

## **CABINET**

**12 JANUARY 2016**

### **UPDATE ON MEDWAY NORSE**

Portfolio Holder: Councillor Adrian Gulvin, Resources

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

Author: Nick Anthony, Corporate Client for Medway Norse

#### **Summary**

This report outlines the partnership's achievements and performance up to the second quarter in its third 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 also took 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 provides services to the Council in three main areas – facilities management, grounds maintenance and Special Educational Needs (SEN) transport.

### **3. Review of 2015 Quarter 2 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 lies with the Strategic Property and Energy team, managed by Nick Anthony, within the Legal and Corporate Services division.

#### **Summary of operations**

- 3.4 Medway Norse has continued to progress development of the business this quarter with further growth in sales.
- 3.5 The company has had further meetings with senior representatives of Ashford Borough Council to introduce the formative elements (Grounds and some FM work) of the Joint Venture with Medway. Ashford Council is currently writing proposals to its Cabinet to further progress the potential options which will include the joint venture proposal.
- 3.6 The joint venture is actively competing for external work for catering, cleaning and grounds maintenance work. The trading environment is challenging with relatively few opportunities available – this is experience mirrored by other Norse JVs.
- 3.7 Medway Norse has commenced the contract at the Historic Dockyard, which being successfully delivered. They have also been awarded the HRA Cleaning / Estate Warden Contract, which was successfully mobilised in late September. The joint venture has taken on a small catering contract for KCC which it is hoped will lead to broader opportunities.
- 3.8 In relation to council work, the catering at Riverside and Capstone country parks has been taken over by the joint venture. Trading has been strong in the first two months, with positive customer feedback.
- 3.9 The partnership is 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. The latest example of self delivery is window cleaning at Gun Wharf. Over £4m of work that was previously delivered externally is now delivered through the joint venture, which has created 93 new jobs and saved Medway Council over

£2m in the first 29 months. There has also been an 8% saving on the remaining third-party spend.

- 3.10 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.
- 3.11 As previously advised 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 now £3.4M made up as follows:
- £1,960,000 in grounds maintenance equipment and vehicles
  - £291,000 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)
  - £437,000 investment in SEN provision
  - £421,000 investment in vehicles
- 3.12 The council and Medway Norse are discussing the strategy for the future growth of the joint venture to inform its business plan for 2016/7. This will seek to deliver the right balance between taking on additional council services to deliver them more efficiently, and growth through external business.

### **The workforce – creating local employment**

- 3.13 The size of the current workforce is now 484 personnel making Medway Norse a large local employer. The Joint Venture is continuing to develop its own trade's team to achieve cost savings and to ensure consistent quality of service.
- 3.14 Three Medway Norse apprentices have completed their apprenticeships and have been employed full time within the business.
- 3.15 Medway Norse is engaging in the Investors in People scheme and time is being devoted to this area in addition to Health & Safety.
- 3.16 The partnership is implementing the National Living Wage which will lead to future financial pressures. The value of this pressure as of 1 April 2016 is likely to be in the region of £280,000 per annum based on the £7.20 per hour currently prescribed by Central Government

### **Special Educational Needs (SEN) transport**

- 3.17 Medway Norse is responsible for managing the operation of the framework of suppliers of SEN transport. They also provide transport for 3 school routes (this has reduced costs by 20%), with some routes for a fourth school – Danecourt – taken on in September.
- 3.18 As taxi journeys are also a significant element of transport for pupils Medway Council, working closely with Medway Norse, have set up a new framework for taxis to ensure a competitive process and create greater certainty regarding the pricing regime. This new framework has been introduced and

is now being utilised for all new contracts from September this year. Medway Norse is likely to take on self-delivery of further routes by another 9-12 during the next term.

### **Grounds maintenance**

- 3.19 The main grounds maintenance contract transferred into the Joint Venture as of 1 April 2014. This was on the basis of a tripartite agreement with the council as client, Quadron as managing agent and Medway Norse providing 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.
- 3.20 The Senior Grounds Contracts Manager (Managing Agent), 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.
- 3.21 A review of the structure of this element of the business model is currently under review and as a result the Managing Agent function will be delivered directly by Medway Norse from next year as the Council sought to further align the business model and reduce costs.
- 3.22 In terms of staffing, recruitment remains a concern for grounds maintenance as some employees with higher skill sets have been leaving for higher paid roles elsewhere. It is anticipated that the implementation of an annualised hours scheme will assist in staff retention and increase productivity, whilst reflecting the seasonality of the roles, employees' remuneration will no longer be affected by seasonal variations in working hours.
- 3.23 To further drive up efficiencies trackers are being installed on the grounds maintenance machinery in order to assess usage. This will minimise machinery downtime and enable the more efficient use of equipment.

## Local business participation

- 3.24 The table below sets out the position at the close of Quarter 2 (May, June July 2015). Local business participation has dropped slightly this quarter. The total amount spent in Kent & Medway has fallen by 3% on last quarter and within Medway is down 4%. However, it still represents significant proportions demonstrating Medway Norse is continuing to support the local economy by prioritising spend in Medway and Kent.

<b>Location of Expenditure Quarter 2</b>	<b>Amount of Expenditure</b>	<b>% by Location</b>
<b>Medway Norse Total Expenditure</b>	£3,386,759.43	100%
<b>Kent &amp; Medway Expenditure</b>	£2,135,230.07	63%
<b>Medway Expenditure</b>	£1,285,098.59	37%

## 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 monthly operations meetings 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.

## Rebate (income) for the Council

- 3.28 In 2014/15 Medway Norse achieved a surplus of £508,151 of which the Council is due £338,733, which is 66.66% as per the agreement for that financial year. This is slightly less than £347,039, the sum the Council accrued from 2014/15 based on an earlier estimate of the surplus. This has created a small budget pressure of £8,306 in 2015/16.
- 3.29 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 can be met if the partnership's surplus meets or exceeds

£526,000. This is under pressure due to increased wage costs from the phased implementation of the national living wage – now running at pressures of £12,000 per month.

#### **4. Business Support Overview and Scrutiny Committee – 3 December 2015**

- 4.1 The Strategic Property and Energy Manager introduced this report which outlined the partnership's achievements and performance up to the second quarter in its third year of trading and its plans for future growth and development.
- 4.2 The Committee were advised that Medway Norse were unlikely to make the targeted surplus of £526,000 which was under pressure due to increased wage costs from the phased implementation of the national living wage, now running at pressures of £12,000 per month. It was expected that a surplus of between £300,000 and £400,000 was likely.
- 4.3 With reference to the Villager bus service used by community groups in Strood, Members were advised that Medway Norse were looking into providing this service. No contract was in place yet due to uncertainties about whether the existing grant would continue. Medway Norse recognised this was a valuable service but it had to be financially viable.
- 4.4 Some difficulties with the grounds maintenance service were being experienced owing to the loss of personnel. Medway Norse were due to meet with the Trade Unions to discuss how best to retain staff.
- 4.5 A Member asked if the opportunities for using school mini buses during the school day to generate income were being explored. The Managing Director of Medway Norse replied that this was something he was keen to explore although the mini buses could not be used for self drive hire. In response to a question about the co-location of mini buses with schools, the Managing Director advised that this was not something he was actively promoting at the moment but individual requests could be looked at. It would have the additional advantage of freeing up the limited parking spaces available for mini buses.
- 4.6 A Member referred to the catering at Riverside and Capstone country parks which had been taken over by the joint venture and asked what had happened to the staff. The Committee were advised that all of the staff had been transferred to Medway Norse.
- 4.7 The Committee noted the report.

#### **5. Legal, financial and risk implications**

- 5.1 There are no direct legal implications of this update report.
- 5.2 The financial implications are contained within the report.
- 5.3 The risk implications are contained within the report.

## **6. Recommendations**

6.1 That the report be noted.

## **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 provided to Cabinet.

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**Appendices** - none

### **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>

Update on Medway Norse - report to Business Support Overview and Scrutiny Committee 25 June 2015

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=123&MId=3156&Ver=4>

Update on Medway Norse - report to Business Support Overview and Scrutiny Committee 3 December 2015

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=123&MId=3262&Ver=4>