

# **RESPONSE TO THE REVIEW OF THE STRATEGIC SERVICE DELIVERY PARTNERSHIP**

## **PORTFOLIO RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE**

**CABINET**

**15TH JUNE, 2006**

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### **Wards Affected**

County-wide.

### **Purpose**

To set out the Cabinet's response to the recent Strategic Monitoring Committee's review of the Strategic Service Delivery Partnership between Herefordshire Jarvis Services, Owen Williams and Herefordshire Council.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the response to the Strategic Monitoring Committee's review of the Strategic Service Delivery Partnership be approved.**

### **Reasons**

The report of the Strategic Monitoring Committee represents the first major scrutiny of the operation of the partnering arrangements that the Council has with Herefordshire Jarvis Services Limited and Owen Williams Limited since these arrangements were instituted in September 2003. Recommendations from the review have been considered and an action plan prepared.

### **Considerations**

1. The Herefordshire Strategic Service Delivery Partnership (The Partnership) began on 1st September, 2003 with the award of initial 10-year contracts to Herefordshire Jarvis Services Limited (HJS) and Owen Williams Limited. Herefordshire Jarvis Services Limited is a joint venture between Herefordshire Council and Prismo Limited, a wholly owned subsidiary of Jarvis plc. The arrangements have their origins as a result of a decision in 2001 to review the operation of Herefordshire Commercial Services, the Council's in-house Direct Service Organisation, and to examine whether the private sector could offer a better service.
2. By July 2005 performance had been mixed and it was clear that all parties would have to continue to develop the joint working arrangements to extend good working practices across the services and overcome some initial problem areas. Nevertheless it was also the case that there had been significant improvements in many service areas since the partnership arrangements were instituted.

3. Against this backdrop, at its meeting on 1st July, 2005, the Strategic Monitoring Committee agreed to scrutinise the operation of the Council's contract with Herefordshire Jarvis Services. The desired outcomes from the review were: to establish that the aims and objectives contained in the Service Delivery Agreement are being met; to establish that the Council is receiving value for money; and to establish that the Partnership is meeting the priorities of the Council's Corporate Plan.
4. The Review Group commenced work in October 2005 and took written and oral evidence from a number of witnesses from all three members of the partnership. The final report was published in April 2006.
5. The review report provides a useful basis for further development of the contract and reflects the broad direction being pursued in developing the work. Whilst evidence was received which would support many of the conclusions reached by the Review, those giving evidence could not always provide quantitative evidence nor specific examples to support the headline assertions that were made. Whilst this does not invalidate the conclusions reached, the lack of such evidence does make it difficult to assess the levels of concern expressed and thus prioritise improvement. In addition, a number of important questions set out in the original terms of reference were not fully addressed in the review. For example, it was not possible to consider the method of measurement of the aims and objectives nor the ability of the Partnership to meet the aims of the Council's Corporate Plan. Nevertheless, the recommendations do need to be addressed individually and the Executive will have to prioritise activity against that background.
6. It is important to note at the outset that although the report is critical of the partnership arrangements in a number of respects it does also bring to light many positive aspects of the partnership. Whilst understandably the report concentrates on further improvements to the contractual arrangements, it does not fully balance those with the real improvement and added value which the contract offered over those which had operated under the previous DSO trading as Herefordshire Commercial Services. Whilst the report makes passing reference to a number of these issues, it is felt that there could have been a greater recognition of issues such as improved health and safety practices; health and safety compliance; improved sub-contractor registration; improvements in the quality of work; improvements in quality of service on the ground and associated efficiency savings.

These all contribute to improved value for money from the new arrangements.

7. It is also felt that recognition could have been given to the inevitable delay in progressing some of the items raised given the context of the potential sale of HJS to a third party and the protracted negotiations around that proposal. Inevitably, this meant that for the duration of that period less attention was given to driving forward improvements in the contract itself.
8. However, the review identified a number of concerns and recommended that action be taken.
9. The Review Group's report is welcomed as an important and timely contribution to the partnership arrangements that the Council has entered into. The report has been carefully considered and the response to the specific conclusions and recommendations of the Review Group's report is set out below. The corresponding action plan is shown in Appendix 1.

10. **That the scope for further improvements in the working practices of both HJS and the Council should be vigorously explored.** Taken in isolation this recommendation could be construed as implying that working practices are poor; it is not accepted that this is the case since working practices within the partnership are considered generally good and a number of examples of this were mentioned in evidence heard by the Strategic Service Delivery Review Group; indeed, the Review Group's report itself states that working practices have improved. Examples of good practice include health and safety practices, enhanced staff training, better early contractor involvement in schemes, and an increased focus on the programming of works rather than a reactive approach. Nevertheless, in any business, working practices are always susceptible to improvement and a number of initiatives are already underway to identify and capture such enhancements. These include: a relationship development activity involving members of the senior management group from both the Council and HJS, a management consulting assignment that is examining the business processes within HJS with a focus on identifying areas of improvement in operations and support functions, initiatives to improve communications at all levels within the partnership framework, and an initiative aimed at improving the partnership performance management arrangements in respect of both data capture and data interpretation.
11. **That each partner needs to have a clearer understanding of what each can contribute to the Partnership to improve service delivery and consider what can be done to remove the barriers which are impeding progress, with the Council proactively seeking to draw on the expertise available from Jarvis which HJS representatives have said is available.** The facilitated relationship development exercise launched in April and involving the senior management teams from both partners has made significant advances both in generating the improved mutual understanding and in the removal of barriers impeding progress. Specific work streams undertaken by the senior management group that are addressing these include: the development of a clear joint understanding of the partnership's objectives and how the interests of the Council and HJS can be aligned in pursuit of these objectives, the rebranding of the partnership in terms of overall vision and mission statement, the promotion of autonomy and accountability throughout the management structures of the partners, and the development and rollout of integration between partner work teams.
12. **That HJS be encouraged to revisit its business planning process.** The obligation upon HJS to have a process for annual business planning is captured in the Shareholders Agreement between Herefordshire Council and Prismo Limited executed on 1st September, 2003 which sets out the terms and conditions on which the Council and Prismo as shareholders have agreed to establish HJS, as well as the rights and obligations of each party. Under the Agreement, Prismo Limited must ensure that the directors of HJS prepare a draft business plan prior to the commencement of each financial year. This would have implied the preparation of business plans in March 2004, 2005 and 2006. In practice the level of adherence to this provision of the Shareholders Agreement has been relatively rudimentary until 2006 when a draft business plan was duly produced by HJS in early March and submitted to the Council in time for review and comment before the start of the financial year. The preparation of the current business plan has benefited from an improved understanding of the market for the services, and a better appreciation of the validity or otherwise of some of the assumptions that underpinned earlier efforts at planning. With the move to a more strategically focussed board, it is expected that business planning in the future will be greatly enhanced compared with the situation that has pertained to date. Further work will be needed in particular to improve the robustness of the planning.

13. **That action should be taken to ensure compliance with the provisions of the Shareholders Agreement.** The principal provisions of the Shareholders Agreement that reflect ongoing commitments rather than commitments prior to completion are those in relation to working capital, conduct of the business, management of the company, the taking of important management decisions, and business planning. The operation of the Shareholders Agreement is kept under regular review by the Council's project manager for the service delivery agreement with HJS and as and when a particular provision becomes triggered steps are taken to ensure that the relevant party carries out the appropriate actions. A recent example would be the provision relating to business planning, as mentioned above.
14. **That the Council's Observers on the Board should take a more proactive role.** The role of the Council's observers on the Board is currently being re-examined in the context of a fundamental review of the *modus operandi* of the board of HJS. To date, the board has tended to adopt an approach that is focused on the operational detail of the business rather than the more traditional board role of having a strategic outlook. This can be seen at least partly as a consequence of needing to bed down the new partnership arrangements and, in the early days of the partnership at least, an operational focus may have been appropriate. A lack of senior management continuity in the early stages of the partnership may also have contributed to the balance of board activity being too heavily biased towards operational matters. With day-to-day operational matters now running smoothly, and with continuity of board-level staffing now reasonably assured, the operation of the board is being reviewed in order to define its purpose and added value more closely. This is being done as a component of the facilitated relationship development exercise mentioned above, with the active participation of the most senior management levels involved in the partnership. Robust stances were taken by the Council's observers on grounds maintenance and the highways joined up programme. An improved strategic focus rather than an operational one will automatically enhance the value that can be brought to the board by the Council's observers, since their seniority dictates that they are less involved in day-to-day operational matters.
15. **That monitoring reports should be presented to the Corporate Management Board and to Cabinet by the Council's observers on a quarterly basis.** This recommendation has been duly noted and accepted. An appropriate reporting format and mechanism for the proposed quarterly monitoring are under active consideration.
16. **That it be clearly understood that the 8% recharge relates only to that part of the turnover of the Company that is related to the work undertaken for the Council under the Service Delivery Agreement.** The basis for the 8% recharge is set out in the Management Agreement between Prismo Limited and Herefordshire Jarvis Services executed on 1st September, 2003. The wording in the Agreement is very clear and stipulates that HJS shall pay a fee to Prismo equivalent to 8% of the amounts properly invoiced by the Company to the Employer pursuant to the Service Delivery Agreement, where the Company means HJS and the Employer means Herefordshire Council. Whilst there is no lack of clarity concerning the 8%, it has been useful for the review to have highlighted this, especially given a number of staff changes since the suite of agreements underpinning the partnership were drafted. No one involved in the management of the partnership is now in any doubt as to the exact definition and calculation basis of the 8% management charge.
17. **That the issue of the accruing HJS deficit needs to be addressed and firm representations should be made to Jarvis to write this sum off. As the Group could find no evidence that the Joint Venture Company received value for money from this fee it further recommends that the Council explore whether it**

**is possible to ensure that future payments for management services are only made when evidence is received that these have been provided and that the payment therefore does represent value for money. A breakdown of costs of past services should be requested to inform this discussion.** It is accepted that this is an issue that needs to be addressed in the medium term. It needs to be addressed in parallel to the other matters raised by the Review. Some of the areas identified for improvement do require significant changes to partnership working and it is accepted that this could provide the basis for negotiations on this issue. Cabinet also needs to be aware, however, that this is a contractual issue and improvement can only be achieved by negotiation.

18. **That a robust updated contingency plan be prepared.** An updated contingency plan has been prepared. The revised plan takes account of the updated position following the restructuring of the Jarvis plc parent company and makes appropriate adjustments to the risk assessment of the various scenarios envisaged in the earlier version of the plan. It also sets out in more detail how continuity of service delivery would be achieved following a contingency event. It is to be taken in conjunction with the relevant service continuity plans for the services that would be most strongly affected by a contingency event. The revised updated plan will be kept under regular review as part of the Council's formal risk management arrangements.
19. **That emphasis be placed on the development of good, closer working relationships between HJS and client officers and progress closely monitored by Senior Management/the Corporate Management Board.** This recommendation is being addressed through day-to-day activities initiated by operational management of both partners, through the Partnership Project Management Team, and through the facilitated relationship development activity involving members of the senior management group from both the Council and HJS already mentioned. The active involvement of the most senior management levels in the latter activity automatically provides the close monitoring that has been recommended by the Strategic Service Delivery Review Group.
20. **That the need for staff to be familiar with the detail of the Contract with HJS should be reinforced and appropriate training provided, with refresher sessions for trained staff at appropriate intervals and a clear formal induction programme for new staff.** It is considered that the majority of staff involved in the day-to-day delivery of services through the partnership arrangements are in fact sufficiently familiar with the contract provisions to allow them to perform effectively in the delivery of the services. In cases where there is doubt over the provisions of the contract, resources are available for immediate advice in the form of the project manager, the Council's legal department, and current operational staff who had a major role in the initial drafting of the agreement. Steps are in hand to develop a training module for new staff. It is considered, however, that a renewed focus on partnership working in line with other recommendations made by the Strategic Service Delivery Review Group should obviate the need for over-reliance on the contract, although it clearly remains desirable that all staff involved have at least a working knowledge of it.
21. **That the fee levels charged by Owen Williams require careful monitoring and examination with clear procedures in place to ensure fee levels are controlled.** The review examined the fee levels for work carried out by Owen Williams and concluded that no evidence had been presented to suggest that they were out of line with the construction industry norm. Nonetheless, as pointed out by the Review Group, in any situation where consultants are being employed it is clearly prudent business practice to monitor the fee levels on individual work items to ensure that the

value for money that pertained at the outset following a competitive tendering exercise is being maintained. Formal procedures are in place to allow the fee levels to be monitored, with each individual piece of work conducted by Owen Williams being the subject of a client brief prepared by the Council in response to which a formal project quality plan is then prepared by OW. The project quality plan sets out in detail how the work identified in the client brief will be delivered and also includes a full definition of the resources that will be employed together with the hourly fee rates for the grades of personnel that will be used. In principle this should lead to a firm price for each assignment at the outset with any subsequent variations being subject to mutual agreement and each variation being the subject of a formal documentary agreement. The individual fee rates for different grades of professional staff are themselves subject to annual review and the service delivery agreement contains a clause that sets out the detailed basis for the annual escalator.

22. **That the Partnership Board renew its focus on developing the Partnership to maximise the potential benefits.** Once again this is being addressed through the facilitated relationship development exercise launched in April and involving the senior management teams from both partners. Details of the relevant work streams that are contributing to the fulfilment of this development of the partnership have been described above.
23. **That HJS should change its name and adopt a new name which does not include the words Jarvis or Herefordshire.** The Review Group's conclusion that neither the word Herefordshire nor the word Jarvis in the HJS company name is conducive to the winning of external business is accepted. The association with Herefordshire is not seen as helpful for the generation of work in neighbouring counties, for reasons of local pride. The Jarvis name suffered a significant degree of reputational risk at the time of the Potters Bar rail accident and subsequently during the financial restructuring. Whilst there has been a reasonable degree of recovery there can be said to be an element of residual negative perception. Although there have been some signs of recovery, for example the winning of Highways Agency business, a name change for HJS is viewed as a sensible strategic move. It is currently being actively addressed by the senior management group. The intention is that in the short term, by June 2006, an alternative name from within the Jarvis group stable will be used for tendering for new external work. Alongside this, steps will be taken to rebrand HJS for internal purposes. The timescale for this will be slightly longer with the intention that a transition to a new name may be achieved by October 2006.
24. The above indicates that: Cabinet is of the view that the Review Group has provided a useful set of recommendations concerning the development of the partnership; many of these were in fact already in hand or in process as part of existing management initiatives; the Review Group report has however helped to give impetus to the process and has helped all members of the partnership to focus on how to optimise the working arrangements both for the immediate benefit of the Herefordshire public and also to set the foundations for a successful long term business model with scope for expansion, recognition for excellence, and replication.

## **Financial Implications**

None identified.

## **Alternative Options**

Not applicable.

## **Risk Management**

The proposed responses to recommendations made by the Strategic Service Delivery Review Group will strengthen the operation of the Partnership and thereby strengthen the Council's ability to deliver the services encompassed by the partnership arrangements with Herefordshire Jarvis Services Limited and Owen Williams Limited.

## **Consultees**

None at this stage.

## **Background Papers**

None.

