

## **CABINET**

**14 JANUARY 2014**

### **REVIEW OF MEDWAY NORSE, JOINT VENTURE COMPANY FOR FACILITIES MANAGEMENT**

Portfolio Holder:	Councillor Alan Jarrett, Deputy Leader and Portfolio Holder for Finance
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#### **Summary**

This report provides Members with an update of the work undertaken by the joint venture company Medway Norse.

#### **1. Budget and Policy Framework**

- 1.1 In March 2013, Cabinet gave permission for a joint venture company, now known as Medway Norse, to be established for the provision of facilities management (FM) services from 1 June 2013.

#### **2. Background**

- 2.1 Medway Norse provides facilities management services in over 160 buildings plus a variety of other related services across Medway as listed in paragraph 3.5.

#### **3. Review of Medway Norse**

##### **Mobilisation**

- 3.1 Since Cabinet gave permission for Medway Norse to be created, an officer mobilisation group, which includes representatives from Norse Commercial Services Limited, has been working with client departments, staff transferring to Medway Norse under TUPE legislation and unions to ensure that Medway Norse was ready to start trading from 1 June 2013.
- 3.2 This was a challenging timescale. Once the call-in period had expired that left 10 weeks to mobilise. The key workstreams of TUPE, Finance, Legal and

Organisational change were identified in the Cabinet report. TUPE, Finance and Legal have been addressed but the organisational change continues in terms of the new way of working for client departments and remodelling the organisation to move towards a thin client function.

- 3.3 Councillor Filmer, Portfolio Holder for Frontline Services and the Assistant Director Communications, Performance and Partnerships are the Medway Council Directors of the company. Councillor Filmer is the Chair of the Board of Directors and Operational Liaison Board.

### Volume of work and efficiencies

- 3.4 Medway Norse has reviewed the model of operation and our patterns of usage of suppliers and is moving as much FM related work as possible 'in-house' to be delivered by Medway Norse directly. This is an on-going review.
- 3.5 The following table confirms the services that Medway Norse provides:

Statutory maintenance contracts	Catering
Corporate cleaning	Meeting room management
Building maintenance	Health and safety management of buildings
Security services	Cash collection
Window cleaning	Records management including archiving
Public Toilet cleaning	Store management
MFDs (printers)	Other miscellaneous FM services
Printing services	

Some of these services such as the corporate cleaning contract and the Gun Wharf café contract, have transferred from third parties to be delivered by Medway Norse directly.

- 3.6 The following table will give Members an indication of activity. In its first five months, Medway Norse has received 2,458 helpdesk calls to undertake reactive maintenance work, and these can be broken down as follows

Month	No of helpdesk calls	External contactor	Medway Norse staff
June	279	219	60
July	502	320	182
August	454	261	193
September	619	398	221
October	604	375	229

As a result of expanding the 'in-house' Medway Norse service delivery model as outlined above the average cost per job for reactive maintenance in June and July was £168.56, for the period August – October this cost reduced to £126.89.

- 3.7 The financial implications of this report confirm that Medway Norse is on course to deliver the target rebate (income) for this first year of the company. These savings are being achieved by bringing in-house contracted services such as the catering service at Gun Wharf and the corporate cleaning contract across council buildings. Case studies will be made available in the, soon to be published, Newsletter from Medway Norse and this will include the recent recruitment of a handyman at a key corporate site, instead of a cleaner, who is now undertaking minor repairs that would otherwise have been undertaken by contractors. This means that there is now proactive maintenance on site, a speedy response to reactive maintenance requirements and permanent employment for a resident of Medway.

### **External work**

- 3.8 One of the advantages of a joint venture company was the opportunity to bring in income by winning tenders for other work in and around Medway. Medway Norse is actively seeking such opportunities and has passed Pre Qualification Questionnaire (PQQ) stage for a cleaning and grounds maintenance tender.
- 3.9 Given the commercial sensitivities related to tenders, it is not possible to share details but Medway Norse has agreed to the following information being shared in the public domain. Members are advised that Medway Norse has bid for mainly traditional FM services in relation to cleaning and grounds maintenance contracts. There are currently four bids that have been submitted for PQQ review and these relate to cleaning and building maintenance for schools and local authorities. There are three bids at tender stage for cleaning, grounds maintenance and printing, for potential clients such as housing associations and local authorities. There are four other tender opportunities that are being explored by Medway Norse in relation to cleaning and grounds maintenance.

### **Stakeholder engagement to develop the new way of working in the Medway Norse partnership**

- 3.10 Officers from across the council and all levels are coming to terms with the new way of working and reconciling that Medway Norse is not “them” but as a partnership with the Council, is ‘us’. As a result, the change management plan has been revised to include the introduction of Stakeholder meetings..
- 3.11 Stakeholder meetings are held every Tuesday morning at different venues across Medway and agendas are shared with staff and with line manager permission, are open to all to attend. These meetings are intended to ensure that building managers get a timely response to issues, client departments feel a greater sense of ‘ownership’ of the joint venture and that the management team of Medway Norse feel a greater connection with client departments. The Corporate Client (which is the Medway Council quality assurance element of the partnership) will also raise issues and feedback responses to those unable to attend. This forum is planned to run until the end of January 2014 when it is envisaged frequency will reduce and routine meetings will return to the Corporate Client meeting with the Medway Norse Acting Managing Director.

- 3.12 In addition building managers, split by directorate, have the opportunity of a quarterly meeting with Medway Norse and the Corporate Client to discuss building related issues.

### **Learning from other Norse joint ventures**

- 3.13 The Head of Category Management for Operational Support and the Corporate Client undertook a site visit to Waveney to meet with the council's corporate client and meet the Waveney Norse staff on the depot site. The visit was extremely beneficial in terms of information exchange and resulted in the offer of a peer review from Waveney Council senior officers. Partnership staff report to the Council, Members and Committees but this is largely because the management tier of the partnership was TUPE'd from the Council to the joint venture company. The depot in itself presents further business opportunities for Waveney Norse, such as offering MOT and car servicing to the public. Medway Norse continues to search for a suitable location for a depot that will allow for any potential to expand.

### **Future services**

- 3.14 Further services are being considered for transfer into the partnership, due to commercial sensitivities these are not all set out in this report.
- 3.15 However, Cabinet did recently agree to Medway Norse providing grounds maintenance services for the council. The prevalence of grounds maintenance tender opportunities, referred to above, substantiates the business case for creating a Grounds Maintenance subsidiary of Medway Norse. The arrangement is due to commence on 1 April 2014.
- 3.16 In addition, Cabinet agreed in December 2013, that, from 1 April 2014, the transport for pupils at three SEN schools will be delivered by a subsidiary company of Medway Norse.
- 3.17 A business plan is being developed for Year 2 of the joint venture, which will take into account the lessons learnt from Year 1 and the new services. Given the changing nature of the services that Medway Norse will offer from 1 April, the Managing Director role will be revised to reflect the range of services. Equally the depot requirements will reflect the future plans for the service.

### **Business Support Overview and Scrutiny comments**

- 3.18 The committee has received two update reports in August and December and on both occasions Members welcomed the quarterly update from officers about the new organisation. Members helpfully provided feedback about their experience of contacting the Corporate Client and Medway Norse, with an example given of a local issue dealt with quickly and effectively by Medway Norse management. They also alerted Medway Norse to opportunities in relation to raising the profile of their job opportunities with ex-service personnel.
- 3.19 Members of the committee requested that future reports should include an executive summary of the business plan and officers will ensure that this happens. For the purpose of this report, an executive summary is attached.

Members scrutinised the success so far of bids for external work and welcomed the introduction of a dedicated sales person in Medway to push this element of the joint venture company.

#### 4. Risk Management

4.1 The following risks have been identified:

Risk	Description	Action to avoid or mitigate risk
1. The Medway Norse joint venture company does not deliver the savings and income that was projected to the Council	Financial under performance and failure of Company to grow  Rated as D2	Council representation at strategic and operational levels within Medway Norse. Increased sales support to be implemented.
2. Additional Council service areas are not transferred into the joint venture	Financial under performance and failure of Company to grow  Rated as D2	Council representation at strategic and operational levels within Medway Norse. Preparation of year 2 business plan taking into account transfer of council services originally identified into the joint venture company

Description of Risk	
Likelihood	Impact
A: Very high	1: Catastrophic
B: High	2: Critical
C: Significant	3: Marginal
D: Low	4: Negligible
E: Very low	
F: Almost impossible	

#### 5. Financial and legal implications

##### Legal

5.1 A direct award of a contract for services that is subject to the EU procurement regime could be challengeable in the courts. If legal proceedings were issued against the Council for a breach of the procurement rules, the contract award would be suspended until the proceedings were resolved. Under the Public Contracts Regulations 2006, if the court concludes that a procurement process was flawed, it can also declare a contract ineffective after it has been awarded, and award financial penalties against the Council.

5.2 There is an exception to the EU procurement regime known as the *Teckal* exemption which may apply in this case. This means that in certain circumstances, a contract let by a public body such as the Council will not be deemed to be a contract for the purposes of the EU procurement regime. The relevant circumstances are that:

- a) The service provider carries out the principal part of its activities with the Council; and

- b) The Council exercises the same kind of control over the service provider as it does over its own departments. The Council must have a power of "decisive influence over both strategic objectives and significant decisions" for the exemption to apply; and
- c) There must be no private sector ownership of the service provider or any intention that there should be any. Even a minority shareholding by a private company in the service provider would prevent the exemption applying.

5.3 Provided that all these criteria are met, the Council will be treated for the purposes of the procurement rules as if it were providing the services in-house, and not contracting with an external entity. There would therefore be no "contract" to which the procurement rules would apply.

#### **Financial**

5.4 The initial business case, as approved by Cabinet, indicated a year 1 trading surplus of £316,000 for Medway Norse. The start date of 1 June reduced this to £263,000 for the 2013-2014 financial year. The partnership agreement provided for Medway to benefit 100% of the first years trading surplus, future years to be equally split.

5.5 In May 2013 an updated business plan was prepared reducing the annual surplus to £267,000 reflecting changes to the value of core services transferring.

5.6 Monitoring reports to the Medway Norse Board, the latter on 19 November, anticipate that the surplus included in the updated business plan will be achieved.

### **6. Recommendations**

6.1 The Cabinet are asked to note this report.

### **7. Suggested reasons for decision**

7.1 When Cabinet agreed to establish the joint venture company it was also agreed that regular monitoring reports would be brought back to Cabinet.

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#### **Background papers:**

Reports to Business Support Overview and Scrutiny Committee August and December 2013:  
<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=123&MId=2900&Ver=4>  
(item 266)

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=123&MId=2755&Ver=4>  
(item 635)

Cabinet report March 2013:

<http://democracy.medway.gov.uk/mglIssueHistoryHome.aspx?IId=9852>

Cabinet report October 2013:

<http://democracy.medway.gov.uk/mglIssueHistoryHome.aspx?IId=11479>

## Appendix One

### Business Plan from Norse



## EXECUTIVE SUMMARY

This proposal concerns the transfer of a range of Facilities Management and related services, currently directly delivered by Medway Council's in-house teams, or by external contractors, into a new Joint Venture Company (JVC), *Medway Norse*. The transfer of these services will help achieve the key objectives of:

- Securing local employment by maintaining, creating and supporting jobs in the Medway area
- Facilitating opportunities for income generation to reduce overall service delivery cost to the Council
- Allowing the services to benefit from a commercial partner bringing industry best practice and group backed support services
- Maintaining a high degree of control over service delivery, and the continued involvement of members

Norse is ready to undertake the transfer of services from 1 June 2013, and would welcome the opportunity to transfer other services from the Council in the future. The anticipated initial turnover of the combined service amounts to approximately £7.5 million.

*Medway Norse* would aim to deliver the FM objectives of Medway Council, assisting in achieving strategic goals, combining the best practices of both the public and private sector, providing security and opportunities for staff, and generating additional resources for the company and its shareholders.

Norse Commercial Services has a distinguished track record of successful and profitable partnerships with ten other local authorities in England and has proved itself to be a flexible, trustworthy and committed partner in these pioneering joint ventures.

As can be seen from the financial projections set out in this Business Proposal, this initiative will not only help Medway Council to achieve the efficiencies it seeks but will also provide a high degree of security for the existing workforce.

Backed by a solid business case, the proposal will help to underpin the local economy, safeguard – and improve – service delivery, and will ultimately aim to return profits to the council, which can then be reinvested into the local community. In short, this proposal is good for Medway Council, its staff, its residents and the Medway economy. Indeed, the extended JVC model being proposed is being viewed with keen interest by a number of other local authorities.

As Norse has already established a number of these joint ventures, many of the hurdles in transferring services have already been overcome, and this will enable the migration of these services to be accomplished smoothly and quickly.

Approximately 120 full-time equivalents are currently employed in these operations; existing staff will transfer under Transfer of Undertakings Protection of Employment (TUPE) regulations, ensuring a high degree of security and protection of employment terms and conditions.

Norse has an exemplary record in its dealings with trade unions in other such joint ventures and has established a relationship of trust and mutual respect with union

officials. It is recognised as a caring employer which has won regional and national awards for its people-focused approach towards work inclusion, corporate social responsibility, and staff training and development.

One Unison branch chairman has described his union's "excellent working relationship" with Norse as one that is both "flourishing" and "cherished". By introducing commercial practices, the business will benefit from increased productivity and efficiency, driving down costs, as well as increasing external revenues through effective sales and marketing. Medway Council will share in its success through a profit-share arrangement.

At the same time, because of Norse's background, the best of public sector practices will be maintained in the treatment of both staff and clients, along with a commitment to the highest service standards and to providing benefits to the local community. Norse is experienced in working closely with and listening to officers, members and residents to best deliver their priorities in service delivery. The existing team would deliver continuity of service and continue to be as accessible to members and officers as they are already.

The approach to Corporate Governance will be managed by a formal company board of joint directors and a Liaison Board. A Medway councillor will chair the Company Board with a Corporate Policy veto, and Norse will retain a controlling interest through a majority on the Board.

This Business Plan outlines the operational methodology, benefits and risks of the proposed transfer, and concludes that this approach is:

- Good for the Council, through cost savings and profit share
- Good for the Service, through growth and improved quality
- Good for the Staff, through increased job security, stability and personal development
- Good for the community through the provision of high quality efficient services

The joint venture will be managed in such a way as to support the council's priorities wherever it can, particularly with regard to giving young people the best start in life (through helping reduce NEETS among care leavers and people with disabilities, providing apprenticeships and work experience etc); and contributing to the area's regeneration by releasing funds and supporting local SMEs.

#### Helping Medway Council to Meet its Budget

These are extremely challenging times economically for public sector organisations across the UK.

With further severe cuts announced in public finances, never before has there been so much pressure on senior managers within the public sector to deliver savings in front-line services – finding efficiencies and innovative ways of working while avoiding a major impact on the communities they serve.

By working in harmony with companies such as Norse, Medway Council is looking to increase cost efficiency and raise standards of delivery, protecting front-line services

and ensuring value for money for its residents, while nurturing and developing its workforce.

Norse has considerable experience of highly successful JVCs elsewhere, and can offer economies of scale, operational efficiencies, and benefits to the local economy through local employment and supply chain opportunities.

With strong public sector roots itself, Norse knows how to deliver the best services into the hearts of communities, and its commercial flair and public service ethos are a powerful combination.

Norse joint ventures can trade in wider markets and compete for external contracts, so the new JV would be able to provide better returns to Medway Council through the profit-share arrangement – and ensure long-term security and stability for employees.

As Norse underwrites any losses in the operation, the risk to Medway Council is significantly reduced.

As with all of its other joint ventures, Norse will deliver efficiencies while maintaining the highest service standards, by introducing more commercial practices. By developing the workforce, investing in resources, and giving the management a much greater degree of autonomy, these services – and the people involved in them – will be allowed to flourish as never before.

## THE PROPOSAL

It is proposed that a range of Medway Council's frontline services will transfer into a newly formed company, Medway Norse Ltd, co-owned by Medway Council and Norse Commercial Services.

The first tranche of services will include:

Statutory maintenance contracts (boiler servicing, etc...) Corporate cleaning Building maintenance Security including opening and closing of buildings Window cleaning Public Toilet cleaning MFDs (printers)	Printing services Catering Meeting room management Health and safety management of buildings Cash collection Records management including archiving Store management Other miscellaneous FM services
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### **A further, second tranche of services will follow during 2014/15.**

A JV Managing Director will be appointed, with overall responsibility for the management of the company, supported by Dean Wetteland, Norse's FM Director. Dean has extensive experience of joint ventures, with current involvement in both Devon Norse and Barnsley Norse.

See the financials overleaf:

	Yr 1 £000s	Yr 2 £000s	Yr 3 £000s	Yr 4 £000s	Yr 5 £000s
<b>Per Nurse model</b>					
Payment to partnership for supply of FM service	7,511	10,961	10,961	10,961	10,961
Reduction in Medway Council direct FM costs	(6,707)	(10,307)	(10,307)	(10,307)	(10,307)
Notional reduction in Medway central and local overheads (15%)	(1,006)	(1,299)	(1,299)	(1,299)	(1,299)
<b>Sub total</b>	(202)	(645)	(645)	(645)	(645)
Joint venture profit share due to Medway Council	(316)	(395)	(419)	(477)	(497)
<b>Net saving to Medway Council</b>	<b>(518)</b>	<b>(1,040)</b>	<b>(1,064)</b>	<b>(1,122)</b>	<b>(1,142)</b>