

UPDATE ON ACTIONS IN RESPONSE TO STRATEGIC MONITORING REVIEW OF THE STRATEGIC SERVICE DELIVERY PARTNERSHIP

Report By: Director of Environment

Wards Affected

County-wide

Purpose

1. To provide the Strategic Monitoring Committee with an update on the actions taken in response to their review of the Strategic Service Delivery Partnership between Herefordshire Jarvis Services, Owen Williams and Herefordshire Council.

Financial Implications

2. Not applicable.

Background

3. The April 2006 report of the Strategic Monitoring Committee represented 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. An initial response was prepared for Cabinet and was presented at the Cabinet meeting on 15 June 2006. This included an overview of actions taken in response to the recommendations of the review and also set out an action plan. The current report provides a further update.
4. 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.
5. 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.
6. Against this backdrop, at its meeting on 1 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

Further information on the subject of this report is available from
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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.

7. The review commenced in October 2005 and was reported in April 2006. The report set out a number of recommendations. An initial response was presented to Cabinet in June 2006 and was subsequently considered by the Strategic Monitoring Committee at their meeting on 26 June. An update on progress on addressing the recommendations of the review report is set out below. The recommendations are shown in bold type. The corresponding updated action plan is shown in Appendix 1.

Progress

8. **That the scope for further improvements in the working practices of both HJS and the Council should be vigorously explored.** As noted in the previous report, there are already numerous examples of good working practices including health and safety practices, enhanced staff training, early contractor involvement in schemes, and an increased focus on the programming of works rather than a reactive approach. Nevertheless, working practices are always capable of improvement and a number of initiatives are being taken forward that are resulting in further improvements. These currently include:
 - Revisions to the way in which public rights of way (PROW) works are handled under the service delivery agreement, to better reflect the needs of the Council's PROW team.
 - Physical integration of the HJS and Council highways teams at Thorn. Good progress has been made with the physical integration, now substantially complete, although both partners recognise that more work is needed on embedded fully cooperative working before the full benefits of this integration are realised.
 - The use of an operations room and whiteboard process to improve the productivity and timeliness of service delivery. This is an innovation introduced by HJS which is also open to Council staff to participate in and contribute to.
 - A new joint approach to the routine and reactive elements of the highways maintenance works which is to be implemented early in October and will involve weekly joint programming and prioritisation of forward workload, daily review of work in progress using the above-mentioned whiteboard process, and a programming schedule based on a cyclic system of visits to parishes in line with the required frequency of inspection.
 - The key performance indicator set that is used to monitor the operational performance of the partnership is being radically redesigned to better focus on the partnership's aims and objectives as reflected in: safety, quality, time, cost and improvement.
 - The use of the Council's IMAFS system for valuing highways works in the 2006/07 construction programme has significantly reduced the administrative time that is devoted by Council staff to reviewing and checking the highways-related elements of the monthly payment applications from HJS, thereby freeing

up officer time for front line service delivery.

9. **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. As noted previously, 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. Work on these various streams has continued during the period under review and a further plenary session of senior managers from both partners has been scheduled for October 23 to review the outcome and the way forward.
10. **That HJS be encouraged to revisit its business planning process.** As noted in the June Cabinet response, the business planning process is operating in the manner intended with a draft business plan having been made available to the Council in line with the time schedule set out in the Shareholders Agreement and comments having been submitted by the Council before the start of the current financial year. The current plan is based on a number of challenging but deliverable initiatives expected to result in significant savings in both operational and overhead costs. It anticipates modest turnover growth in most business areas, the exceptions being Building Services and Catering. The Building Services decrease is as a result of the reduced property Joined Up Programme and HJS withdrew from school meal catering at the end of the summer term, following ongoing and unsustainable losses. The financial projections set out in the business plan are being used as a basis for operating and monitoring the business. Since the submission of the plan to the Council earlier this year HJS has put in place a process for updating its business planning at quarterly intervals. The updated budget based on three months actual plus a projection for the remaining nine periods was put to the HJS Board (including Council observers) on 11 September. The update included a breakdown of savings arising out of the work done with the Proudfoot consulting team and a reassessment of business development based on performance to date. Financial performance to the end of August, the latest date for which data are available at the time of writing, shows that key metrics such as turnover, gross profit and operating margin are all within +/- 5% of year-to-date budget and performance can therefore be said to be broadly on track.
11. **That action should be taken to ensure compliance with the provisions of the Shareholders Agreement.** As noted in the previous report, the Council's project manager for the service delivery agreement with HJS keeps operation of the Shareholders Agreement under regular review. Thus, as and when a particular provision of the Shareholders Agreement becomes triggered, steps are taken to ensure that the relevant party carries out the appropriate actions. There have been no instances of non-compliance in the period to which this report relates and no further specific actions are seen as necessary in response to this recommendation.

12. **That the Council's Observers on the Board should take a more proactive role.** The changes in local management at HJS in the past few months have seen a change in emphasis in the Board reporting from one that was primarily concerned with operational problems to one with a more strategic focus. This reflects an improved approach to resolving operational issues at the appropriate management level, which in turn has flowed from the senior management relationship development initiative described above and from better relationships at the general manager-project manager level. A consequence of this is that it has enabled the nature and quality of the Council's observer involvement at the Board to be much more strategic.
13. **That monitoring reports should be presented to the Corporate Management Board and to Cabinet by the Council's observers on a quarterly basis.** This report effectively provides such a monitoring report. It forms the second of its type since the publication of the Strategic Monitoring Committee's review in April 2006, so the quarterly reporting frequency envisaged has been met.
14. **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.** Whilst it was useful for the Strategic Monitoring Committee to have identified this point in their recommendations, it is considered that the basis of the 8% recharge is clearly understood by all parties and no further action is considered necessary.
15. **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.** In the previous report, the point was made that this is a contractual issue for which improvement can only be achieved by negotiation. Negotiations around this issue commenced in August and so far two meetings have been held. HJS have expressed willingness to re-negotiate the management fee but as part of a package of measures which are intended to improve the overall delivery of the contract. HJS have also made representations to Jarvis plc group financial management on the treatment of the existing cumulative liability in respect of the management fee; the outcome of these representations is now awaited. At this point in the negotiations, both partners have identified issues that they consider should form part of an overall realignment of the service delivery agreement and initial discussions have taken place to agree which of those issues should be included within the scope of the negotiations. A list of points to be addressed has now been agreed and a timetable for detailed negotiations to be completed, together with nominees responsible, has been set out. The current intention is to have the negotiations completed by the end of October 2006.
16. **That a robust updated contingency plan be prepared.** As noted previously an updated contingency plan has been prepared. It is considered to be substantially more robust than the earlier version reviewed by the Strategic Monitoring Committee. The revised updated plan is kept under regular review as part of the Council's formal risk management arrangements.
17. **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 continues to be addressed through day-to-day activities initiated by the 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. Recent points of note include the introduction of integrated working in the highways business segment, the steady resolution of a backlog of long-standing items that were in dispute, the open day held by HJS to which senior client officers were invited, and the continuation of daily dialogue between the Council's project manager and the HJS management team on a range of current issues. Real progress has been made, but there is still the potential for further substantial improvements, which will take time to achieve. The active involvement of the most senior management levels in the relationship development activity mentioned above automatically provides the close monitoring that has been recommended by the Strategic Monitoring Committee.

18. **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.** This activity has continued during the period since the last report at a level commensurate with the relatively limited management resource available. The guidance on the use of the contract that is published on the Council's intranet has been updated. An inventory of training materials and other materials that could be adapted for training purposes has been produced. Managers from the Council and HJS are working on reducing the information given to partners at the start of the contract to a manageable and coherent pack that can be used as a basis for joint training. The possibility of including a brief summary of the partnership arrangements, and how they operate, in the Council's induction programme for new employees is also being investigated.
19. **That the fee levels charged by Owen Williams require careful monitoring and examination with clear procedures in place to ensure fee levels are controlled.** Appropriate management arrangements are in place to ensure that the fee levels charged by Owen Williams are controlled. These arrangements include: the system of project briefs and project quality plans; regular operational meetings including minor projects progress meetings, transportation project meetings, construction manager meetings and property project progress meetings; regular senior management meetings; and reviews of invoicing. The overall fee levels will also be examined as part of the study into value for money aspects of the partnership arrangements that is in the process of being launched following the discussion and decision at the 15 June Cabinet meeting. This is described in more detail in paragraph 23 below.
20. **That the Partnership Board renews its focus on developing the Partnership to maximise the potential benefits.** Once again this recommendation 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 and in the previous report and these are ongoing. The Partnership Management Board has recently endorsed a revised approach to performance management that will explicitly focus on the partnership objectives rather than on those of individual partners and this is expected to assist in maximising the potential benefits of the partnership approach.

21. **That HJS should change its name and adopt a new name which does not include the words Jarvis or Herefordshire.** The Chairman of HJS has been working with the Jarvis Group Company Secretary to check what dormant company names might be available as some of these might be considered, enabling a change of name to be implemented quite quickly. There is an outstanding action on the Chairman to provide a suggestion for a new name for the next joint venture Board meeting in October.
22. The above paragraphs report and update the position on actions relevant to the recommendations made by the Strategic Monitoring Committee.
23. At its meeting on 15 June when it reviewed the initial response to the recommendations made by the Strategic Monitoring Committee, Cabinet also recorded a decision that *“consideration should be given to engaging an external consultant to undertake a brief piece of work to verify a number of aspects of the services supplied by the Partnership”*. Outline terms of reference for such a consulting assignment have been drafted, with the prime focus being on the need to establish, once and for all, whether the current partnership arrangements represent value for money. Following input from a number of Members on the possible approaches to the engagement of a consultant, three consulting firms with relevant experience – Deloitte & Touche, PA Consulting Group and iMPower Ltd – have been approached and attended initial briefings with senior Council officers on 18 September. Subsequently, all three firms have been invited to submit technical and commercial proposals for a piece of work that would address the issue of value for money of the current arrangements. At the time of writing these proposals are awaited, with the due date for submission being 9 October. It will therefore be possible to present an update on the position at the Strategic Monitoring Committee meeting on 16 October.

Recommendation

THAT the update on actions being taken in response to the Strategic Monitoring Committee’s review of the Strategic Service Delivery Partnership be noted, subject to any comments the Committee wishes to make.

Background Papers

- Review of the Strategic Service Delivery Partnership – report by the Strategic Service Delivery Review Group, Strategic Monitoring Committee, April 2006.
- Response to the review of the Strategic Service Delivery Partnership, Cabinet, 15 June 2006.

ACTION PLAN

APPENDIX 1

ACTION PLAN ARISING FROM STRATEGIC MONITORING COMMITTEE REPORT - APRIL 2006						
Action to be taken	Lead partner	By when	Progress to date (end September 2006)	People	Target/success criteria	
Explore the scope for further improvements in the working practices of both HJS and the Council	HJS/HC	Ongoing	Physical integration of highways teams complete. Further integration to follow. Other initiatives have been launched as detailed in report.	Mark Thomas, Peter Cross, Stewart Barton	Improved performance as evidenced by KPIs. Reduced levels of dispute.	
Develop a clearer understanding of what each partner can contribute to the Partnership to improve service delivery and consider what can be done to remove the barriers which are impeding progress	HC/HJS	Oct-06	Facilitated relationship development exercise launched with clear work streams identified to address barriers. To be continued at next plenary session on October 23.	Neil Pringle, Roger Phillips, Graham Dunhill, Sonia Rees, Peter Cross, Andrew Martin, Michael Goldberg, Stan Gyford, Mark Thomas, Andy Lake, Richard Lewis	Improved relationships and improved levels of trust. Clear understanding of mutual objectives of partners.	
Revisit the HJS business planning process	HJS	Jun-06	Draft Business Plan produced for 2006/07 on schedule. Comments prepared by HC. HJS monitor business performance against regular updates of the plan. No further specific action considered necessary.	Stan Gyford, Richard Lewis, Peter Cross	Business outturn more closely in line with business plan projections than previously. Actual performance used to refine key assumptions in the plan.	
Ensure compliance with the provisions of the Shareholders Agreement	HC	Ongoing	All provisions clearly identified for ensuring compliance. No further specific action considered necessary.	Peter Cross	All ongoing provisions fully complied with.	
Council's Observers on the Board take a more proactive role	HC	Jun-06	Role of the Board re-examined in senior management group. Management changes at HJS have led to better operational problem-solving at the right management level, allowing the Board to be a vehicle for more strategic discussion. No further specific action considered necessary.	Neil Pringle, Roger Phillips	Improved strategic focus of Board with reduced emphasis on operational detail.	

Action to be taken	Lead partner	By when	Progress to date (end September 2006)	People	Target/success criteria
Monitoring reports to be presented to the Corporate Management Board and to Cabinet by the Council's observers on a quarterly basis	HC	Initially June 2006 then ongoing quarterly	Initial response to the review prepared in June 2006. Current report is the second quarterly report.	Neil Pringle, Roger Phillips	Availability of regular monitoring reports on schedule for review on a quarterly basis.
Clarify to all parties 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	HJS/HC	May-06	Complete	Neil Pringle, Roger Phillips, Graham Dunhill, Sonia Rees, Peter Cross, Stan Gyford, Mark Thomas, Andy Lake	Full understanding by all parties of the exact definition of the 8% management fee.
Address the issue of the accruing HJS deficit and make firm representations to Jarvis to write this sum off	HC	Oct-06	Negotiations commenced August 16 - in progress with target completion end October. Items for inclusion within the scope of negotiations have now been agreed.	Neil Pringle, Roger Phillips	EITHER a formal write-off of the sum involved OR a clear understanding of the circumstances under which the accruing deficit will be called in by Jarvis plc.
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	HC	May-06	Complete. The management fee is a contractual obligation and it is not possible to make the payments conditional in the manner suggested. Negotiations around the relaxation of the management fee are in progress.	Neil Pringle, Roger Phillips	See comment under progress to date.
Prepare a robust updated contingency plan	HC	Jun-06	Complete	Peter Cross	Robust updated contingency plan prepared.

Action to be taken		Lead partner	By when	Progress to date (end September 2006)	People	Target/success criteria
Place emphasis on the development of good, closer working relationships between HJS and client officers with progress closely monitored by Senior Management/the Corporate Management Board		HJS/HC	Ongoing	Facilitated relationship development exercise launched with clear work streams identified.	Stan Gyford, Graham Dunhill, Peter Cross, Mark Thomas	Systematic reduction in levels of disputed payments against monthly application.
Provide appropriate staff training on the detail of the Contract with HJS, with refresher sessions for trained staff at appropriate intervals and a clear formal induction programme for new staff		HC	Oct-06	Initiated. Inventory of training materials compiled. Intranet guidance updated.	Peter Cross, Clive Hall	A training module is available for induction for staff to provide basic familiarity with the contractual arrangements.
Monitor the fee levels charged by Owen Williams carefully and put in place clear procedures to ensure that fee levels are controlled		HC	Jun-06	Appropriate procedures are already in place. No further specific action necessary - complete.	Graham Dunhill, Peter Cross, Stephen Oates, Colin Birks	Fee levels for OW work items seen as competitive and in line with industry practice.
Renew the focus of the Partnership Board on developing the Partnership to maximise the potential benefits		HC/OW/HJS	Ongoing	A team activity has been undertaken to articulate and confirm the core values and vision of the partnership. A revised performance framework has been endorsed by the Partnership Management Board for introduction from April 2007 to ensure that progress towards the benefits can be measured.	Graham Dunhill, Andrew Martin, Ruth Jeffs	Benefits being realised. Quantitative evidence of good performance available through KPIs and benchmarking.
Change the HJS name to a new name which does not include the words Jarvis or Herefordshire.		HJS	Oct-06	Prismo name in principle available immediately for external tenders; active consideration being given to a new name for HJS. Jarvis plc Group Secretary has been consulted on availability of existing company names. Action in hand with HJS Chairman, who is to report back at the October 2006 Board meeting.	Andrew Martin, Michael Goldberg, Stan Gyford	New name agreed and introduced.
Note: items shaded are considered complete.						