

**STRATEGIC, OPERATIONAL AND FINANCIAL
BUSINESS CASE**

**FOR THE APPROVAL OF WEST OXFORDSHIRE DISTRICT 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 recently expressed interest in joining the partnership is West Oxfordshire Council (WODC). WODC's interest arises not only from the potential that Ubico offers but also from their shared management arrangement with CDC and their participation in the 2020 Vision programme.
- 1.3 This business case provides the strategic, operational and financial benefits of WODC joining the Ubico partnership. It is supported by a business case for depot service options prepared for the 2020 Vision Programme Board and WODC by Eunomia Research and Consulting Ltd and highlights the potential for greater benefit if and when waste and recycling services are transferred to Ubico.
- 1.4 The depot services in scope are street cleaning, grounds maintenance, commercial waste collection, bulky waste collection and building cleaning. The estimated contract value is £1,600,000 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 WODC, Stroud District Council, Forest of Dean District Council and Tewkesbury Borough Council. Further afield, interest in the Ubico model has been shown by Cardiff City Council, East Cheshire, South Hams and West Devon.
- 2.3 Changing circumstances have resulted in the existing shareholders of Ubico developing robust, effective and pragmatic governance arrangements for a multi authority partnership. Detailed consultation with a number of local authorities, including WODC, 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 an opportunity to consider a business case for WODC (and others) to join the partnership.
- 2.4 WODC will be asked to formally approve the business case and agree the revised governance on 10 December 2014..

3. STRATEGIC CONTEXT

- 3.1 It is widely accepted that by working together local authorities can deliver more efficient services. The growing popularity and success of shared service arrangements is evidence of this.
- 3.2 A business case developed for the Gloucestershire Waste Partnership, which drew on evidence from other joint working arrangements (e.g. Somerset, Dorset etc)

estimated significant annual savings from shared waste collection services. 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. That particular business case was restricted to Gloucestershire but the principles it contained can be applied to a wider partnership and to a wider range of environmental services.

- 3.3 The report also highlighted that some savings are potentially achievable through changed working arrangements by individual districts but large scale 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.
- 3.4 WODC have a shared management arrangement with CDC, are founder partners in the GOSS partnership and are partners in the 2020 Vision programme. They are committed to partnership working and have a good track record of joint working for mutual benefit. They should therefore be viewed as reliable and trustworthy partners.
- 3.5 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 costs over a wider base and facilitate operational efficiencies.
- 3.6 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.
- 3.7 The inclusion of WODC in the partnership will also benefit existing shareholders via increased business for shared service support partnerships (One Legal and Shared ICT).
- 3.8 WODC also has strategic geographical importance to the partnership. It has a long western border with CDC and has a depot in the north of the District which may be useful in delivering joint operations to the north of both CDC and WODC, thereby improving productivity, reducing fuel costs and providing employment opportunities in that area. WODC also provides a foothold in Oxfordshire. Neighbouring authorities such as Cherwell and Vale of White Horse may in future wish to consider joining the Ubico partnership. It is therefore, an excellent geographical fit in our plans for growth.

4 OPERATIONAL BENEFITS

- 4.1 WODC operations are based at Witney in a small but functional depot. WODC have an established, experienced and knowledgeable team in place and this will facilitate a smooth transfer of services. A key advantage to Ubico will be the extensive knowledge held by the team about the WODC waste and recycling service and this will be of great value to Ubico when preparing resource and budget estimates for the potential transfer of these services in 2017. The team also have a good knowledge

of grounds maintenance and horticultural operations and this will be of great benefit to Ubico moving forward.

- 4.2 The lengthy joint border between WODC and CDC provides immediate opportunities for shared resources, particularly in street cleaning and grounds maintenance. There is already a degree of joint working between the two operational teams and they have a good working relationship. This can be expanded and enhanced. Further operational efficiencies can be achieved if the waste and recycling service is later transferred to Ubico and these will be in excess of the short term benefits.
- 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 WODC anticipate savings of £61,586 per annum if they become a shareholder in Ubico. This is based on a gross expenditure budget of £1,600,000 and is net of set up costs which may be funded by the 2020 Vision Programme budget.
- 5.2 The benefits to CBC and CDC will be delivered in three ways; the recovery of set up costs, reduced overheads and 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 budget contributions. It is estimated that the inclusion of WODCC will result in an increase of £80,000 per annum on corporate overhead (subject to clarification of support service costs as they are already funding support from GOSS and Audit Cotswolds)) and that WODC's contribution will be £101,000. This delivers a saving of £21,000 for the existing shareholders which is split proportionate to turnover. This provides CBC with an annual saving of £12,300 and CDC with a saving of £8,700.
- 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, savings are not evenly shared. In the case of WODC the operational efficiencies benefit CDC but not CBC. It is estimated that the sharing of street cleaning resources will save CDC £21,000 per annum and shared grounds maintenance resources will save a further £10,500 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 on the next page.

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	12,300	12,300	12,300	12,300	12,300	61,500
Operational savings	0	0	0	0	0	0
Total in year	34,967	12,300	12,300	12,300	12,300	
Cumulative savings over five years						84,167
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	8,700	8,700	8,700	8,700	8,700	43,500
Operational savings	31,500	31,500	31,500	31,500	31,500	157,500
Total in year	62,867	40,200	40,200	40,200	40,200	
Cumulative savings over five years						223,667

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.
The estimated operational savings are not delivered.	Operational savings have been planned in conjunction with Operations Managers at CDC and WODC 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 for transfer.	This work has commenced in advance of any formal decision but can be aborted if necessary.
Ubico does not have the capacity to deliver this project simultaneously with other key projects in our work programme.	Critical areas will be strengthened in both the short and long term i.e. project management, fleet management and systems development.
Employer percentage contributions to the LGPS will significantly increase.	This is a WODC risk. They are aware and the relatively small numbers transferring reduces the overall risk.
Different pay rates will prompt 'grade creep'.	This will be robustly managed. Discussions have already started with the recognised trades unions to review an affordable and competitive package of pay and conditions throughout the company.

