

DECISION-MAKER:	CABINET		
SUBJECT:	LOCAL AUTHORITY TRADING COMPANY FOR SOME COUNCIL SERVICES		
DATE OF DECISION:	15 AUGUST 2017		
REPORT OF:	LEADER OF THE COUNCIL		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY	
None	
BRIEF SUMMARY	
<p>The purpose of this report is to:</p> <ol style="list-style-type: none"> 1. update Cabinet on the outcome of the most recent public and stakeholder consultation on the proposed establishment of a Local Authority Trading Company ('LATCo'); and 2. seek endorsement of the continued implementation of this transformation programme as approved in principle by Cabinet in December 2016 and revised in light of consultation and further appraisal as set out in this report. 	
RECOMMENDATIONS:	
(i)	To consider the outcome of the recent consultation activity on the proposed establishment of the LATCo and, having fully weighed the representations and issues identified through the consultation activity, to: <ol style="list-style-type: none"> (a) endorse the proposed approach to establishing a LATCo to deliver a variety of Council services; and (b) discontinue the activity for undertaking a procurement process and pursue the establishment of a LATCo without the appointment of external improvement partners.
(ii)	To confirm that the services to be included within the scope of the LATCo are as attached at Appendix 1. The inclusion of Housing services that fall within the statutory definition of 'management' as part of the scope of the LATCo is subject to Secretary of State consent.
(iii)	To note that a further Best Value consultation with residents, statutory consultation with housing tenants and leaseholders, and formal staff consultation required under employment law, will be required on the emerging proposals for the LATCo that will be presented to Cabinet in the new year.
(iv)	To note that following the activities outlined in (iii) above the final decision on the services to be delivered through the LATCo, the staffing provisions, governance arrangements, financial implications and the incorporation of the LATCo will be presented back to Cabinet and Council (as determined by the Constitution) for final decision around May/June 2018.
REASONS FOR REPORT RECOMMENDATIONS	

1.	To consider the representations received in response to the most recent consultation process and to ensure those representations are taken into consideration in progressing the establishment of a LATCo.
2.	To enable the on-going transformation of a range of in-scope council services, particularly the need for a new operating model that supports cost efficiency in the delivery of services back to the Council together with further commercialisation and potential trading opportunities.
3.	To maximise the effective, efficient and economic management and operation of the in-scope services.
4.	To develop a commercial capacity that can, where appropriate and in the public interest, profitably trade the services with other councils, public sector organisations, businesses and, where relevant, residents of the City and the broader commercial market.
5.	To support the Council in achieving its aim of continuing to grow the local economy, bringing investment into the city and increasing employment opportunities for local people.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

6.	The original options appraisal presented to Cabinet in December 2016 considered a number of service delivery models including: the option to retain and to continue operating the services ‘in-house’ as undertaken currently; outsourcing; joint venture; and disposal. These options did not support the aims and aspirations of the Council to the same extent as the recommended option of establishing a LATCo.
7.	Since the Cabinet meeting of December 2016, further consideration has been given to how the preferred LATCo option could be structured and established. Three ‘variant’ options were identified: <ul style="list-style-type: none"> ▪ Establishing the LATCo with no external partner support and to employ our own specialist officers; ▪ Establishing the LATCo with external partner support for all services in scope; ▪ Establishing the LATCo with external partner support for some of the services in scope.
8.	The rationale for preferring the establishment of a LATCo over the other alternative service delivery models, as well as the three variant LATCo structure options outlined above were consulted on during a 4 week consultation process which ended on the 13 July 2017. The outcome of the consultation and the representations received is detailed in this report.

DETAIL (Including consultation carried out)

	BACKGROUND
9.	In April 2015 Southampton City Council launched a major transformation programme aimed at improving customer service and outcomes, organisational capability and practice, and the need to close a projected financial gap of £90M by the financial year 2019/20.
10.	A significant number of change programmes and projects have been identified from these activities. Key among these was a proposal to Cabinet in December 2016 to consider the establishment of a Local Authority Trading Company (‘LATCo’) as the next stage of organisational development for the following

	Council services: Housing Management & Housing Operations; Street Cleansing; Waste Management & Collection; Parks & Open Spaces; Car Parking Operations; Facilities Management; Itchen Bridge Operations; and Transport.
11.	<p>At its meeting in December, Cabinet favoured the LATCo option over other options and approved the launch of the LATCo programme with the objective of:</p> <ul style="list-style-type: none"> ▪ establishing a Local Authority Trading Company for the management, delivery and commercialisation of Street Cleansing; Waste Management & Collection; Housing Operations & Housing Management; Parks & Open Spaces; Car Park Operations; Facilities Management; Itchen Bridge Operations; and Transport; and ▪ procuring the appointment of one or more public and/or private sector partners to support the LATCo in the discharge of its duties as a wholly owned company of the Council.
12.	<p>The implementation of this programme and the establishment of the LATCo is intended to deliver two key objectives:</p> <ul style="list-style-type: none"> ▪ continuous improvement to the effectiveness, efficiency and economy of the services provided by the LATCo to the Council ('Key Objective 1'); and ▪ a platform for growth focused on the development of new income streams from external third party trading ('Key Objective 2').
13.	The establishment of the LATCo and the achievement of the aforementioned key objectives is expected to deliver a number of benefits and outcomes to the Authority.
14.	<p>In relation to Key Objective 1, these include:</p> <ul style="list-style-type: none"> ▪ providing management with greater flexibility to shape future service provision; ▪ building on existing service quality and improving the service experience to customers (citizens, businesses and visitors) through the development and improvement of service offerings; and ▪ supporting quicker decision making and more organisational agility in responding to, and proactively addressing, changes and opportunities in the market.
15.	<p>In relation to Key Objective 2, the LATCo is intended to:</p> <ul style="list-style-type: none"> ▪ enable the Council to pursue income generation activity across all service sectors and price / charge for its services accordingly; ▪ enable the Council to attract commercial acumen,; ▪ explore employee incentivisation / ownership (beneficial or 'buy in') options, particularly in relation to the development of new trading and growth; and ▪ establish the foundation for future partnering or cross council / public authority working.
16.	<p>The purpose of the procurement process was to seek experienced operators in the market who can:</p> <ul style="list-style-type: none"> ▪ bring further innovation to the services in scope of the LATCo; and ▪ both support and partake in the growth opportunities of the said services.
	PROJECT UPDATE

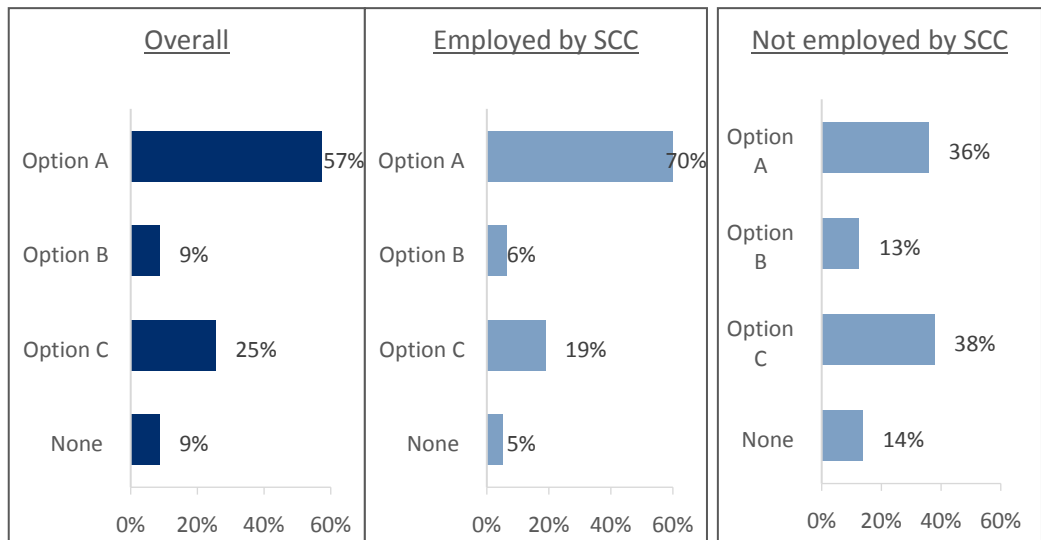
17.	<p>Since the Cabinet meeting in December 2016, the transformation activity has focused on:</p> <ul style="list-style-type: none"> ▪ establishing and embedding the governance for the project; ▪ starting to prepare for a ny potential procurement process; ▪ considering how the LATCo can be structured and established; and ▪ preparing and launching a wide ranging consultation process on the proposed establishment of the LATCo, functions within scope and the variations on the form any LATCo could include.
18.	<p>A Strategic Board was established to oversee and direct the project. The Board is comprised of Cabinet members and senior officers, and union representatives as observers. An Operational Board comprising of Service Managers and union representatives was also established to manage the day to day activity of the project.</p>
19.	<p>The project team has also undertaken work on:</p> <ul style="list-style-type: none"> ▪ collecting operational and financial service related information to enable a detailed description of the current services; ▪ reviewing current service specifications and challenging the need or opportunity for improved performance and service outcomes; ▪ agreeing and compiling the legal framework and contractual mechanisms for the LATCo and the Council; ▪ compiling the suite of documents that will form the basis of the relationship between the LATCo and the Council.
20.	<p>As mentioned above, part of the on-going development of the governance and structure requirements of the LATCo, including discussions with another Authority currently undergoing a similar process, three variant options were identified on how the LATCo could ultimately be structured and managed. In addition to the original consideration of establishing the LATCo with the appointment of external partners to support all services in scope, a second option considered the possible eventuality of the LATCo being established with partner support to only some services, while a third option considered the establishment of a LATCo with its own management and no external partner support.</p>
21.	<p>The rationale for preferring the establishment of a LATCo over the other service delivery models presented to Cabinet in December 2016, as well as the three variant LATCo options outlined above, were published for public, staff and stakeholder consultation which ended on the 13 July 2017. The results from this process are summarised below with the detailed representations received available to Members in Members Rooms and on request. Further more detailed consultations with the public, staff, other stakeholders and tenants / leaseholders (in relation to Housing functions) will be required in the new year.</p>
	<p>CONSULTATION</p>
22.	<p>Southampton City Council undertook pubic consultation on proposals to establish a LATCo between 15 June 2017 and 13 July 2017. A full summary of the consultation is included in Appendix 2 and the questionnaire is available in Appendix 3. The complete set of responses are available as a Members room document to be viewed alongside Appendix 2 which is a summary report.</p>
23.	<p>The agreed approach for the public consultation was to use a combination of paper and online questionnaires, alongside public drop-in sessions, sessions with tenants, a Facebook live question and answer session and a number of</p>

	<p>staff briefing sessions. The structured questionnaire was designed to include an appropriate amount of explanatory and supporting information to ensure that residents, staff and stakeholders were aware of the background and context to each of the proposals. At the same time, the face to face and online sessions were intended to offer an opportunity for people to ask more detailed questions. A general response email and postal address was also advertised. Overall, this was judged the most suitable methodology for consulting on a complex issue such as the establishment of a LATCo. It also follows established best practice and case law relating to the conduct of public consultations.</p>
24.	<p>In total, 923 responses were received on the proposals. The demographic make-up of the respondents was as follows:</p> <ul style="list-style-type: none"> • The age groups with the lowest representation were, 16-24, 25-34 and over 85 year olds, all having less than 20 respondents from that age group • The most represented age groups were the 35-44, 45-54, 55-64 and 65-74 year olds, with 82% of respondents belonging to these age categories • The gender breakdown of consultation respondents was 50.1% male, 43.0% female, 0.3% transgender, 0.8% not identifying as female, male or transgender and 5.7% preferring not to say. • The ethnicity breakdown of respondents was 87% white, 1% Mixed/Multiple ethnic groups, 2% Asian/Asian British, 1% Black/African/Caribbean/Black British and 1% Other Ethnic Group. 9% of respondents preferred not to state their ethnic group. • In total, 8% of respondents considered themselves disabled, 86% did not consider themselves disabled and 6% of respondents preferred not to say • The majority of respondents stated that they were employed by Southampton City Council (62%). 38% were not employed by the council, with only 34 respondents choosing not to answer this question.
25.	<p>The consultation sought the views of residents, staff and other stakeholders on a range of options relating to the establishment of a Local Authority Trading Company. At the outset the consultation asked for views on whether Southampton City Council needs to make changes to services, in light of the financial pressures the council is facing. In total 78% of the respondents who completed this question stated that they either strongly agreed or agreed with the need for change, 14% stated that they were neutral and the remaining 7% either strongly disagreed or disagreed. There was little difference between staff and non-staff responses.</p>
26.	<p>The consultation document outlined the objectives for future services and asked respondents if they agreed or disagreed with these. In total 76% of the respondents who completed this question stated that they either strongly agreed or agreed with the objectives for future services, 14% stated that they were neutral and the remaining 11% stated that they either strongly disagreed or disagreed. When this is broken down there is a difference between those who work for Southampton City Council and those who do not, with a higher level of agreement from non-staff (81%) compared to staff (75%).</p>
27.	<p>The consultation then asked whether respondents agreed with the Council's preferred option of creating a LATCo to deliver efficiencies and generate more income. In total 63% of the respondents who completed this question stated that they either strongly agreed or agreed with the proposal, 20% stated that they were neutral and the remaining 18% stated that they either strongly disagreed or disagreed. Again there is a difference between the responses of</p>

those employed by Southampton City Council and those who are not. 69% of respondents who do not work for the council either strongly agreed or agreed compared to 59% of those employed by the council. There was an additional open ended question for those who disagreed to outline the reasons why they disagreed. The most common reasons for disagreeing given were: issues working with external improvement partners, costs to establish and run a LATCo, concerns about profitability, and worries the proposals amount to, or are a step towards, privatisation.

28. The consultation also gathered views on how the Local Authority Trading Company could operate if established. Three options were presented to consultees:
 Option A - Local Authority Trading Company without improvement partners
 Option B - Local Authority Trading Company with improvement partners
 Option C - Local Authority Trading Company with some improvement partners

57% of the respondents who completed this question preferred option A, 9% preferred option B, 25% preferred option C and the remaining 9% of the respondents did not agree with any proposals. This question had the largest difference in response from staff and non-staff, as depicted in Figure 1 below.
Figure 1



There was an open ended question which allowed those who didn't agree with any of the proposed option to offer alternatives. The three most prevalent themes in these comments were: transform services in house first, keep services in house, and find savings elsewhere.

29. The next question sought feedback on the scope of a potential future LATCo, listing the proposed services and seeking views from consultees. In total 58% of the respondents who completed this question stated that they either strongly agreed or agreed with the proposed services, 23% were neutral and the remaining 19% stated that they either strongly disagreed or disagreed.

30. All respondents were also given the opportunity to make suggestions about the scope of services included in the LATCo proposals, and in total 210 suggestions were made by 137 respondents. There were 56 comments relating to excluding services which are currently in the proposal for the LATCo. The three most common suggests were to exclude housing operations and management, parks and transport. There were 20 comments relating to excluding services which are not currently in the proposal for the LATCo. These related to ensuring adult social care, children's social care and schools remain

	excluded. There were 103 suggestions relating to including services which are not currently in the proposal for the LATCo. The full list is included in the report in Appendix 2, but the most common suggestions were parking and pest control.
31.	The final question of the consultation gave consultees the opportunity to share their views on any impacts the proposal might have on them or their community. The majority felt there would be an impact on their community, with 64% of all respondents suggesting they would feel some impact. They were also given an opportunity to outline what these impacts were, and in total 156 respondents provided details. The two largest themes were impacts on staff and impacts on services.
32.	Overall there was a good level of engagement with the consultation. In addition to the 923 written responses, face to face and online sessions were organised to enable consultees to ask questions and find out more about the proposals. There was particular interest among those employed by Southampton City Council.

	SERVICE SCOPE CONSIDERATIONS
33.	The original recommendation to Cabinet in December 2016 included the Itchen Bridge Operations as part of the services to be in scope for transfer to the LATCo.
34.	Following further operational consideration and consideration of the views express during consultation, it is recommended that Cabinet agree to withdraw the Itchen Bridge Operations from the services in-scope to transfer to the LATCo. This is because the potential for significant service improvements (Key Objective 1 of the LATCo) and commercial growth (Key Objective 2) related to the Bridge operations are, respectively, limited and unlikely, and the opportunity for a stepped change improvement to service outcomes is no better served through a LATCo.
35.	Since the Cabinet meeting in December 2016, an internal restructure of services has led to Pest Control services being combined with the management structure of the Street Cleansing service. It is therefore recommended that Pest Control is added to the December list of services to be in scope for transfer to the LATCo.
36.	These are reflected in the list of revised services in scope included at Appendix 1.
37.	Housing Management & Housing Operations were identified in December as one of the services proposed to transfer to the LATCo. While no change is being proposed to this recommendation, it should be noted that the transfer of housing functions to the LATCo that is deemed under the Housing Act to be 'housing management' (which locally may include functions falling within or between both the Management and Operations services within the Council) requires a delegation of function from the Council to the LATCo, following detailed consultation with tenants and leaseholders. The delegation of housing functions will require the prior consent of the Secretary of State (administered through the Homes and Communities Agency ('HCA')). The process for carrying out further consultation and obtaining consent are now underway.
	NEXT STEPS

38.	Having considered the consultation feedback, which provided clear support for the establishment of the LATCo, we propose to progress with work to establish a trading company. In light of the feedback around the three variant options, which showed 57% support for Option A, we are also proposing to establish a LATCo without any external improvement partners. Therefore, and subject to confirmation at this Cabinet meeting, the procurement that was planned to commence with the publication of an OJEU Notice on August 23 rd 2017 will be ceased.
39.	Work will be undertaken between now and the end of the calendar year to develop outline service improvement and business development plans for the services in scope for the LATCo. These will be presented to Cabinet in the new year for initial consideration and review before being subject to further consultation and final decision.
40.	If endorsed by Cabinet, the outline propositions will be developed into more detailed business plans in readiness for the establishment of the LATCo.
41.	In parallel with this activity: <ul style="list-style-type: none"> ▪ discussions will continue with the Homes and Communities Agency in relation to the Council's intentions to delegate housing management functions to the LATCo; ▪ information on the services in scope for transfer will continue to be collected and any change activity already in train or planned for these services will continue to be implemented; ▪ current activity on planning the work that will be required to underpin the establishment of the LATCo, including the governance and management structure of the organisation, will continue in readiness for the actual establishment of the LATCo, the appointment of a management team and service transfer; and ▪ work will also be undertaken to plan the more detailed public and staff consultations on the LATCo, as well as tenant and leaseholder consultation on the proposed delegation of housing management functions.
42.	A further update on progress will follow as part of the report to Cabinet envisaged for the new year.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
43.	As outlined in the Cabinet report in December, additional resource is required to support this project and the programme to cover the requirement to upskill and support service managers, where necessary, in developing commercial acumen and plans. There will also be a requirement for some external tax, legal and technical advice, and project management support. Implementation costs were considered as part of setting the budget for 2017/18 with provision of £300,000 added to the budget for this purpose following approval of the budget by Council in February 2017. This allocation will cover some of the requirements mentioned however both the requirements and the costs will need to be developed alongside the implementation plans.
44.	The setting up of the LATCo itself may also have revenue funding implications that will need to be considered. In the main these will relate to the working capital requirements of the LATCo and the funding of the services that transfer

	(for which the current expectation is that existing service budgets will also transfer to the LATCo). The implications of any guarantees that are given to underwrite losses or pension strain will also need to be considered. These cannot be determined at this stage but will form part of the analysis on the more detailed proposals to be presented to Cabinet in January 2018.
45.	The governance and funding arrangements of the LATCo will also require consideration of the tax and borrowing implications on the Council (and the LATCo itself). If the council provides any loans or services to the company they will need to be at a market rate in order to ensure compliance with tax and State Aid rules.
<u>Property/Other</u>	
46.	Details on the LATCo's requirements for accommodation, operating assets and other associated matters continue to be assessed.
47.	Initial financial and legal advice would suggest that any tangible assets required by the LATCo for its operations should continue to be acquired and owned by the Council. However, further detailed work is required, the outcome of which will be reported to Cabinet in the new year.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
48.	S95 Local Government Act 2003, S111 Local Government Act 1972, S1 Localism Act 2011, Housing Act 1985, together with ancillary Regulations and guidance applying to service specific functions.
<u>Other Legal Implications:</u>	
49.	Detailed EIA and PIA requirements have been undertaken and will be reviewed and refreshed throughout the conduct of the project and decision making processes and the range of service in scope for transfer to the LATCo will be assessed in terms of client structures / non delegable duties and retained responsibilities, employment law matters, state aid, tax liability, risk and financial viability in accordance with the Council's Best Value duties prior to determining final arrangements and governance structures.
RISK MANAGEMENT IMPLICATIONS	
50.	A risk register (available on request) is maintained for this project and the risks are regularly reviewed by the Strategic Board and acted upon by the project team. The two most significant risks are: <ol style="list-style-type: none"> 1. Limited resource capacity. This is being actively monitored and resource plans are being updated to identify mitigating actions including the identification of back-fill resource. 2. Internal resource capability to deliver the required service and commercial changes that the LATCo is expected to drive for the services in scope. A resource strategy to support staff upskilling and the development of commercial acumen, internally or through appointments, is being considered.
POLICY FRAMEWORK IMPLICATIONS	
51.	The recommendations in this paper support the delivery of the following outcomes within the Southampton City Council Strategy:

	<ul style="list-style-type: none"> ▪ Southampton has strong and sustainable economic growth; ▪ Southampton is an attractive modern city, where people are proud to live and work.
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KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	List of Proposed Functions in scope for the LATCo
2.	Consultation feedback summary report
3.	Consultation questionnaire

Documents In Members' Rooms

1.	Equality and Safety Impact Assessment	
2.		
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		Yes
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	Copies of all questionnaire responses will be available in the Members rooms so they can be viewed alongside the summary report as a part of the decision making process.	