

**STRATEGIC, OPERATIONAL AND FINANCIAL  
BUSINESS CASE**

**FOR THE APPROVAL OF FOREST OF DEAN 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 consistently shown interest in joining the partnership is Forest of Dean District Council (FOD). Their long term contract with a private sector provider for waste, recycling and street cleaning services has delayed their involvement to date but there is a strong strategic case for FOD to join the partnership in the short term.
- 1.3 This business case provides the strategic and financial benefits of FOD joining the partnership. It is supported by a business case for depot service options prepared for the 2020 Vision Programme Board and FOD by Eunomia Research and Consulting Ltd and highlights the potential for greater benefit if and when waste, recycling and street cleaning services are transferred to Ubico.
- 1.4 The depot services in scope are grounds maintenance, car park maintenance, winter gritting, office cleaning and cemetery maintenance. The estimated contract value is £346,000 per annum with an anticipated start date of 1<sup>st</sup> 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 FOD, Stroud District Council, Tewkesbury Borough 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. FOD expressed an early interest in the Ubico model but they are committed to a contractual arrangement with Biffa Ltd for waste, recycling and street cleaning services until 2018. This has limited opportunities to facilitate their inclusion in the Ubico partnership.
- 2.3 Changing circumstances have 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 FOD, 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 FOD (and others) to join the partnership.
- 2.4 FOD will be asked to formally approve the business case and revised governance on 11 December 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 for 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.
- 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 FOD have committed to the Gloucestershire Waste Partnership and are founder members of the Gloucestershire Joint Waste Committee and in doing so have demonstrated a commitment to partnership working in waste and environmental services. They are also founder members of the GOSS partnership and participate in other shared service arrangements (Shared ICT) which demonstrates their willingness to work in partnership for mutual benefit. They should therefore be viewed as reliable and trustworthy partners.
- 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 part 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.
- 3.7 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 FOD in the partnership will also benefit existing shareholders via the increased business for shared service support partnerships (One Legal).
- 3.9 FOD also has geographical strategic importance to the partnership. It has a long eastern border with Tewkesbury Borough Council providing opportunities to deliver joint operations to both authorities thereby improving productivity and reducing fuel costs. Having a presence in the area also opens up opportunities to seek external sources of income.

#### **4. OPERATIONAL BENEFITS**

- 4.1 Operational benefits are limited in the short term due to the relatively small size of the operation but having a base in the District will enable Ubico to bid for external contracts (e.g. work for parish councils, schools grounds maintenance). It also provides Ubico with grounds maintenance coverage of most of Gloucestershire and opens up opportunities for joint working with the County Council's highway maintenance partner, Amey plc.
- 4.2 Further operational benefit will be gained in the longer term with the opportunity to transfer waste and recycling collections and street cleaning to Ubico.
- 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 FOD anticipate savings of £11,282 per annum if they become a shareholder in Ubico. This is based on a gross expenditure budget of £346,000 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 two ways; the recovery of set up costs and reduced overheads. Operational efficiencies will only be gained in the medium to long term and are difficult to predict at this stage. Eunomia are forecasting savings to FOD of £150,000 per annum (compared to the next lowest cost option of outsourcing) if waste, recycling and street cleaning are transferred to Ubico and the combined value of the expanded contract would strongly suggest that Ubico could drive out further efficiencies for all shareholders.
- 5.3 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%.
- 5.4 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 FOD will result in an increase of £17,300 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 FOD's contribution will be £22,300. This

delivers a saving of £5,000 for the existing shareholders which is split proportionate to turnover. This provides CBC with an annual saving of £2,900 and CDC with a saving of £2,100.

- 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.

<b>Cost saving schedule - Cheltenham Borough Council</b>						
	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	£s	£s	£s	£s	£s	
Recovery of set up costs	22,667	0	0	0	0	22,667
Overhead savings	2,900	2,900	2,900	2,900	2,900	14,500
Operational savings	0	0	0	0	0	0
Total in year	25,567	2,900	2,900	2,900	2,900	
<b>Cumulative savings over five years</b>						<b>37,167</b>
<b>Cost saving schedule - Cotswold District Council</b>						
	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	£s	£s	£s	£s	£s	
Recovery of set up costs	22,667	0	0	0	0	22,667
Overhead savings	2,100	2,100	2,100	2,100	2,100	10,500
Operational savings	0	0	0	0	0	0
Total in year	24,767	2,100	2,100	2,100	2,100	
<b>Cumulative savings over five years</b>						<b>33,167</b>

## 6. RISKS

<b>Risk Description</b>	<b>Actions</b>
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 overhead savings are not delivered.	The estimates have been prepared on the basis of a 3 authority partnership and are conservative if others join.
Employer percentage contributions to the LGPS will significantly increase.	This is a FOD risk. They will be fully briefed and any estimated increases factored into cost calculations. The risk is manageable due to the relatively small number of employees involved (6-8).
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.

