

CABINET

15 JULY 2014

UPDATE ON MEDWAY NORSE

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Perry Holmes, Assistant Director Legal and Corporate Services

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Summary

This report reviews the first trading year of Medway Norse and the plans for its second year of trading.

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.
- 1.2 By using an established principle of EU procurement law, the requirement for open advertising and tendering of public contracts do not apply where a public body is provided services from 'in-house' sources. The principle is known as the *Teckal* principle. By establishing a joint venture company, which the Council has control over, through the Board of Directors, then the services provided by Medway Norse are deemed to be 'in-house' provision.
- 1.3 The Cabinet report identified various 'traditional' facilities management activities that amounted to £6.7 million from the budget for 2012/13. Given that there were various adjustments in setting the budget for 2013/14, the £6.7 million was reduced to £5.8 million for the same activities and the target rebate (profit share) was reduced from £316,000 to £266,000 for 2013/14.

2. Background

- 2.1 Medway Norse is a joint venture company that was initially established to provide the following services:

Statutory maintenance contracts	Printing services
Cleaning	Catering
Building maintenance	Meeting room management
Security services	Gate opening and closing
Window cleaning	MFDs (printers)
Public toilet cleaning	Other miscellaneous FM services

- 2.2 The aim in establishing the joint venture was and remains that it will be considered as a potential delivery mechanism as part of any options appraisal for delivery of other Council services. It was also intended that financial growth would be achieved through winning external contracts and support for the local economy.

3. Review of the first trading year

Governance

- 3.1 The company has a Board of Directors that comprises three representatives from Norse Commercial Services and two from the Council. The Council's representatives are Councillor Filmer (Chair of the Board and has a Council Policy veto) and Stephanie Goad, Assistant Director Communications, Performance and Partnerships. The Board is responsible for the performance of the joint venture overall.
- 3.2 There is also an Operational Liaison Board, which consists of representatives from Medway Norse and nine representatives from the Council. This is supported by ongoing liaison between Medway Norse and the Corporate Client.

Scope of Operation

- 3.3 Following a ten week mobilisation period, 12 March to 30 May 2013, the company commenced trading on 1 June 2013 and providing the services set out in paragraph 2.1.
- 3.4 158 employees transferred into the company and the management team was recruited – Operations Director, Head of Hard FM (statutory building checks, building maintenance, grounds maintenance, etc) and Head of Soft FM (Cleaning, catering, etc).

Additional grounds maintenance

- 3.5 At the outset of the company being set up, grounds maintenance activities included Deangate golf course, the Strand and various grounds maintenance for the buildings (more than 150). Additional grounds maintenance activities

transferred on 1 April 2014 for 9 years so that it co-terminates with the original contract, with a value of over £3 million.

- 3.6 The additional activities were transferred as a variation to contract with Medway Norse, where Medway Norse has appointed Quadron (former grounds maintenance contractor) as the managing agent for the contract.
- 3.7 Over 76 people transferred to Medway Norse, four of which were from the Council and the remainder from external contractors. Medway Norse has invested £1.2 million in new equipment for the contract and in creating a post to support the administration of burials.
- 3.8 The 'go live' date was during the growing season and this has presented challenges in relation to managing the transition of TUPE and establishing a three-way working relationship between the Council, Medway Norse and Quadron (managing agent).
- 3.9 There is an increase of complaints for the first quarter of this contract compared to the same period last year. This is in spite of transition which has included the same management, same workforce and new equipment. Unfortunately, the weather conditions in the lead up to, and in the early days of transition, had serious impact on grounds maintenance here and across the country. There is a rectification plan in place, which is on target to bring standards to good levels by mid-July.
- 3.10 In the meantime, where the public has a complaint about grounds maintenance, this should be raised in the normal way by ringing 01634-333333. The relevant teams have been reminded of the process and customers should receive a seamless service and timely response when reporting concerns.

Special Educational Needs (SEN) transport

- 3.11 On the 1 April 2014, the SEN Transport Procurement Unit transferred to Medway Norse. Medway Norse is now responsible for managing all SEN journeys. In particular, in accordance with their approach to self-deliver where possible, they are providing the transport for pupils at three schools (Warren Wood, Brompton Academy and Rivermead) as part of the pilot to plan journeys around the schools and their pupils rather planning them individually.
- 3.12 This new approach to journey planning was developed by the Council's Transport Change Team. This new approach has secured savings in excess of 20% for the Council in relation to expenditure for those three schools and these savings are more assured because of the pricing approach suggested by Category Management for a fixed price for plus/minus 25% of usage.
- 3.13 This new approach to journey planning will be rolled out across other schools as contracts expire. This means that there may be more self-delivery of mini-bus journeys, which means that expenditure on this activity will further reduce. Taxi journeys are also a significant part of transport for pupils and therefore Medway Council and Medway Norse working together to set up a framework for taxis and create greater certainty about the pricing regime.



Part of the fleet of minibuses bought to take pupils of the three SEN schools

Building and asset management

- 3.14 Medway Norse is responsible for organising the statutory building maintenance checks of over 150 buildings. Where remedial action is required, the local building manager and the corporate client agree the best solution for the building and the service that is delivered from that location.

Catering

- 3.15 Medway Norse has taken on seven catering operations; the most visible for the public are those at the leisure centres, golf course and theatres. Medway Norse is using the canteen at Gun Wharf as the hub for catering operations. The canteen has two large industrial kitchens, where only one is currently in use.
- 3.16 In response to feedback from Members and staff, in particular, those that are in Gun Wharf outside of normal business hours, Medway Norse will be reintroducing vending machines to Gun Wharf.

Cleaning

- 3.17 Since June 2013, Medway Norse brought the corporate cleaning contract in-house. This included 82 staff. Apart from the cleaning of corporate buildings they also clean the public toilets across Medway.

Depot

- 3.18 Medway Norse is currently located at the Compass Centre. This is a temporary measure whilst it identified a suitable depot in the Medway area. They looked at several options and it was decided to use the Pier Road site, which is owned by Medway Council. By using the Medway site, this provides income to the Council.



Construction of the accommodation at the depot

- 3.19 With regard to the site accommodation, Medway Norse looked at different options, taking into consideration, cost, time, look, impact on environment and locality of suppliers. They decided to go with the shipping containers due to them being a recycled material, purchased from a local (Medway) supplier, all trades employed on preparation works were local SMEs. Overall, this option fitted well with the shared objectives of both partners in the joint venture company. Although not the cheapest option, it fitted with the vision for the partnership and commitment to Medway.

The corporate client function

- 3.20 There are two corporate clients in relation to Medway Norse. The Strategic Property and Energy Manager and his team now undertake the Client Function for the core FM activities. In relation to the corporate client role for FM activities, the corporate client must agree all works or services with a value of over £1,500.
- 3.21 The second corporate client is the Operations Manager and team in the Greenspaces and Heritage Service. The team are managing the former corporate grounds maintenance contract. The Bereavement and Registration Services Manager is managing the activities formerly subject to the crematorium and cemeteries. The Corporate Client for grounds maintenance is meeting with the Operations Director on a weekly basis during the early stages of transition.
- 3.22 The Acting Managing Director (MD) for Medway Norse and the Corporate Clients for the council continue to focus on ensuring that a seamless service is being delivered and this is through regular building managers' meetings and fortnightly between the Acting MD and the core FM Corporate Client.
- 3.23 The management of the contract for the three schools contract is undertaken by the SEN team with the support of the Corporate Client for FM. This is because the commissioning of journey and the budget to fund the journeys remain with the SEN team.

The workforce – creating local employment

- 3.24 Medway Norse now has 397 employees, of which 95% live within the Medway boundaries. Medway Norse is also in the process of renegotiating zero hour

contracts for employees that regularly worked for the council so that they have contracts with minimum guaranteed hours. This provides those employees with greater income certainty to plan and manage their finances and secures more affordable credit.

- 3.25 Medway Norse has also created seven apprenticeships within the first nine months of trading. This is four more than the target set.

Not seeing the joins

- 3.26 The public are noticing a number of Medway Norse vehicles across the borough. These vehicles provide a courier service for the council, gate locking and unlocking, SEN transport and grounds maintenance, as well as vehicles for in-house trades/services.
- 3.27 Given the breadth of services that is provided by Medway Norse across the borough, the number of complaints is very low. In the first nine months of trading, complaints have been received and these are mainly related to gate locking and unlocking in the first two months of taking on this activity.
- 3.28 Medway Norse intends to undertake a customer satisfaction survey by the autumn of 2014 for both internal and external clients.

Growth by winning contracts

- 3.29 In the first year the JV has expanded through the significant growth in work directly for the Council in grounds maintenance (which ensured over a £1m investment in new plant and equipment) and SEN transport which is delivering savings to the Council. Some bids for external work have been submitted and Medway Norse has been successful in bidding for cleaning for a primary school in Dartford.



Staff that TUPE'd over in the Dartford contract

- 3.30 In the second year the joint venture will be more aggressive in bidding for external work. The Sales Director for Norse Commercial Services presented a sales and marketing plan to the Board of Directors on 26 June 2014. Medway Norse will be recruiting a Business Development Manager to

develop business opportunities locally. This will give Medway Norse a dedicated resource to develop local contacts and establish credibility and trust in the Medway Norse brand. This post will be fully supported by the central Norse Commercial Services sales team who will coordinate the submission of large-scale bids. Medway Norse is one of the largest joint ventures within the Norse Group. Although it is competing in the highly competitive southeast market place the experience of Norse joint ventures to date suggests it should be possible to achieve a 'hit rate' of successful bids of over 30%. The main focus for business development initially will be cleaning and grounds maintenance services where the most opportunities exist. Key sectors will include schools, housing providers and health, as well as private sector opportunities as they arise.

- 3.31 There are currently 3 bids awaiting a decision, with a further 3 in the process of being costed, all of these are for cleaning. Medway Norse has sought feedback about unsuccessful bids and is incorporating this learning into future bids.

The local economy – Opportunities for local businesses

- 3.32 The sourcing of the depot accommodation from a local supplier contributes to the 40% target set for the company to spend with local suppliers. The Council novated contracts to Medway Norse, which were generally outside of Medway. Medway Norse has reported 26.3% of spend with local (Medway) suppliers.

	No. of Suppliers	Percentage	Amount of Spend	Percentage of Spend
Total Suppliers	332	100%	£5,422,498	100%
Total Suppliers in Kent	179	53.9%	£2,476,879	45.7%
Total Suppliers in Medway	131	39.5%	£1,425,849	26.3%

- 3.33 Medway Norse is prioritising the in-sourcing of services from companies that are outside of Medway and has tasked itself with increasing the percentage by 4 points year on year so that 40% is achieved within 4 years.
- 3.34 Prior to Medway Norse being created, building managers across the Council had a variety of arrangements for graffiti removal and pest control. As part of setting up Medway Norse, it was agreed that Medway Norse would make referrals to the Council's graffiti removal and pest control teams rather than external companies. This means that expenditure in relation to these activities remain in the Council and are more cost effective solutions.

Rebate (income) for the council

- 3.35 As part of budget setting, the Council was expecting £266,000 as a rebate for 2013/14. In the company's first year of trading – in reality 8 months as the Norse financial year runs to end January (June 2013 to January 2014), the rebate for the Council was £285,000. Therefore within eight months of trading, the company exceeded the target set by the Council.
- 3.36 The financial year of the company (February to January) does present some accounting problems for the Council because it does not align with our financial year (April to March).

4. Business plan for the second trading year

Income projection

- 4.1 The agreed rebate target set for Medway Norse is £263,000. The plan focuses on winning business from other public bodies such as schools and health care providers and explains how opportunities are identified and progressed.

5. Business Support Overview and Scrutiny Committee – 3 July 2014

- 5.1 The Chairman advised that the Head of Category Management, Genette Laws, had recently left the Council and, on behalf of the Committee, he wished her well in her new job.
- 5.2 The Assistant Director Legal and Corporate Services introduced Dean Wetteland – Acting Managing Director of Norse and Nick Anthony – Strategic Property and Energy Manager to the Committee. He introduced the report highlighting in particular the one year anniversary of the launch of the Joint Venture with Norse for Facilities Management, the success of partnership working, the savings achieved and the delivery of continuity with resolution of initial teething problems. He acknowledged that whilst the joint venture had made considerable savings the business growth had been slower than hoped for. In terms of added value it was highlighted that Medway Norse now has 397 employees, 95% of whom are Medway residents and that the number of apprenticeships created by Medway Norse within the first nine months had exceeded the original target and created employment opportunities for care leavers and people with learning difficulties.. A customer satisfaction survey would be carried out at the end of the year and all in all it could be considered a successful first year.
- 5.3 Members raised a number of points and questions including:
- A suggestion that Norse consider taking over the management of Medway's care homes, as they had been successful in this venture in Norfolk. It was noted that Norse managed 26 care homes in Norfolk and would be happy to consider bidding for appropriate contracts in Medway.
 - A question was raised on how long there would be an "Acting" Managing Director of Norse. It was explained that the Operations

Director would take on the role of Managing Director once sufficiently experienced in the Norse way of working. .

- Medway Norse minibuses undertook certain school runs and it was asked what the buses were used for during school hours. The Committee was advised that the minibuses worked under permit so had limited use but a new license was being investigated.
- The inclusion of information regarding Medway Norse in Medway Matters was suggested, as was the scope for increasing the visibility of the Norse branding in the Medway area. The high level of visibility of Norse branding in Norfolk was cited as an example.
- The expansion of Medway Norse was slower than some Councillors would have liked. However, it was acknowledged that the economic climate was considered be a contributory factor as was the fact that Medway Norse had taken on new work in cleaning, maintenance and catering all of which had previously been delivered by external contractors with considerable savings being achieved as a consequence.
- It was suggested that further savings might be achieved if Medway Norse could become the first point of contact for Councillors in relation to expenditure of Ward Improvement Funds on small contracts. The provision of Christmas lighting in high streets was cited as an example where works had historically been carried out by private contractors with escalating costs in some cases.
- Concern was expressed that Norse had not been sufficiently proactive in pursuing the interest expressed by the Medway NHS Foundation Trust and the Acting Managing Director was asked to personally address himself to this issue. The Chairman requested a confidential Briefing Note on this subject.
- The Committee was advised that Medway Norse had taken on the printing function at Gun Wharf and the service was being reviewed at present. It was noted that the print unit was not currently undertaking work for any external organisations.
- Medway Norse was requested to open discussions with as many large public sector organisations as possible for example - hospitals, police stations and the University of Kent. A briefing note (possibly confidential) on progress was requested.
- Councillors reported that a high number of residents had raised concerns about grounds maintenance which was now the responsibility of Medway Norse and Quadron. It was acknowledged that the service was highly dependent on weather conditions. It was requested that Norse keep ward Councillors and residents informed of any changes in service or provision and it was agreed that a representative of Quadron would be invited to be present when the next Norse update was presented to the Committee.

- Officers agreed to supply the Committee with a copy of the Medway Norse sales and marketing plan mentioned in paragraph 3.30 of the report.
- 5.4 The Business Support Overview and Scrutiny Committee noted the report and agreed that:
- 5.4.1 Information about Medway Norse and its activities should become a regular feature in Medway Matters.
- 5.4.2 Medway Norse should be asked to investigate the possibility of becoming the first point of contact for Councillors wishing to engage contractors to deliver ward based initiatives to be funded from the Ward Improvement Fund.
- 5.4.3 Medway Norse should initiate discussions with as many large public sector organisations as possible including hospitals, police stations and the University of Kent and that the Acting Managing Director should personally pursue dialogue with Medway NHS Foundation Trust as soon as possible. The Committee to be provided with a Briefing Note (possibly confidential) on progress.
- 5.4.4 Medway Norse should inform Councillors and residents of any changes in service or provision in relation to grounds maintenance.
- 5.4.5 A representative of Quadron be invited to the meeting of the Committee when the next Medway Norse update report is being considered.
- 5.4.6 The Committee be supplied with copy of sales and marketing plan mentioned in paragraph 3.30 of the report.
- 5.4.7 A site visit to the Pier Road depot be arranged for the Committee once work on the site is complete.

6. Financial, risk and legal implications

Legal implications

- 6.1 There are no direct legal implications of this update report.

Financial implications

- 6.2 Financial implications are largely contained in the report. The Council's budget for 2014/15 has forecast an income of £263,000 and this is subject to final reconciliation of the contract payments for Year 1.

Risk implications

- 6.3 There is a risk that the company will not create income through external growth, however, Medway Norse are addressing this by developing a marketing and sales plan.

7. Recommendations

7.1 That the report be noted.

8. Suggested Reasons for Decision

8.1 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

Update on Medway Norse – report to Business Support Overview and Scrutiny Committee 4 December 2013:

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=123&MId=2755&Ver=4>
(item 615 refers)

Review of Medway Norse, Joint Venture Company for Facilities Management – report to Cabinet 14 January 2014

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=22254>