

# **BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE**

**1 DECEMBER 2016**

## **UPDATE ON MEDWAY NORSE**

Report from: Perry Holmes, Chief Legal Officer

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Medway Norse

### **Summary**

This report outlines the partnership's achievements and performance up to the end of the second quarter in its fourth year of trading.

### **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 £13.6m per annum.
- 1.2 There is a requirement to submit reports to Cabinet on a six monthly basis.

### **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 2016 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 Transformation. On 30<sup>th</sup> September 2016 Peter Hawes (Managing Director, Norse Commercial Services) retired and has been succeeded by Martin Hopkins. 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 team.
- 3.3 Responsibility for the Corporate Client lies with the Strategic Property and Energy team, managed by Rob Dennis, within the Legal and Corporate Services division.

#### **Summary of operations**

- 3.4 The Council and Medway Norse are discussing the strategy for the future growth of the joint venture to inform its current business plan. This will seek to deliver the right balance between taking on additional council services to deliver them more efficiently, and growth through external business.
- 3.5 Organic growth has continued with the following services:
- Innovation Centre Café [complete]
  - Villager bus
  - Tree Contract [novated contract complete] self-deliver from July 2017
  - Urban Ranger Service self-deliver from October 2016
  - HWRC Sites from 2017
  - Pest Control – to be confirmed
  - Sign Shop – to be confirmed
- 3.6 An outline proposal has been submitted which seeks to refurbish the current vacant / disused toilet block located within the curtilage of Eastgate House. The refurbished facility would introduce a new format of eatery which will be linked to the visitor experience at the newly refurbished Eastgate House site. The sanitary facility would also be re-opened though on a smaller scale, increasing the available toilets in Rochester and decreasing the heavy footfall experienced at Northgate.
- 3.7 The catering model at Rochester Adult Education has moved from café to vending in response to the very low levels of usage. A Catering Forum has been established which includes Medway Norse catering, the Medway Adult Education service and learner representatives (though no learners have as yet volunteered to attend) to review and amend the offering as required.

- 3.8 Medway Norse has continued to progress development of the business. Operational Directors and managers are currently focussing to develop markets where demand and margins improve the profitability of the business overall. These include schools, Arm's-Length Management Organisations (ALMOs) and other public sector bodies where long term relationships can be formed. The sales team monitors portals where OJEU notices are published, each tender is assessed on its viability.
- 3.9 The joint venture is actively competing for external work for catering, cleaning and grounds maintenance work. However, the trading environment is challenging with relatively few opportunities available – an experience mirrored by other Norse JVs. The Medway Norse Board has been very clear in its strategy that external growth must be in the right markets to be profitable to grow the business. Multiple low margin contracts place an unsustainable strain on the management capacity of the JV. Greater efficiency gain has been delivered by the JV taking on internal council services – either through transfer or in the case of HRA estates cleaning and SEN transport, through competitive tender.
- 3.10 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 workforce – creating local employment**

- 3.11 The total number of job roles to the end of September 2016 was 523 making Medway Norse a large local employer. Since 2013 Medway Norse has created 141 new jobs for Medway residents. The Joint Venture is continuing to develop its own trades team to achieve cost savings and to ensure consistent quality of service.
- 3.12 Medway Norse has to date employed 17 apprentices including Trades, Accountancy and Business Administration. Opportunities for apprenticeships within the horticultural area are being explored.
- 3.13 Medway Norse has been approved by Lloyds Register to ISO 9001:2008 Management System standards. Approval to ISO 14001 Environmental Management standard is in progress.

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

- 3.14 From September 2016 the SEN Transport Service was expanded. The new schools include Blueskies, Ifield School and Inspire School (formally Silverbank School) transporting 23 students via 5 new routes.
- 3.15 In addition the service now operates an additional 2 routes to Rivermead School and 3 routes to Danecourt School.
- 3.16 The expanded service required the purchase of 8 new buses and 2 smaller passenger vehicles plus the employment of 20 new staff (10 Drivers and 10 Passenger Assistants).

- 3.17 Medway Norse is responsible for managing the operation of the framework of suppliers of SEN transport. They also directly deliver transport for three school routes (which has reduced costs by 20%) and some routes for a fourth school, Danecourt, were taken on last 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.

### **Grounds maintenance**

- 3.19 The main grounds maintenance contract transferred into the Joint Venture as of 1 April 2014. There are significant financial compromises currently being made with the core FM contract currently subsidising this work stream to just under £200k/annum.
- 3.20 A review of the initial structure has been completed. This development will further align the business model and lead to improved efficiencies, with a new structure being rolled out in early 2017.
- 3.21 The tree contract is currently being delivered by a third party sub-contractor and this service is due to be self-delivered in-house as of July 2017. Though there is still some debate about the location of the service.
- 3.22 The Urban Rangers services are to transfer-in from 1<sup>st</sup> October 2016.

### **Local business participation**

- 3.23 The table below sets out the position for July to September 2016. Local business participation continues to be strong - Kent & Medway remains steady at 67% with Medway seeing an increase of 6% in the second quarter trading, demonstrating Medway Norse is continuing to support the local economy by prioritising spend in Medway and Kent.

<b>Location of Expenditure Jul - Sep 2016</b>	<b>Amount of Expenditure</b>	<b>% by Location</b>
<b>Medway Norse Total Expenditure</b>	£4,060,008.70	100%
<b>Kent &amp; Medway Expenditure</b>	£2,740,102.98	67%
<b>Medway Expenditure</b>	£1,858,557.98	46%

### **The corporate client function**

- 3.24 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.
- 3.25 In addition building managers can raise day-to-day service issues directly with Medway Norse or alternatively with the Corporate Client team who hold quarterly operations meetings with Medway Norse. Building managers often attend slots at these meetings as and when the need arises.
- 3.26 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.
- 3.27 In particular during the first 6 months refurbishment works were commenced and have completed to the public toilets at Rainham and Northgate (Rochester) – also a major refurbishment at Hoo.

### **The future strategy 2017/8 and beyond**

- 3.28 The Council and the Medway Norse Board are determining the appropriate balance between internal and external growth and priority council services to come into the joint venture in 2016/17 and ongoing services from 2017/18 onwards.
- 3.29 There are a number of challenges to be faced:
- National Living Wage, 2018 Onwards
  - Apprenticeship Levy
  - Grounds Maintenance budgets versus revenue
  - Maintaining workforce quality
  - Ageing workforce (in particular D1 Licences SEN transport)
- 3.30 The pressures facing the joint venture for 2017/18 are mitigated by cost savings already delivered which will have full year effect, by expanded self delivery, effective management of third party spend and income generation.

### **Rebate (income) for the Council**

- 3.31 In the first 3 years of trading, Medway Norse has returned a rebate to the Council of £1.05m. In addition the joint venture has brought over £5.3m capital investment into council services.
- 3.32 Under the agreement the Council will receive 50% of any surplus in 2016/17 and future years. The Council has set a rebate income target of £262,061 in 2016/17. The company is currently in line to achieve this target.

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

- 4.1 There are no direct legal implications of this update report.
- 4.2 The financial implications are contained within the report.
- 4.3 The risk implications are contained within the report.

#### **5. Recommendation**

- 5.1 The Committee is asked to note the report.

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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 03 December 2015

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=29060>

Update on Medway Norse - report to Cabinet 12 January 2016

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=29313>