

BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE

25 JUNE 2015

UPDATE ON MEDWAY NORSE

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

Author: Nick Anthony, Corporate Client for Medway Norse

Summary

This report outlines the Company's achievements and performance up to the fourth quarter in its second year of trading and its plans for future growth and development.

1. Budget and Policy Framework

1.1 In March 2013 Cabinet agreed for the joint venture company, Medway Norse, to be established for the provision of facilities management (FM) services from 1 June 2013. In 2014 the joint venture has also taken on responsibility for the grounds maintenance contract and for an initial phase of school transport for children with special educational needs attending three schools. Medway Norse is now responsible for activity amounting to just under £11m per annum.

2. Background

2.1 Medway Norse joint venture company was established to:

- Provide services to the Council more efficiently to give better value for money
- Grow the business through taking on external contracts
- Increase employment opportunities for local people

2.2 Medway Norse now provides services to the Council in three main areas – facilities management, grounds maintenance and Special Educational Needs (SEN) transport.

3. Review of the second year's trading

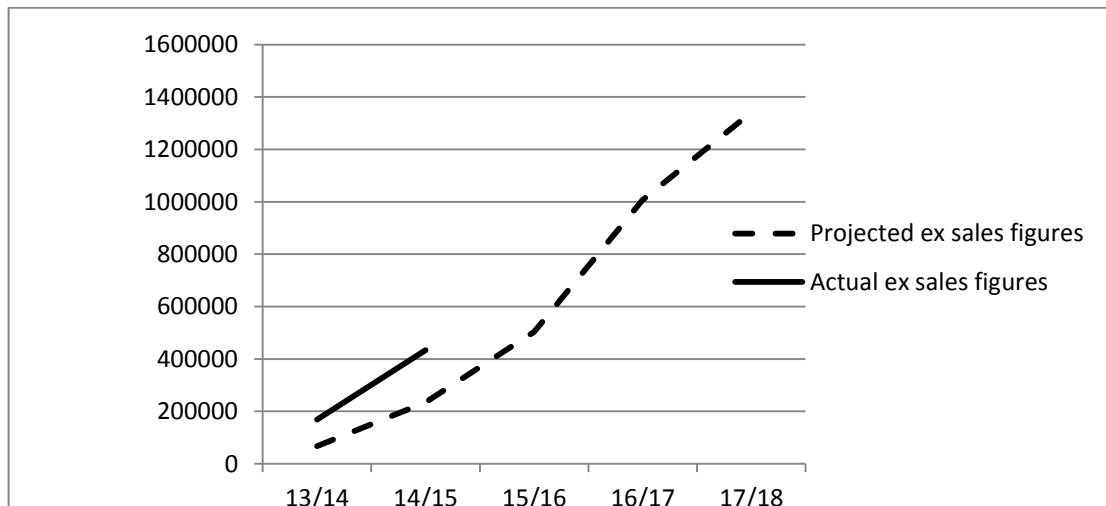
Governance

- 3.1 The Company's Board of Directors 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 overall performance of the joint venture.
- 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.
- 3.3 Responsibility for the Corporate Client now lies with the Strategic Property and Energy team, managed by Nick Anthony, within the Legal and Corporate Services division. The role previously sat with the Category Management team who managed the initial mobilisation.

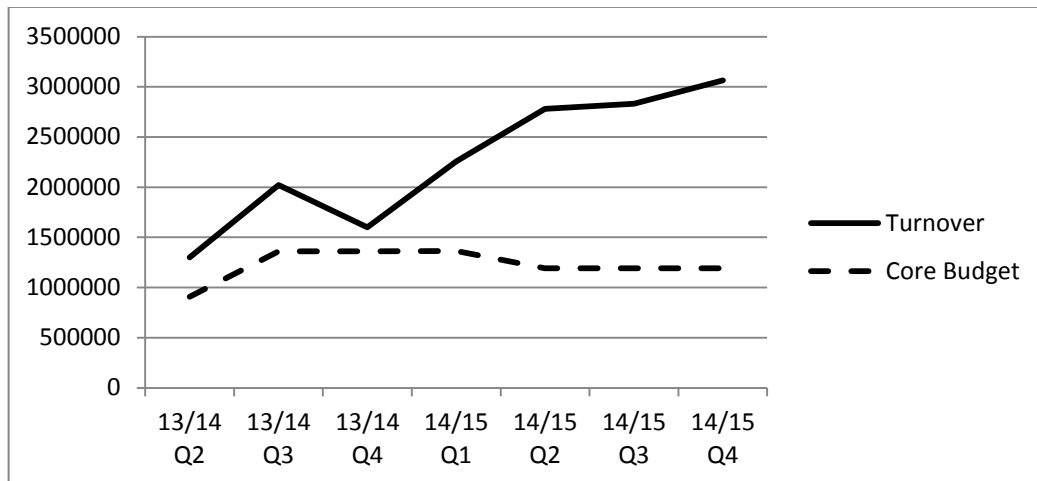
Summary of operations

- 3.4 Medway Norse has continued to make good progress and this quarter it has experienced further growth across the board. Year-to-date the joint venture is 6.9% up on the budgeted target for total sales and 2.2% up on the its latest profit target, which subject to final accounts is anticipated to be £508,151. Under the terms of the joint venture agreement in Year 2 the Council retains 66.6% of the profit at year-end. In total in the first 19 months of operation a rebate of 8% of the core budget has been returned to the Council.
- 3.5 The partnership is also continuing to develop and grow its self-delivery model to further improve speed of delivery and cost efficiencies to the Council and provide a competitive platform when tendering for external contracts. Over £4m of work that was previously delivered externally is now delivered through the joint venture, which has created 74 new jobs. There has also been an 8% saving on the remaining third-party spend.
- 3.6 The partnership's depot premises at Pier Approach Road in Gillingham are now fully operational and provide an excellent location from which to grow and develop the business. This provides annual rental income to the Council for a previously disused site.
- 3.7 In terms of business growth the partnership has undertaken the following sales and formal tendering activity since its inception:
- Prospect database: 1210 contacts
 - Email sales activity: 2420 sent
 - Website hits: 2109
 - PQQ's completed: 14 (94% success rate)
 - Tenders: 13 (30% success rate)
 - Cleaning 1
 - Grounds 3

- 3.8 With regard to other public sector organisations in Medway the partnership has not had the opportunity to bid for any Kent Police contracts, but has successfully bid for a small NHS grounds maintenance contract with an annual value of £1,385.
- 3.9 In order to ensure the partnerships external income continues to grow it is in the process of appointing a business development manager, whose prime task will be to grow the business in 2015/16 and beyond.
- 3.10 The joint venture has exceeded its original business plan targets for external income by 84%. Since its establishment it has generated £226,000 income from local delivery of Norse national contracts, consultancy and external works and, year to date £207,000 from standalone contracts. The planned recruitment of a business development manager will further enhance opportunities. The graph below shows external growth exceeding the original projections.



- 3.11 In the meantime Medway Norse has continued to submit further Pre-Qualification Questionnaires (PQQs) and tenders, predominately covering cleaning and grounds services. One area of recent success is at The Historic Dockyard, Chatham, where the partnership has been successfully appointed to undertake two grounds maintenance contracts with a combined value in excess of £20,000 per annum. The partnership is also awaiting the outcome of its tender to undertake the Council's HRA Cleaning / Estate Warden Service.
- 3.12 Since inception the impact of this sales activity and increased Council activity has seen an increase in overall turnover over and above the core budget as is demonstrated in the graph below.



3.13 The partnership has also invested capital in new equipment and facilities in order to deliver efficiencies and improved services. The total investment to date is £2.452M made up as follows:

- £1.4M in grounds maintenance equipment and vehicles
- £231,000 in new depot facilities (creating an annual rent return of £72,000 for the Council)
- £224,000 investment in plant and machinery (lease cost saving)
- £330,000 investment in SEN provision
- £267,000 investment in vehicles

3.14 With regard to the partnership's community benefits Medway Norse have formed a new working relationship with Kent Community Cricket and current initiatives being considered include helping clubs with pitch and outfield preparation, machinery servicing and grounds maintenance advice. The partnership is also in the process of finalising plans to transport about 250 Medway primary school children to Canterbury to watch Kent County Cricket Club playing as part of a new schools exercising and fitness programme.

The workforce – creating local employment

3.15 The current workforce now exceeds 440 personnel making Medway Norse a large local employer. The Joint Venture is developing its own trade's team to achieve cost savings and to ensure consistent quality of service. Previously arrangements existed with a range of individual contractors. This self-delivery and engineering team is now 15 Full Time Equivalents (FTEs) with 10 apprentices having been recruited and working alongside various personnel within Hard FM, Soft FM and Grounds. In addition a graduate trainee is working within the transport team for a period of 6-8 months.

3.16 Medway Norse has also engaged with the local element of Groundwork.org who are employed by central government to provide work experience for the long-term unemployed, who in turn are managed by an ex-service leaver.

3.17 Medway Norse is engaging in the Investors in People scheme and some element of time will be devoted to this area together with Health & Safety.

Special Educational Needs (SEN) transport

- 3.18 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 four schools - Warren Wood, Brompton Academy, Rivermead and Bradfields Academy as part of the pilot to plan journeys around the schools and their pupils rather than planning them individually.
- 3.19 Medway Norse has expanded the school service and is currently also undertaking an additional route to the Bradfields Academy, generating a further £765 per week of income. Currently the school has multiple suppliers and is seeking to reduce this to one or two following the forthcoming framework review.
- 3.20 As previously advised this new approach has secured savings in excess of 20% for the Council in relation to expenditure for these schools. The service is now being delivered for £380,000, the previous cost of which was £480,000 – a saving of £100,000 per annum. There is also a contractual provision which allows an increase in pupils by up to 25% without additional costs being incurred. As Figure 1 below demonstrates, at two schools the numbers did increase, but the contractual provision meant that an approximate additional cost of £40,000 was avoided.

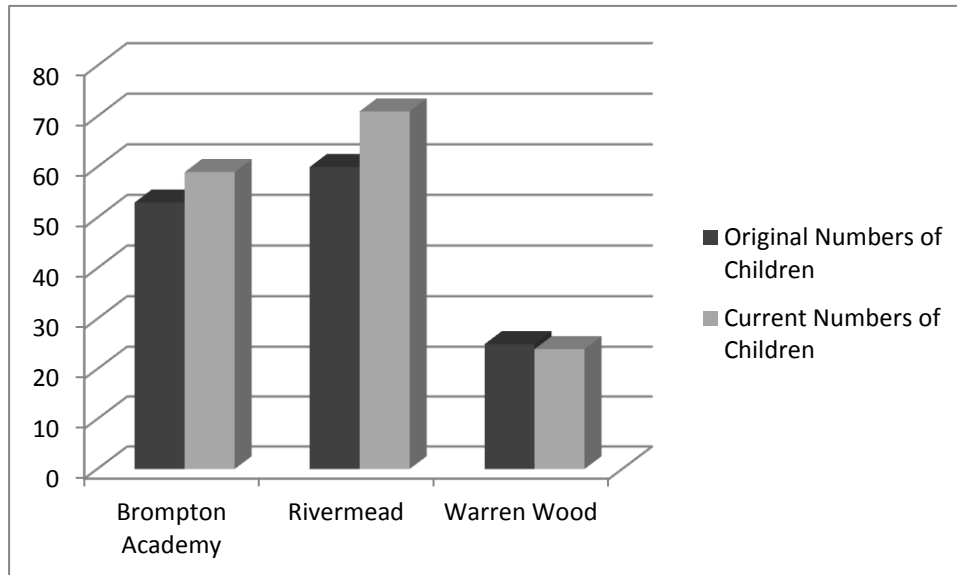


Fig1. Number of additional pupils

- 3.21 This self-delivery approach to journey planning is now being extended to other schools as contracts expire, which will lead to further reductions in costs. As taxi journeys are also a significant element of transport for pupils Medway Council and Medway Norse are working together to set up a framework for taxis and create greater certainty regarding the pricing regime. This new framework is currently being introduced and will be used for all new contracts from September this year.

Grounds maintenance

- 3.22 Core grounds transferred into the Joint Venture as of 1 April 2014. The tripartite agreement is one in which Medway Norse provides the machinery, equipment and direct employees to undertake the Core grounds contract and in turn:
- Enable Value for Money for Medway Council stakeholders
 - Promote best practice
 - Aid Medway Council in achieving corporate goals such as Green Flag sites.
 - Grow the business externally, to enable greater levels of rebate to the authority.
- 3.23 The Senior Grounds Contracts Manager, who is directly employed by Quadron Ltd, is responsible for:
- The deployment of all employees and machinery
 - Productivity review and management
 - Scheduling of all works and routes
 - Forward Planning of activities
 - Ensuring compliance to agreed Key Performance Indicators (KPIs)
 - Day to day management of employees, supported by Medway Norse.
- 3.24 Given the budgetary constraints the delivery of grounds maintenance element of the partnership's contract remains challenging. However, the partnership's investment in new equipment is paying dividends in terms of efficient working and reduced down time due to improved reliability.
- 3.25 In terms of staffing seasonal recruitment has been more difficult than previous years, mainly attributable to both the improving economy and also the more rigorous selection procedures.
- 3.26 In particular the grounds maintenance service provided to Bereavement Services has been excellent with their sites looking in very good condition. So much so one resident sent a written compliment to the Council - "Having been to place flowers at my parent's grave today, I must say how pleasing it was to see your officers tidying the cemetery grounds. I have not seen it looking so neat and tidy for so long. I did compliment one of your men".

Local business participation

- 3.22 The table and Figure 2 below set out the position at the close of Quarter 4 (November 2014 to January 2015). Local business participation has improved upon the last quarter with an increase of spend in Medway from 34% to 43% and Kent & Medway from 57% to 63%.

Location of Expenditure	Amount of Expenditure Q4	% by Location Q4	% by Location Q3	% by Location Q2	% by Location Q1*
Medway Norse Total Expenditure	£1,475,531.36	100%	100%	100%	100%
Kent & Medway Expenditure	£932,885.97	63%	57%	50%	46%
Medway Expenditure	£641,327.58	43%	34%	28%	26%

* Quarter 1 figures are based on total expenditure from the commencement of the partnership to the end of Q1 2014

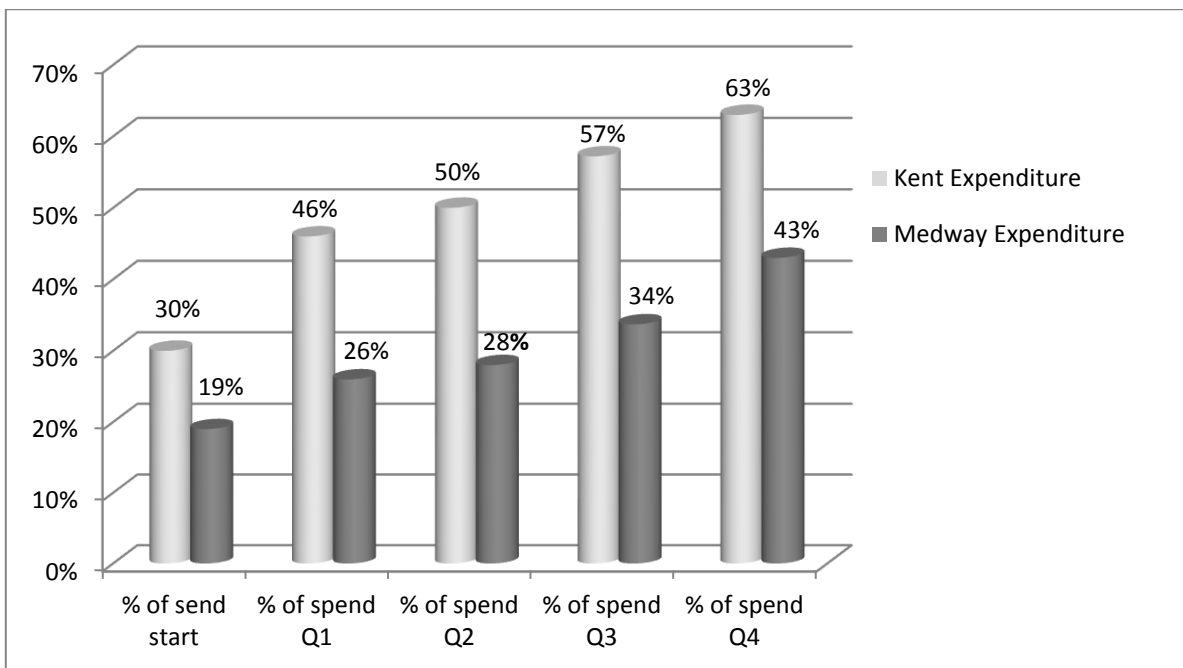


Fig 2. Medway Norse expenditure in Medway and Kent as a percentage

3.23 Overall since the commencement of the partnership the percentage of expenditure in Kent & Medway has increased from 19% to 63% - 17% of which was in the past financial year. Within Medway expenditure has also increased by 17% from 26% to 43%

3.24 Medway Norse is therefore continuing to support the local economy by prioritising spend in Medway and Kent.

The corporate client function

- 3.25 The Corporate Client team is continuing to meet and liaise closely with the Council's building managers in order to fully understand their service needs and to establish an effective working relationship. The outcomes and actions arising from these meetings are continuing to form the basis for the development of building management action plans.
- 3.26 In addition building managers can raise day-to-day service issues directly with Medway Norse or alternatively with the Corporate Client team who hold a two-weekly operations meeting with Medway Norse. Building managers often attend slots at these meetings as and when the need arises.
- 3.27 With the assistance of the partnership the Council is continuing to modernise and consolidate its portfolio of operational buildings. In particular the facilities management services provided by the partnership have enabled the Council to focus on its programme of improving the quality of its buildings for both service users and staff alike.
- 3.28 At the operational liaison meeting the partnership provide the stakeholders with performance information in the form of a Balanced Scorecard, which measures performance against the following strategic areas:
- Customer
 - Operations
 - People
 - Finance

The partnership's Period 12 – 2014/15 scorecard is attached at Appendix 1.

Rebate (income) for the Council

- 3.29 In 2014/15 Medway Norse has projected a surplus of £508,151 of which the Council will receive £348,429, which is 66.6% as per the agreement for that financial year.
- 3.30 Under the agreement the Council will receive 50% of any surplus in 2015/16 and future years. The Council's has set a rebate income target of £263,000 in 2015/16, which will be met provided the Company's surplus meets or exceeds £526,000 – a slight increase on the 2014/15 projection.

4. Legal, financial and risk implications

Legal implications

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

Financial implications

- 4.2 The Council's budget for 2014/15 has set a rebate income target of £263,000, which is likely to be exceeded as indicated at 3.29 above. The remaining financial implications are contained within the report.

Risk implications

- 4.3 There is a risk that the Company will not create income through external growth to meet the business plan expectations in 2015/16. However, Medway Norse has exceeded targets in the first two years of operation, is recruiting a business manager and has a sales and marketing plan in place.

5. Recommendations

- 5.1 That the report be noted.

Lead officer contact

Nick Anthony
Corporate Client for Medway Norse
Gun Wharf
01634 332294
nick.anthony@medway.gov.uk

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>

Update on Medway Norse – report to Cabinet 15 July 2014

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=2954&Ver=4>

Update on Medway Norse - report to Business Support Overview and Scrutiny Committee 07 October 2014

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=123&MId=2949&Ver=4>

Medway Norse Six Monthly Report – report to Cabinet 13 January 2015

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=2961&Ver=4>

Update on Medway Norse - report to Business Support Overview and Scrutiny Committee 03 February 2015

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=26170>

Medway Norse Six Monthly Report – report to Cabinet 16 June 2015

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=27425>

Appendix 1

Medway Nurse Balanced Scorecard Period 12 - 2014/15

SOC	Internal Business Perspective Performance measure	Medway Target	
2a	Ensure compliance to H&S statutory regs. and legislation	Maximum of 8 reportable accidents per year	G
1d 1L	Compliance with JV partner H&S policy	Annual Review in July	G
4a	Review risk register	Review annually in December	G
1a	Ensure Risk Assessments relevant and up to date	Review annually in December	G
3a	Introduce BSC at an Operational Level	By January 2015	G

SOC	Financial Perspective Performance Measure	Medway Target	
5a	Achieve or exceed budget profitability by increasing non contracted sales	£ 1,248 ,700	G
5a	Achieve or exceed budget turnover	£ 10 ,225 ,883	G
5a 8a	Achieve profit level for year	£ 497 ,449	G
2a 3a 3b	Achieve materials and food budget	8% of labour costs	R
5a	Achieve or exceed budget profitability by control of direct labour costs	Within budget	A

SOC	Learning and Growth Perspective Performance Measure	Medway Target	
10a	Ensure all staff are inducted and trained	100%	G
4a 4b 4d	Ensure staff receive basic skills training within 7 days of joining	100%	G
4a 4b 4d	All staff to have completed 8 core module training within 3 months of joining	100%	G
9a 9c 10a	Contain staff turnover	10.0%	G
4b 4g	Jobs for disadvantaged communities/ groups	5 new employees per year	G
4b 4g	Jobs for young workers	3 apprenticeships by Jan 15	G
9b	Control shortfalls in labour due to sickness and other absence	5%	G

SOC	Customer Perspective Performance measure	Medway Target	
12a,12b,8a	Improve customer satisfaction levels through regular surveys	96% satisfaction	G
12a,12b,8a	Improve customer satisfaction levels; manage complaints	less than 8% upheld complaints	G
6c	Increase Customer satisfaction	90% telesurvey	G
6b	All staff to receive customer care training	100%	G
12b	Develop service provision to retain and develop the business; retain current contracts	95% of current income	G
7a, 13a	Develop service provision to retain and develop the business; win new contracts	1 new contract (+100K)	G