

AGENDA SUPPLEMENT



MEETING VENUE:

**Council Chamber Council Offices,
Priory Road, Spalding**

Contact: Lynn Eldred
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Date: 11 January 2018

Dear Councillor,

A meeting of the **DISTRICT COUNCIL** will be held in the **Council Chamber, Council Offices, Priory Road, Spalding** on **Wednesday, 17 January 2018**, commencing at **6.30 pm** at which your attendance is requested.

Yours faithfully,

A handwritten signature in black ink that reads 'Anna Graves'.

Anna Graves
Chief Executive

AGENDA

11. Compass Point Business Services Options (Pages 1 - 8)
To consider the actions necessary to implement the preferred option for the future of Compass Point Business Services ("CPBS") (report of the Deputy Leader of the Council and Deputy Leader of the Cabinet is enclosed.)

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SOUTH HOLLAND DISTRICT COUNCIL

Report of: Councillor Nick Worth, Deputy Leader of the Council
Councillor Malcolm Chandler, Deputy Leader of the Cabinet

To: South Holland District Council Wednesday, 17 January 2018

(Author: Mark Stinson Executive Manager - Governance)

Subject Compass Point Business Services Options

Purpose: To consider the actions necessary to implement the preferred option for the future of Compass Point Business Services (“CPBS”)

Recommendation(s):

- 1) That, subject to (3) and (4) below, and subject to the agreement of the CPBS Board and East Lindsey District Council, the contractual arrangements with CPBS and East Lindsey District Council be terminated and new contractual arrangements be entered into for an initial period of five years from 31 July 2018, with an option to extend for a further five years;
- 2) That Council notes the Leader’s decision that Eversheds be instructed to prepare the necessary paperwork (including changes to the Shareholder Agreement) to effect the extension and any other necessary changes as a result of this and any subsequent decisions of the Council;
- 3) That in accordance with the Grant Thornton reports CPBS be required to deliver a level of efficiency savings, and resulting reduced cost base, to the satisfaction of both councils;
- 4) That CPBS be required to submit a business case for transformation, by 31 May 2018, for consideration by both councils;
- 5) That, from 31 July 2018, the governance arrangements be amended by:
 - a. the addition of two non-voting advisors (finance and strategy) to the Company Board
 - b. the establishment of a Partnership Group, comprising the appropriate portfolio holders from both councils, and supported by senior officers, to consider key strategic issues from the councils’ perspectives
 - c. the establishment of Joint SHDC and ELDC Client Officer meetings (and the CPBS Head of Operations where required) to ensure consistency at an operational level, with any intractable issues escalated to the Partnership Group
- 6) That the Terms of Reference for the Partnership Group and the Joint Client Officer meetings be approved as per the appendix to this report
- 7) That Council notes the Leader’s decision that the Head of the paid Service be replaced on the Board with effect from 31 July 2018 by the Executive Director for Place;
- 8) That, going forward, no statutory officer shall be appointed to the Board of Directors

1.0 BACKGROUND

1.1 At its meeting on 1 November 2017, the Council considered a report from the Deputy Leaders which set out future options for CPBS. The options, identified by Grant Thornton on behalf of this Council and East Lindsey District Council, were:

- a. To continue the company arrangement as currently in place
- b. To continue the arrangement and consider any recommendations to update the arrangements and further improve outcomes
- c. To disestablish the company and consider an alternative shared service model of provision.

1.2 Council approved (b) above. This option will therefore see the company continue to deliver the contracted services to both councils, but will also see a number of changes to the way the company is operated and managed:

- Governance changes in terms of board membership and how the councils engage with the company at both strategic and operational levels
- Changes to organisational design intended to drive efficiencies and reduce the cost base of the company.
- Working capital injection which will tie in closely with the organisational design work mentioned above.

1.3 East Lindsey District Council has also approved option (b) at 1.1 above. Since the Council meeting in November, senior members and senior officers of both councils have met to discuss next steps. This report sets out a proposed approach based upon those discussions.

1.4 The Leader made a formal decision, published on 27 December 2017, which recommends detailed proposals to the Council, as set out at the head of this report and in further detail below. East Lindsey District Council will be taking a similar report to its Council meeting on 28 February 2018.

Governance Changes

1.5 A number of changes to the governance arrangements are proposed in order to ensure that management of the company is as effective as possible and in order to ensure that the two councils are co-ordinated when it comes to setting out our expectations for the company and the services it delivers. The proposals comprise:

- Adding two non-voting advisors to the Company Board who will specialise in finance and strategy. Having independent advisors will assist the company in shaping its business and delivering the required efficiency savings and resulting reduction in base costs.
- Each council will make their own Board appointments as they see fit, but subject to the appointing authority being satisfied that the appointments they make do not result in a significant risk of conflict of interest.
- The establishment of a Partnership Group, comprising relevant Portfolio Holders, which will ensure a joined up strategic approach by both councils – looking at key issues such as risks, service failures and the future of the arrangements. These issues will be viewed from the councils' perspectives,

in order to ensure that services are being delivered to the satisfaction of the councils.

- Introduction of an 'Intelligent Client' function to ensure that the councils work together, where possible and practical, to ensure a joined-up operational approach. These meetings will be between Client Officers and (where appropriate) CPBS's Head of Operations. This will ensure that CPBS are not instructed to do similar but slightly different things for each council. There will be areas that this may not be possible (where, for example, this Council has an agreement with Breckland Council to have a consistent approach – such as their shared HR policies). Any intractable issues will be escalated to the Partnership Board.

- 1.6 It is proposed that the size of the Board of Directors remains unchanged (six Directors; three from each Council; and at present comprising two elected members and one officer from each council), though two non-voting advisors will assist the current Board, bringing with them business knowledge and experience in the areas of finance and strategy. It is for each council to determine its own director appointments, but each council needs to be mindful so as to avoid potential conflicts of interest when appointing certain senior member and officer directors. It is proposed that South Holland's appointments should no longer include any statutory officer (Head of the Paid Service, Monitoring Officer or s151 Officer). These officers have certain statutory obligations to the Council. If those officers are appointed as Board Directors, they will owe their first duty to the Company – and there is therefore a risk of conflict of interest. In addition, it may be difficult for these officers to hold the Company to account if they directors of that company.

Organisational Design

- 1.7 Members will recall that the Grant Thornton advice concluded that CPBS should be able to reduce its base costs by around 12%. There will, however, need to be a comprehensive business case for transformation, prepared by CPBS, to confirm that this is a realistic target and to ensure that the councils are comfortable with whatever is proposed to achieve this. CPBS will also need to address any outstanding historical issues, such as pensions, as part of this business case.
- 1.8 There will, in due course, be a need to agree whether the efficiency savings are to be delivered up-front, or whether they will be staged over an agreed period. There will also be a need to agree whether, in future years, there should be provision for inflationary increases in the contract price.
- 1.9 Once CPBS has produced a business case for transformation to the satisfaction of both councils, a third report will be brought to the Council which will identify key contractual changes that may be required. It is anticipated that this report will be brought to Council in May or July 2018.

Capital Investment

- 1.10 Again, members will recall that this was proposed by Grant Thornton as part of the recommended option to continue the arrangements with CPBS. No assessment can be made, at this stage, about the likely level of investment required nor how the investment should be used. This will again flow from the business case for transformation that CPBS will need to prepare on an 'Invest to Save' basis.

Contract Extension

- 1.11 It is proposed that, subject to the production of a business case for transformation that is acceptable to both councils, the contractual arrangements between the councils and CPBS be brought to an end and revised contractual arrangements entered into for a period of five years from 31 July 2018 with an option to extend for a further five years.
- 1.12 In advance of the proposed contract extension date, and whilst work is undertaken on the organisational design and capital investment elements of the project, it is proposed that (subject to compliance with all necessary contract procedures) the councils instruct Eversheds to start drafting the necessary paperwork (Eversheds drafted the original paperwork and all subsequent amendments thereto, and also provide company secretarial support to CPBS).
- 1.13 As the arrangements are subject to a tri-partite agreement, the CPBS Board will also need to approve the final arrangements.

2.0 OPTIONS

- 2.1 The principle of extending the arrangements with East Lindsey District Council and CPBS was approved by Council at its meeting on 1 November 2017.
- 2.2 The Council may approve the recommendations in this report, or may approve the same with amendments.

3.0 REASONS FOR RECOMMENDATION(S)

- 3.1 To agree arrangements for the continued delivery of Council services by CPBS beyond the timeframe of the current agreements which expire in 2020.

4.0 EXPECTED BENEFITS

- 4.1 There are a number of benefits:

- It enables forward planning by the Council
- The company and its staff will have uncertainties removed with regard to future intentions – helping to reduce difficulty with retention and recruitment
- Continuing one of the original objectives of establishing arrangements as a local and wholly owned enterprise and retaining jobs at the local level – thus making a valuable contribution to the local economy
- Improved co-ordination and governance
- Reduced base costs

5.0 IMPLICATIONS

In preparing this report, the report author has considered the likely implications of the decision - particularly in terms of Carbon Footprint / Environmental Issues; Constitutional & Legal; Contracts; Corporate Priorities; Crime & Disorder; Equality & Diversity/Human Rights; Financial; Health & Wellbeing; Reputation; Risk Management; Safeguarding; Staffing; Stakeholders/Consultation/Timescales; Transformation

Programme; Other. Where the report author considers that there may be implications under one or more of these headings, these are identified below.

5.1 **Constitutional & Legal**

The CPBS arrangements are underpinned by both a Shareholders Agreement and Management Agreement that have been in place for a number of years, as agreed by both Councils. Any changes to these documents require the further agreement of both Councils and CPBS, and accordingly will be the subject of a further report(s) where changes are required to reflect an agreement to extend current arrangements beyond 2020.

The significant recommendations of this report are reserved to the Council by the Council's constitution at part 2, Article 4 and Part 3. Operational matters, such as the appointment of Board members and legal representation are executive functions.

5.2 **Contracts**

The proposals will result in a number of contractual changes. Further contractual changes will be considered in future reports.

5.3 **Financial**

A number of financial implications were set out in the report to Council on 1 November 2017. In addition, there will be a number of costs associated with the proposals set out in this report – including legal costs and (if required) remuneration for Board advisors. It is likely that any cost associated with remunerating Board advisors will need to be met by the Company.

5.4 **Member Feedback**

A member briefing took place on Tuesday 9 January 2018. This was an opportunity for members to provide feedback on the proposals that were contained in a Leader decision dated 27 December 2017 and which would in turn form recommendations to the Council meeting of 17 January 2018.

Key points that were raised by members at the briefing were: (i) that whilst the potential savings identified in the Grant Thornton report needed to be considered, it was equally important to understand what CPBS felt was achievable – and this would be set out in the business case for transformation which was expected in May 2018; (ii) there should not be a rigid approach to Client Officer meetings – these should take place only as needed; (iii) extending the contract on the basis of an initial five years, with an option for a further five years, was welcomed as it provided more certainty for CPBS and its staff, which should help to improve recruitment and retention; and (iv) the proposed governance arrangements were supported because greater co-ordination between ELDC and SHDC will help to mitigate against unnecessary expense to the company.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 All

7.0 ACRONYMS

- 7.1 CPBS – Compass Point Business Services (East Coast) Limited
ELDC – East Lindsey District Council
SHDC – South Holland District Council

Background papers:- None – but please refer to the Council report of 1 November 2017 which included copies of the Grant Thornton advice.

Lead Contact Officer

Name and Post: Mark Stinson Executive Manager - Governance
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Key Decision: N

Exempt Decision: N

This report refers to a Mandatory Service but how they are delivered is discretionary

Appendices attached to this report: Partnership Group and Client Officer Meeting Terms of Reference

Appendix

Terms of Reference:

Partnership Group:

- Composition is portfolio holders for each council, supported by Chief Officers or their representatives.
- Meets 2-3 times per year.
- Holds the Board to account on behalf of the shareholders through strategic oversight of performance, risks, and service failures.
- Ensures a joined up approach to development of future requirements to be placed on the company.
- Deals with any operational issues that are escalated to it by the Client Officer Meeting

Client Officer Meetings:

- Composition is the Client Officer for the time being appointed by each of the councils and (where appropriate and at the invitation of either Client Officer) the CPBS Head of Operations
- Meets as agreed by the Client Officers
- Ensures client co-ordination on matters that require CPBS support/services
- Holds CPBS to account at the operational level in respect of service performance
- Escalates any intractable issues to the Partnership Group.

