

**STRATEGIC, OPERATIONAL AND FINANCIAL  
BUSINESS CASE**

**FOR THE APPROVAL OF STROUD 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 shown interest in joining the partnership is Stroud District Council (SDC). SDC are committed to a multi services contract with an external provider until 2016. Whilst this has delivered a degree of stability over a number of years the contractual arrangement has stifled creativity and restricted opportunities to deliver service improvement. SDC are keen to improve their recycling performance and see the Ubico model as a flexible and cost effective way of achieving this.
- 1.3 This business case provides the strategic, operational and financial benefits of SDC joining the partnership. The services in scope are waste and recycling collections, organic collections, bulky waste collections, street cleaning, grounds maintenance and building cleaning. The estimated contract value is £3,416,000 per annum with an anticipated start date of July 2016.

## **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 SDC, Tewkesbury Borough, 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 Changing circumstances have resulted in the existing shareholders considering effective and pragmatic governance arrangements for a multi authority partnership. Detailed consultation with a number of local authorities, including SDC, resulted in a revised in principle agreement and 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 SDC (and others) to join the partnership.
- 2.4 SDC have developed their own business case for Ubico and that, along with the revised governance arrangements for an extended partnership, was approved by SDC full council on 6<sup>th</sup> November 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 across the county which would maximise efficiency savings.
- 3.5 SDC are active members of the Gloucestershire Waste Partnership but have not yet resolved to join the Gloucestershire Joint Waste Committee. Successful participation in the Ubico partnership may prompt SDC to increase participation in other shared service arrangements.
- 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 factor in 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 SDC 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 SDC also has geographical strategic importance to the partnership. It shares borders with Cotswold District Council (CDC) as well as Tewkesbury Borough Council and Gloucester City Council. It is therefore an excellent geographical fit in our plans for growth.

#### **4. DEVELOPING THE BUSINESS CASE AND BUDGET ESTIMATES**

- 4.1 The resource plans and budget estimates that support the business case have been carefully developed over a number of months. Three different methodologies were used to estimate resources and budgets for the high value services (i.e. all waste related services). Firstly, an external consultant was commissioned to prepare resource estimates and a benchmark service cost. Secondly, the Ubico business development team prepared resource estimates using the WM Design route optimisation software. Thirdly, the Operations Manager at Cotswold prepared resource estimates using performance data from our Cotswold Operations and his knowledge and experience of mixed rural/urban collection services. Pleasingly, the results of all three methodologies were very similar and therefore we can have a high degree of confidence about the resource estimates used to develop the contract budget.
- 4.2 The budget was developed using Ubico pay rates and conditions of service. These are in excess of the pay and conditions that staff will initially transfer with and therefore provide a financial cushion in the first few years of operation. Furthermore, fleet asset charges were budgeted at full replacement value and it is unlikely that we will be utilising a completely new fleet from the first day of operation. There is therefore a reasonable safety margin built into the estimated budgets.
- 4.3 Despite this safety margin, SDC's own external consultants advised that the Ubico indicative budget was likely to be £300,000 less than a private sector bid for the same contract. This reflects the not for profit nature of Ubico. Forecast profit margins of private sector bids range between 8% and 10% (8% of private sector contract value= £297,000).
- 4.4 A key factor in resource planning and cost estimates is the location of a depot. SDC do not have immediate access to a depot and are actively seeking to buy or lease a suitable site. Our estimates were based on a suitable depot being available close to Junction 13 of the M5 and will have to be adjusted if the eventual site is in a significantly different area. The lack of a depot site is a risk for both SDC and Ubico and we are working closely with officers of SDC to identify suitable sites and develop contingency plans.

#### **5. OPERATIONAL BENEFITS**

- 5.1 SDC are planning significant service change in 2016 when their current contractual arrangement terminates. The priority services to undergo change are waste, recycling and organic collections but there will be changes to other services. The main changes however are the introduction of wheeled bins and alternate weekly collections for residual waste, the weekly collection of food waste and introduction of charges for garden waste and bulky waste collections. This is a major project and until all changes are implemented and tested it would be prudent to forecast operational efficiency savings for existing shareholders at a conservative level.
- 5.2 Operational savings can be delivered via efficiencies in bin deliveries and from cross border waste collections in rural areas, particularly from hard to access locations. It is estimated that sharing resources on these services will save £20,000 per annum with the benefit falling exclusively to CDC.

- 5.3 Having SDC in the partnership will also facilitate cross boundary efficiencies, particularly where new housing developments are being built (e.g. Coopers Edge, which covers Stroud, Tewksbury and Gloucester City). A key advantage to Ubico will be the experience and knowledge gained in managing two stream co-mingled recycling collections. The data provided will greatly assist in decision making for future recycling system options appraisal.
- 5.4 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.

## **6. FINANCIAL BENEFITS**

- 6.1 SDC anticipate a budget increase of £192,000 if they become a shareholder in Ubico. This reflects the changes to waste, recycling and organic collections which will drive up their recycling rates and divert waste from landfill. They are including this growth in their MTFs.
- 6.2 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%.
- 6.3 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 SDC will result in an increase of £150,000 per annum on corporate overhead (including increased support service costs) and that SDC's contribution will be £204,500. This delivers a saving of £54,400 for the existing shareholders which is split proportionate to turnover. This provides CBC with an annual saving of £31,900 and CDC with a saving of £22,500.
- 6.4 Operational savings can be delivered by sharing bin delivery and rural waste collection 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 SDC the operational efficiencies benefit CDC but not CBC. It is estimated that the sharing of bin delivery and rural waste collection resources will save £20,000 per annum.
- 6.5 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	0	22,667	0	0	0	22,667
Overhead savings	0	31,900	31,900	31,900	31,900	127,600
Operational savings	0	0	0	0	0	0
Total in year	0	54,567	31,900	31,900	31,900	
<b>Cumulative savings over five years</b>						<b>150,267</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	0	22,667	0	0	0	22,667
Overhead savings	0	22,500	22,500	22,500	22,500	90,000
Operational savings	0	20,000	20,000	20,000	20,000	80,000
Total in year	0	65,167	42,500	42,500	42,500	
<b>Cumulative savings over five years</b>						<b>192,667</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 operational savings are not delivered.	Operational savings have been planned with the Ubico Operations Manager at Cotswolds and officers at SDC 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.
A local depot is not available to Ubico at the contract start date.	SDC has commenced a depot procurement project and are working with Ubico to develop short term contingency plans.
The resource estimates and budget estimates are incorrect.	The resource estimates for high value services have been independently calculated using 3 different approaches. There is therefore a high degree of confidence that they are correct. Labour and fleet budgets have been inflated in the first 1 – 2 years of the contract to provide a cushion.
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.