

Current year findings (3 of 4)

Commissioning costs and assumptions

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3

Areas to consider (continued)

- In discussing the approach Eunomia have taken, they have indicated that they have not factored in any transformation or development of the delivery model over and above that included in the base case. Whilst this is appropriate for like for like comparison of new models against the current spend, if the Council has any ambition to transform the services in the future, the costs projections above do not reflect the fact that the cost of transformation may be different under each model. This again is linked to the difference in risk transfer and access to wider expertise that an out-sourced solution may present as opposed to a LAC model. Whilst these risks can be mitigated this would involve a more detailed understanding of the operating structure and mobilisation plan of any new LAC to determine the extent to which the risks are managed.
- The commissioning costs output when presented in the diagram provides a clear indication of the financial implications of the relative expense of the different commissioning options. However, it does not provide any indication of the relative risks (or transfer of risk) and opportunities that each option can present (such as the access to increased buying power, or technological advances) which can have material cost implications. We believe this to be a key consideration in any decision making process that needs to be carefully assessed and clearly identified in any recommendation communications.

Current year findings (4 of 4)

Qualitative decision making process

33

4

Observations

A robust process has been followed to determine what is important to the Council from their environmental service – such as flexibility, cost certainty, value for model etc. Through a workshop forum, the Programme Board provided input into how these factors should be prioritised and the relative weighting of this aspect of the decision; the outcome being that qualitative assessment would have a weighting of 60% vs 40% for the outcome of the financial modelling.

In order to assess the Council’s views, Eunomia has shared a number of key questions with the Project Team. Responses to those questions drove a recommendation of the most appropriate commissioning option from a qualitative perspective.

Areas to consider

We note that it would be beneficial for the output of this exercise to be shared with the Programme Board to ensure that the Board members were also in agreement with this assessment, particularly as it has been agreed that the weighting of qualitative/cost in terms of the overall recommendation is 60/40.

We understand that these responses were shared with the Programme Board at its meeting on 22 September 2016.



Appendix A: Background to the project and work completed

Appendix B: Terms of reference

Appendix C: Limitations and responsibilities

Appendices

Appendix A: Background to the project and work completed

Background to the project

The primary purpose of the Definition stage of the project is to reach a decision on the preferred commissioning option for future environmental services provision. To support this process, the Council has appointed an external consultancy firm, Eunomia, to provide a project manager to support the delivery of this phase, and to provide sector advice and expertise around modelling service configuration and delivery options through use of an internally developed model.

The Definition stage has consisted of the following:

- Determination of a 'baseline' service configuration – acknowledging that the current service provision is not considered fit for purpose, consideration has been given to six potential configurations with Eunomia modelling each to give an indicative cost. This phase was completed prior to the start of our internal audit review.
- 35 • Determination of a preferred commissioning option – with a decision over service configuration, the indicative cost of providing the service in-house, via an out-source provider or through a Local Government Company has been assessed using a bottom up approach to the cost based on current Enterprise costs and assumptions made by Eunomia based on sector experience
- Qualitative assessment of the service – the Council has considered it's priorities for the service in terms of flexibility, value for money, cost certainty etc to help drive a decision over commissioning options
- Community views – given the nature of the service being offered – including waste collection, recycling and street cleaning – it has been important to get the views of the local community around what they want from the service and would be willing to accept.

The overall decision from this phase will be a recommendation to Cabinet over the preferred commissioning option and will take account of both the financial and qualitative assessment with the community views overlaying – but not taken priority over – these aspects. Indicative costs will not be shared at this point. Once the Cabinet decision has been made, this will provide the direction for the remainder of the project, the implementation and mobilisation of the new service in June 2018.

Appendix A: Background to the review and work completed (continued)

Activities undertaken

In order to understand, in more detail, the governance and decision making process in place to support the delivery of this Definition stage of the Environmental Service re-provision project, we have undertaken the following activities:

- Met with Julie Seddon, as Business Change Manager, to understand the governance and decision making process in place around the project
- Met with David Pietropaoli, Programme Manager, to obtain a more detailed understanding of the governance process
- Met with Stuart Johnston, LGSS Finance and supporting the Project Team in this area, to understand how the Council has been involved in the finance related activities supporting the option modelling process
- Discussed with David Pietropaoli and Maxine von Eye of Eunomia the approach adopted to the cost modelling exercise to understand the methodology adopted
- Reviewed key documentation including terms of reference for each group, minutes of meetings held, programme plans, risk registers, copies of presentations provided by Eunomia and documentation to support the appointment of Eunomia as the Council’s consultants for this project
- Attended the 15 September Project Team meeting, where the outcome of the service delivery model assessment was presented to see, first hand, the governance process in operation

As part of this process, we have fed back our observations on the process, on a real time basis, to Julie Seddon to ensure that our recommendations could be incorporated into the process. Our observations from these activities are set out in section 3 of this report.



Background and objectives



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Background and objectives

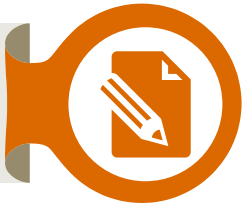
Northampton Borough Council (“the Council”) currently outsource their environmental services contract to Enterprise Managed Services Limited (“Enterprise”). The contract includes a range of outsourced services including refuse collection, recycling, street cleansing and grounds maintenance. The seven year contract was awarded in June 2011 on behalf of Northampton Borough Council and Daventry District Council.

The Council is currently determining the most appropriate option for the future provision of the Environment Services contract, by looking at three service delivery options: a full retender and external procurement exercise; bringing the service back in house or establishing a Limited Company. This is a complicated decision involving a significant financial commitment and numerous different inputs. The Council have engaged a third party provider, Eunomia, to help assess the service configuration options based on both a qualitative and quantitative information, and also need to consider the findings from consultations with the general public. The Environmental Services team are preparing an options paper which will be presented to Cabinet in October 2016.

Using our subject matter experts, we will critically review the option paper to ensure that consideration has been given of all the typical elements and that the conclusions reached are supported by the evidence base. We will understand and review the governance arrangements that are in place to support the decision and ensure that these are being adhered to.



Scope and approach (1 of 2)



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Scope and approach

We will complete a short, sharp review during the time critical period between the data being gathered ready for the project team and a decision being reached on the preferred option(s). Our assessment will focus on the robustness of the process which the Council has followed to appraise the options for renewing the Environmental Services contract; and the adequacy and completeness of the evidence on which the decision will be made.

Using our waste management subject matter experts we will:

- critically review the options paper to ensure that the recommendations are supported by appropriate evidence; and
- assess the inputs to the options paper to identify any significant gaps.

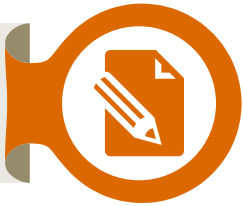
Additionally, we will:

- review that the decision making process for robustness;
- review the adequacy of information for enabling the Council to make an informed decision;
- understand the governance arrangements in place and review the current progress; and
- attend the Project Board meeting(s) to observe the governance process in practice.

Deliverables

On completing this work we will issue a short report, summarising our assessment and identifying recommendations for improvement.

Scope and approach (2 of 2)



Limitations of scope

The scope of our work will be limited to those areas outlined above. We will not be providing an assurance opinion on this work. Our review will be focused on the process which has been followed in assessing the options available to the Council in relation to the Environmental Services contract. Our work will not endorse the overall conclusion reached by the Council.

Approach

Our approach is as follows:

- Undertake a desktop review of the available information (including the options paper);
- Walkthrough the process which the Council has followed (including stakeholder interviews as required); and
- Review the evidence available to support the decision.



Our team and key contacts



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Our team

Name	Role	Contact details
Richard Bacon	Head of Internal Audit	richard.f.bacon@uk.pwc.com 0121 265 5492
Gill Collins	Contract assurance specialist	gillian.m.Collins@uk.pwc.com
Nick Lane	Waste subject matter expert	nicholas.lane@uk.pwc.com

Key contacts – Northampton Borough Council

Name	Title
Glen Hammons	Section 151 Officer
Julie Seddon	Director of Customers and Communities

Implications on the Internal Audit Plan

The estimated fee for this work is £15,000 - £17,000. The 2016/17 internal audit plan approved by the Audit Committee on 27 June 2016 includes provision for a 10 days review into the Environmental Services contract. This review will utilise the specialist day rate included in the engagement contract and the allocated days in the internal audit plan will be used to partially offset the cost of this review.



Timetable and information request



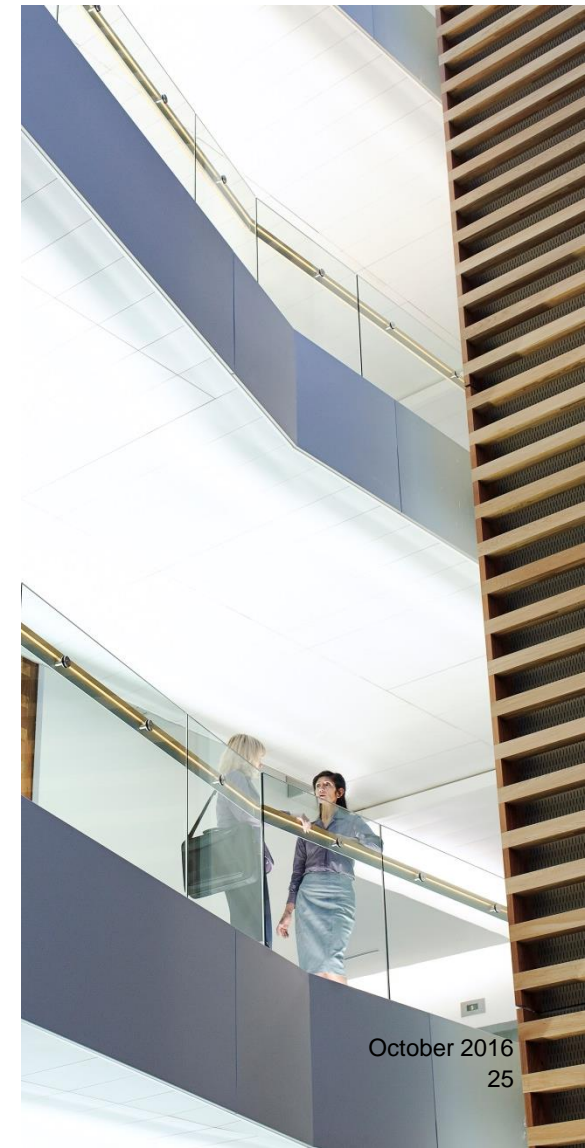
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Timetable

Fieldwork start	15 th September 2016
Fieldwork completed	29 th September 2016
Draft report completed	29 th September 2016
Final report completed	7 th October 2016

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request. If any can be provided by in advance of fieldwork starting this should be provided; and
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.



Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor’s work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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CABINET

WEDNESDAY, 16 NOVEMBER 2016

DECISIONS

PRESENT:	Councillor Nunn (Chair); Councillor Larratt (Deputy Chair); Councillors Eldred, Hallam, Hadland and King .
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Set out below is a summary of the decisions taken at the meeting of the Cabinet held on Wednesday, 16 November 2016. The wording used does not necessarily reflect the actual wording that will appear in the minutes.

These decisions will come into force and then may be implemented on the expiry of three working days after the publication of this list.

If you have any queries about any matters referred to in this decision sheet please contact Emma Powley.

THIS LIST OF DECISIONS PUBLISHED:	<u>17th November 2016</u>
DATE OF EXPIRY OF CALL IN:	<u>22nd November 2016 AT 17:00 HOURS</u>

Agenda	Declaration/Conflict of Interests:
Item No	None

7. CABINET'S RESPONSE TO OVERVIEW AND SCRUTINY COMMITTEE PRE-DECISION SCRUTINY REPORT - MUSEUM TRUST

- 2.1 Cabinet gave careful consideration to Overview and Scrutiny Committee's pre-decision scrutiny report of 7th September 2016 on the proposal to establish a museum trust.
- 2.2 Cabinet noted that Overview and Scrutiny Committee was satisfied that further investigation into the establishment of a museum trust, including a full options appraisal, would ensure the best outcome for the future of the Museum Service and Cultural Quarter.
- 2.3 Cabinet, in response to Overview and Scrutiny Committee's recommendation that a museum trust business plan be commissioned, instruct that a business case is first developed and brought back to Cabinet in February 2017 for its further consideration

and thereafter it is determined whether Cabinet wish to proceed with the development of a full business plan.

- 2.4 Cabinet thanked Overview and Scrutiny Committee for its detailed and robust report

Agenda **Declaration/Conflict of Interests:**
Item No None

8. PARTNERSHIP GRANT ALLOCATION PROCESS 2017-18

1. abinet agreed (subject to approval each year by Full Council of the relevant budget) that funding for a period of three years may be granted to community and voluntary organisations, through the partnership grant allocation process.
2. abinet requested that Full Council make the necessary changes to the Council's Constitution, as advised by the Borough Secretary, to give authority to the Chief Executive to award funding for a period of three years, in accordance with recommendation above.

Agenda **Declaration/Conflict of Interests:**
Item No None

9. NEW COMMUNITY CENTRE AND SPORTS PITCHES AT ST CRISPINS - LEASE APPROVAL

- 2.1 Cabinet approved in principle the grant of a 30 year lease for the new St Crispins Community Centre and sports pitches, the location of which was shown on the attached plan at Appendix 1 of the report, to Community Spaces Northampton (CSN), at a notional rent for the life of the lease.
- 2.2 Cabinet, subject to the Director of Regeneration and Enterprise first being satisfied that any issues of undervalue arising from s123 of the Local Government Act 1972 being satisfactorily addressed in accordance with paragraph 3.2.5 of this report, delegated authority to the Chief Finance Officer to approve the final terms of the lease and to the Director of Customers & Communities to approve the final terms of the management agreement in accordance with the Framework (Appendix 2) on the Council's behalf.

Agenda **Declaration/Conflict of Interests:**
Item No None

10. PUBLIC SPACES PROTECTION ORDER

1. Cabinet approved the Public Spaces Protection Order as detailed in Annex 2 after considering the consultation responses at Annex 3 of

the report

2. Cabinet noted that the draft PSPO in Annex 1 of the report, which was the subject of consultation contained restrictions on street entertainment (aka busking) that have not been included in the final PSPO recommended for adoption in Annex 2 of the report following the results of public consultation
3. Cabinet approved that the Public Spaces Protection Order comes into force once all necessary signage has been put in place as per Annex 2 of the report.
4. Cabinet approved a one-off supplementary estimate of £12k for the provision of signage, to be funded by a drawdown from the Community Safety Partnership reserve
5. Cabinet agreed that once implemented, the PSPO is monitored for 6 months and a report on its impact be brought back with recommendations on any amendments or additions if required

Agenda Item No	Declaration/Conflict of Interests:
	None

11. RE-PROVISION OF ENVIRONMENTAL SERVICES

- 2.1 Cabinet agreed that with effect from the 6th June 2018, to Contract Out Environmental Services to an external provider selected through an OJEU procurement process.
- 2.2 Cabinet delegated authority to carry out the OJEU procurement process to the Director of Customers and Communities, in consultation with the Cabinet Member for Environment.
- 2.3 Cabinet approved a supplementary estimate to create a budget for the OJEU procurement process of up to £400,000, to be funded from the 'Delivering the Efficiency Plan' reserve, in accordance with paragraph 4.2.8 of the report.
- 2.4 Cabinet agreed to receive quarterly update reports on progress against the programme.

Agenda Item No	Declaration/Conflict of Interests:
	None

12. ARMED FORCES COMMUNITY COVENANT

Cabinet affirmed its continuing support for the Northampton Armed Forces Community Covenant and notes progress to date and proposed future

actions.

Agenda	Declaration/Conflict of Interests:
Item No	None

13. PARISH COUNCIL ASSET TRANSFER DISCUSSIONS

1. Cabinet agreed that approval be given to commence negotiations with Parish Councils for the disposal of assets by way of long leases in the outline form set out in Appendix 1 of the report.
2. Cabinet agreed that approval be given to the Chief Executive in conjunction with the Chief Finance Officer and the Borough Secretary to agree the terms of any asset transfer to Parish Councils as appropriate, in consultation with the Cabinet Member for Regeneration Enterprise and Planning.
3. Cabinet agreed that on any proposed transfer of land or property to a Parish Council, Officers be instructed to formally consult the Ward Councillor/s for the area in which any such land or property falls.
4. Cabinet noted that should terms be agreed for the proposed transfer of any assets to Parish Councils, that Cabinet would be asked to make the final decision in all cases.

Agenda	Declaration/Conflict of Interests:
Item No	None

14. FINANCE REPORT TO 30TH SEPTEMBER 2016

- 2.1 Cabinet reviewed the contents of the report and appendices
- 2.2 Cabinet noted the supplementary estimates funded by reserves transfers for the 2016-17 General Fund Revenue Budget as detailed in Appendix 1 of the report.