

**STRATEGIC, OPERATIONAL AND FINANCIAL
BUSINESS CASE**

**FOR THE APPROVAL OF TEWKESBURY BOROUGH COUNCIL
AS A SHAREHOLDER OF UBICO LTD**

1. INTRODUCTION

- 1.1 The launch of Ubico Ltd in 2012 and the subsequent cost efficiencies and service improvements delivered by the company have attracted significant interest at local and national level.
- 1.2 One authority that has consistently shown interest in joining the partnership is Tewkesbury Borough Council (TBC). For various reasons it has not been possible in the past to agree the conditions for TBC joining the partnership but changing circumstances now make this possible.
- 1.3 This business case provides the strategic, operational and financial benefits of TBC joining the partnership. The services in scope are waste and recycling collections, organic collections, bulky waste collections, street cleaning and grounds maintenance. The estimated contract value is £3,494,000 per annum with an anticipated start date of 1st April 2015.

2. BACKGROUND

- 2.1 Increasing financial pressures have accelerated the growth of shared service partnerships between local authorities. There are now many examples of successful shared service partnerships throughout England employing a variety of service delivery models.
- 2.2 The use of 'Teckal' companies as a preferred service delivery option has gained in popularity. A number of local authorities have been particularly interested in the success of Ubico and the structure and governance arrangements of the company. Locally this includes TBC, Stroud District Council, Forest of Dean District Council and West Oxfordshire District Council. Further afield, interest in the Ubico model has been shown by Cardiff City Council, East Cheshire, South Hams and West Devon.
- 2.3 In 2011, when CDC and CBC resolved to create a local authority 'Teckal' company, TBC decided to undertake a comprehensive options appraisal before committing to any particular service delivery model. Having completed the options appraisal TBC concluded that the Ubico partnership was in fact the most advantageous option. At that time, however, the company was already committed to a challenging work programme and did not have the necessary capacity to respond.
- 2.4 In October 2012 a detailed business case was prepared for the inclusion of TBC as a shareholder in Ubico Ltd. The business case presented a robust financial and strategic case for TBC to join the partnership but agreement could not be reached on governance arrangements for a 3 authority partnership.
- 2.5 Changing circumstances have since resulted in the existing shareholders developing robust, effective and pragmatic governance arrangements for a multi authority partnership. Detailed consultation with a number of local authorities, including TBC, resulted in an 'in principle' agreement and a revised list of reserved matters for shareholders. The revised arrangements were approved by existing shareholders in September 2014 and this has provided another opportunity to consider a business case for TBC (and others) to join the partnership.
- 2.6 TBC have developed their own business case for joining Ubico and that, along with the revised governance arrangements for an extended partnership, was approved by TBC full council on 30th September 2014.

3. STRATEGIC CONTEXT

- 3.1 The Gloucestershire Joint Municipal Waste Management Strategy 2007 - 2020 has been approved by all Gloucestershire local authorities. The strategy emphasises the potential efficiencies and economies of scale to be realised through joint working arrangements and commits signatories to explore opportunities to deliver efficiency savings through the aggregation of collection services whilst recognising that in the medium term there will be different systems in use by different authorities.
- 3.2 In 2010 the Gloucestershire Waste Partnership and the Gloucestershire Joint Improvement Board agreed a joint vision – “By working together the Gloucestershire authorities will deliver more efficient waste services. This will be achieved whilst respecting the local needs and autonomy of each partner”. Both bodies jointly commissioned Eunomia Consulting to update a previous business case for joint working in waste and street cleaning which had estimated savings of £1.7 m per annum from the joint delivery of waste services in a county wide context.
- 3.3 The updated business case estimated annual savings of £1.7 million to £3.2 million per annum to be shared between partners. The business case drew on evidence of the success of other joint working arrangements (e.g. Somerset, Dorset etc) and was signed off by finance officers at all relevant authorities.
- 3.4 The business case anticipated savings arising from rationalising depots, joint service management and delivery, increased purchasing power, fleet efficiencies and increased productivity through serving a larger geographical area. The report highlighted that some savings are potentially achievable through changed working arrangements by individual districts but the full savings are only achievable through a larger partnership. It went on to say that where authorities work towards savings in isolation opportunities will be missed and a wider, more efficient, partnership may be harder to achieve in the long term. A key factor in creating Ubico as an arms length local authority company was to facilitate a fully inclusive partnership through the aggregation of collection contracts and environmental services which would maximise efficiency savings. This is not limited to the administrative boundary of Gloucestershire.
- 3.5 TBC have resolved to join the Gloucestershire Joint Waste Committee in April 2015 and in doing so have demonstrated a commitment to partnership working in waste and environmental services. They are also participating in other shared service arrangements (One Legal, Building Control) which demonstrates their willingness to work in partnership for mutual benefit.
- 3.6 Ubico’s core market strategy, as approved in our 2014/15 business plan, is to deliver a low cost base, exploiting all sources of cost advantage and driving down costs at every opportunity. A key element of driving down costs is growth of the business to benefit from economies of scale and one way of achieving this is increasing the number of shareholder authorities. The inclusion of additional shareholders will spread overhead costs over a wider base and facilitate operational efficiencies.
- 3.7 Ubico’s corporate overhead is currently 6.5% of turnover and external consultants have indicated that this is in line with competitive private sector bids for local authority contracts. It is a strategic objective of the company to reduce corporate overhead to 5 –6% of turnover in the medium term and the inclusion of additional shareholders will deliver this.

- 3.8 The inclusion of TBC in the partnership will also benefit existing shareholders as it will generate increased business for shared service support partnerships (GOSS, Audit Cotswold, One Legal and Shared ICT).
- 3.9 TBC also has geographical strategic importance to the partnership. It provides a land bridge between existing shareholders and the Forest of Dean, a partner in the 2020 vision programme. TBC also shares borders with existing shareholders as well as Stroud District Council and Gloucester City Council. It is therefore an excellent geographical fit in our plans for growth.

4. OPERATIONAL BENEFITS

- 4.1 TBC operations are already based at the Cheltenham Swindon Road Depot. Having TBC in the partnership will facilitate a reorganisation and rationalisation of depot space, improving safety, security and efficiency. Co-location of office space with the Cheltenham team will also facilitate increased sharing of resources, management and administration. Both teams know each other well and work well together, combining a useful mix of skills and experience. A key advantage to Ubico will be the experience and knowledge gained in managing co-mingled recycling collections.
- 4.2 A further operational benefit to be gained in the longer term is the opportunity to merge fleet maintenance operations in one single workshop. Currently TBC's vehicle contract hire supplier operates a separate vehicle maintenance facility within the depot and this is inherently inefficient.
- 4.3 Emergency response will also be improved. By combining resources from all contracts the company will be better able to support local authority emergency response operations and support communities at times of great need.

5. FINANCIAL BENEFITS

- 5.1 TBC anticipate savings of £364,000 over 5 years from becoming a shareholder in Ubico. This is based on a contract value of £3,494,000 and is net of set up costs which they estimate as £86,000.
- 5.2 The benefits to existing shareholders will be delivered in three ways; the recovery of set up costs, reduced overheads and the delivery of operational efficiencies. The recovery of set up costs was approved and set by the Board of Directors and Shareholders in August 2014 and has been included in this business case at a rate of 100%.
- 5.3 The inclusion of additional shareholders in the business will result in an overall increase in corporate overhead costs but these costs will be spread over a greater number of partners. The distribution of overhead is proportionate to turnover and therefore the overhead savings and cost allocation will differ between partners depending on individual contract values. It is estimated that the inclusion of TBC will result in an increase of £150,000 per annum on corporate overhead (including increased support service costs) and that TBC's contribution will be £208,810. This delivers a saving of £58,810 for the existing shareholders which is split proportionate to turnover. This provides CBC with an annual saving of £34,434 and CDC with a saving of £24,376.

- 5.4 Operational savings can be delivered by sharing waste collection and street cleaning resources. It must be noted, however, that operational costs are ringfenced for each partner and therefore operational savings are not evenly shared. In the case of TBC the operational efficiencies benefit CBC but not CDC. It is estimated that the rationalisation and sharing of food waste collection resources will save CBC £25,900 per annum and the shared use of a mechanical road sweeper will save a further £14,925 per annum.
- 5.5 The combined and cumulative financial benefit from these efficiencies over a five year period plus the one off payment for each existing shareholder is shown in the table below.

Cost saving schedule - Cheltenham Borough Council						
	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£s	£s	£s	£s	£s	
Recovery of set up costs	22,667	0	0	0	0	22,667
Overhead savings	34,434	34,434	34,434	34,434	34,434	172,170
Operational savings	40,825	40,825	40,825	40,825	40,825	204,125
Total in year	97,926	75259	75259	75259	75259	
Cumulative savings over five years						398,962
Cost saving schedule - Cotswold District Council						
	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£s	£s	£s	£s	£s	
Recovery of set up costs	22,667	0	0	0	0	22,667
Overhead savings	24,376	24,376	24,376	24,376	24,376	121,880
Operational savings	0	0	0	0	0	0
Total in year	47,043	24376	24376	24376	24376	
Cumulative savings over five years						144,547

6. RISKS

Risk Description	Actions
The inclusion of additional shareholders dilutes the control of founder shareholders.	The company governance arrangements have been revised to reflect a fair and equitable partnership. The loss of control is compensated by financial benefit.
Ubico does not have the capacity to deliver this project simultaneously with other key projects in the work programme.	Critical areas will be strengthened in both the short and long term i.e. project management, fleet management and systems development.
The estimated operational savings are not delivered.	Operational savings have been planned with Operations Managers at CBC and TBC and are realistic.
The estimated overhead savings are not delivered.	The estimates have been prepared on the basis of a 3 authority partnership and are conservative if others join.
The necessary lease and licensing arrangements will not be in place in time	This work has commenced in advance of any formal decision but can be aborted if

for transfer.	necessary.
Employer percentage contributions to the LGPS will significantly increase.	This is a TBC risk. They have been fully briefed and have included estimated increases in their cost calculations.
Different pay rates will prompt 'grade creep'.	This will be robustly managed. Discussions have already started with the recognised trades unions to review and agree an affordable and competitive package of pay and conditions throughout the company.