

**SCRUTINY MANAGEMENT BOARD
8TH OCTOBER 2018**

PRESENT: The Chair (Councillor Miah)
The Vice Chair (Councillor Parsons)
Councillors Bebbington, Capleton, Fryer, Ranson,
Hamilton and Paling

Councillor Draycott
Councillor Harper-Davies

Chief Executive
Strategic Director of Neighbourhoods and
Community Wellbeing
Head of Cleansing and Open Spaces
Democratic Services Officer (LS)

APOLOGIES: Councillor K. Harris and Seaton

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

17. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

The following disclosures were made:

- (i) by Councillor Fryer, a personal interest in respect of Item 4 on the agenda as she had been the relevant Cabinet Lead Member when the contract with Serco had first been agreed, also when it had subsequently been extended.
- (ii) by Councillor Hamilton, in respect of Item 4 on the agenda as a signatory to the Call-in, but he came to this meeting with an open mind.

18. DECLARATIONS - THE PARTY WHIP

No declarations were made.

19. CALL-IN OF CABINET DECISION - ENVIRONMENTAL SERVICES CONTRACT

The decision taken by the Cabinet on 13th September 2018 in respect of this matter had been called-in under Scrutiny Committee Procedure 11.7 and required consideration by the Board.

The Board considered a report of the Head of Strategic Support which included the report considered by the Cabinet, the minute outlining the Cabinet decision and reason for it, the reasons for Call-in and the desired outcome, and the process for reviewing the decision as set out in Scrutiny Committee Procedure 11.7 (item 4 on the agenda filed with these minutes).

The report considered by the Cabinet included exempt appendices as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, circulated to members. The appendices set out information which, if released to the public domain, could prejudice outcomes for the Council and disclose commercially sensitive information about other organisations, therefore the public interest in maintaining the exemption outweighed the public interest in disclosing the information. On that basis, the Board resolved to exclude the public from this meeting during the final part of Councillor Draycott's address to the Board, as she wished to briefly refer to the information contained in those appendices. That part of the meeting was not sound recorded.

In accordance with Scrutiny Committee Procedure 11.7, Councillor Draycott, as a signatory to the Call-in, addressed the Scrutiny Management Board. Further to the reasons stated in the Call-in, she stated the following, in summary:

- (i) Councillor Draycott stated what the Cabinet's decision had been, the services included in the contract and the two main reasons for the Call-in, which were (a) to question whether the outsourcing option was the best one and (b) to question whether a responsive option for street cleaning delivered the best service to residents.
- (ii) In respect of (a), the Cabinet report stated that the recommendation to extend with Serco was to ensure continuation of services to residents in the most efficient and effective manner and to ensure maximised efficiency and effectiveness of the contract. The signatories to the Call-in would like the Board to consider whether those aims could only be achieved by outsourcing and whether that option was the best on all grounds or whether it was being recommended on ideological grounds. Councillor Draycott stated that the Eunomia report [appendix B to the Cabinet report] was non-committal as to whether outsourcing or in-house was the better option and she considered it not to be the case that one or the other was superior in cost or efficiency. The Eunomia report stated pros and cons for both systems, with various advantages of in-house given, examples of which were briefly outlined by Councillor Draycott, including flexibility where change was needed and allowing the Council to retain any efficiency savings. Reference was made to costs being lower as the Council was not-for-profit. Signatories to the Call-in felt strongly that if a contractor could provide the same or better service as in-house and still make a substantial profit, what did this say about the wages or working conditions of the employees? Councillor Draycott expressed concern regarding examples of operatives running to complete their work with two bins at a time and that cost savings were due to the conditions and wages of workers. She was concerned that the Council may be getting a less expensive service by indirectly employing people with conditions the Council would not practise with its directly employed staff. Councillor Draycott also expressed concern regarding pension provision for outsourced employees and considered that savings were made because it was a reactive service. Residents would not feel comfortable with receiving a service at the expense of staff. Finally, it was unclear why the fleet would be brought in-house, but not the workforce.
- (iii) In respect of (b), the street cleaning contract was called responsive. Councillor Draycott considered it to be reactive and reliant on councillors and members of

the public to report areas that required attention. That was not satisfactory and problem areas needed to be continually reported which could eventually result in residents “giving up”, not understanding why the problem was not permanently addressed. Residents assumed that the Council had schedules of work and did not understand its reactive approach. Signatories to the Call-in were of the view that residents would prefer a proactive approach to the service, with dedicated street cleaning schedules.

- (iv) Councillor Draycott referred briefly to the information set out in the exempt appendices.
- (v) Councillor Draycott did not consider the contract to be efficient and effective, she considered that it required councillors or residents to report the work that was needed, with some areas becoming in poor condition, examples of which were given. Councillor Draycott stated that the contractor did not need to do the work until it was reported, therefore the frequency of jobs was less and money saved. Signatories to the Call-in were of the view that residents deserved a better street cleaning service and the benefits of changing the contract needed to be weighed up at this stage, to provide better services and working conditions, allow adapting to future developments and enable a more in-depth discussion on the information set out in the exempt appendices to the Cabinet report, therefore the decision should be referred back to the Cabinet.

Having addressed the Board and as there were no questions of clarification from the Board, Councillor Draycott left the table.

Councillor Harper-Davies, Cabinet Lead Member for Performance of Major Contracts, had been invited to assist the Scrutiny Management Board with its consideration of the matter. She was assisted by the Strategic Director of Neighbourhoods and Community Wellbeing and the Head of Cleansing and Open Spaces. The following was stated, in summary and including in response to questions from the Board:

- (i) Councillor Harper-Davies referred to the detailed work she had undertaken with officers/the project board prior to the report being submitted to the Cabinet and stated that she considered the decision taken to be the most appropriate decision. She hoped that, having heard responses to the questions raised by the Call-in, the Board would be in agreement with that.
- (ii) Background information on the Street Cleansing service was provided by the Head of Cleansing and Open Spaces. The service did not rely on members of the public calling in to complain to keep the streets clean, a proactive service was provided. The contract required that the streets were kept clean to grade A or B set out in DEFRA’s Code of Practice on Litter and Refuse. Serco deployed its resources to do so in the best way possible with supervisors to facilitate that and undertake inspections. The Council employed contract officers to do the same, identifying issues where they existed. If Serco did not meet the grade A or B requirements, they could be placed under default and be subject to financial penalties. What was required to meet the Grade A or B standards was briefly explained to the Board. There were occasions when members of the public highlighted problems and the service responded accordingly, but that did not mean that the Council did not have proactive resources out in the Borough, seven days a week, cleaning the streets. That was the underlying basis of the service. Reliance only on complaints would

- soon result in the cleanliness of the Borough's streets deteriorating significantly. Reference was made to the many kilometres of roads in Charnwood and the impossibility of covering it all on sample checking, therefore sometimes responsive work was needed.
- (iii) Reference was made to the satisfaction surveys undertaken by an independent company on behalf of the Council on a quarterly basis. That showed that 71% of respondents were satisfied or very satisfied with street cleansing, that was very high for such a service. Satisfaction for waste and recycling was at 95%.
 - (iv) In considering whether a contract extension or another option was appropriate, a number of elements were considered, those were cost, public satisfaction and quality of service. The Project Board was satisfied from the independent report commissioned that the Council was currently receiving a good service and high levels of satisfaction at a good cost.
 - (v) In response to a question, clarification was provided that page 37 of the agenda referred to street cleansing costs (spending per household per year), this showed as lower than average for Charnwood. Satisfaction comparisons had been difficult as authorities had different approaches to measuring that, but of the recorded figures available, the Council was ranked 2 out of 15.
 - (vi) Information on the percentage cost of the street cleansing element of the contract and on the number of street cleansing operatives Serco had in the Borough was not available to officers at the meeting.
 - (vii) No financial penalties had been issued to the contractor in the last two years. The points threshold for the application of financial penalty had not been reached. Explanation was provided of that points system applied where faults were found, including the rectification period available.
 - (viii) In response to a question concerning how the Council knew the streets were clean, further reference was made to the 4 contract officers employed by the Council, their principal duty being to monitor the contract, this included regular area and random sample inspections, the frequency of which was outlined. That monitoring was also required in relation to the performance indicators applicable to the service. An estimate was provided of the number of times contract officers reported issues to the contractor, it was acknowledged that this suggested that the contractor was not always keeping the streets clean.
 - (ix) In response to comments regarding the Council's quick response to reported fly tipping and the importance of flexibility in the cleaning regime, the Head of Cleansing and Open Spaces stated that the flexible nature of the contract meant that specific incidents or hot spots could be dealt with appropriately. Some contracts were more rigid in terms of scheduled cleaning and did not provide that flexibility or make the best use of resources. In Charnwood, frequency was increased where hot spots were identified.
 - (x) In response to a comment regarding personal responsibility for not littering, information was provided on the work undertaken to educate in that respect, also enforcement work.
 - (xi) Background information on the position with the vehicle fleet was provided by the Head of Cleansing and Open Spaces. At the start of the current contract, the industry standard for the life of a refuse vehicle had been 7 years. Since that time, the vehicles had moved to tipping on hard standing rather than landfill and the technology they included had improved, so the longevity of the vehicles was greater than had been anticipated, such that at the time of the subsequent extension of the contract, the life of the refuse vehicles could be extended by 3

- years. This had allowed a substantial discount from the contractor during the current 3 year extension. The current vehicles would be at the end of their useful life by 2020. A fleet was required to provide the service, the options for which were to require the contractor to provide it, to lease the fleet or to buy the fleet. Cost benefit analysis of those options had been undertaken and external financial advice had been obtained, the conclusion of which had been that the most cost effective option for the Council was to buy the fleet, further explanation of which was provided. A secondary advantage of doing so was that ownership of the fleet provided better business continuity for the Council.
- (xii) In response to a concern regarding any risk to the Council of owning a 4 year old fleet at the end of the proposed extension of the current contract and whether that fleet would be viable, the Head of Cleansing and Open Spaces stated that whatever changes might happen over the next few years in terms of waste disposal, the Council would still need refuse collection vehicles. The new fleet was very unlikely to be redundant over the next 10 years and would have a useful life beyond the proposed extension of the contract. What would happen to the vehicles at that time, and responsibility for their maintenance, would depend on the service delivery model chosen at that stage. In addition, he stated that the Council would make payment for the vehicles on purchase, borrowing from the PWLB and from the Council's reserves and would depreciate them over their operational life. Warranties would apply to the vehicles, they would be leased to the contractor and the contractor would be responsible for strict maintenance regime requirements during the contract. The fleet to be purchased included smaller vehicles some of which had shorter life expectancy. Councillor Harper-Davies reiterated that purchase of the vehicles by the Council represented best value for money and an investment, also making reference to the possibility of a shared service arrangement in the future.
- (xiii) The Strategic Director of Neighbourhoods and Community Wellbeing referred to the procurement of the current contract and the quality/price approach taken, with emphasis on quality not just secured via application of the DEFRA guidance referred to earlier in the meeting, but also through providing photographic guidance to the contractor of the standards expected. No decision had been made regarding a future shared service arrangement, but the option to procure together moving forward has been retained, both in respect of the fleet and the waste contract. Available fleet options were being researched by officers to ensure the most appropriate were purchased. Reference was made to having maximised the longevity of the current fleet, and the independent advice taken that had indicated the best option to be purchase of new fleet by the Council was reiterated.
- (xiv) In response to a concern that ownership of a fleet would disadvantage the Council with a future contract, it was stated that the position was likely to make the Council more attractive to contractors as they would not be required to purchase a fleet to operate the contract and could mobilise more quickly. In response to a concern that a future contractor would charge higher maintenance costs to take on a 4 year old fleet, it was stated that maintenance costs did increase as vehicles got older, but the recommendation was to finance the vehicles over 8 years, an incoming contractor would only be obligated to use the fleet for 4 years, after which options on providing fleet

- moving forward would be considered. Using fleet for 8 years was good practice and vehicles were still very serviceable for that period of time.
- (xv) In response to a question concerning the rationale behind the outsourcing option being considered preferable to the in-house option, the Head of Cleansing and Open Spaces stated that high level advice had been taken as part of the consultant's report. Advantages of in-house had been stated earlier in the meeting, however there were disadvantages to an in-house service in terms of costs and risks, including central overheads and health and safety costs, and the option was unlikely to provide any cost efficiencies, indeed it might cost more. The project board had considered that the disadvantages of in-house provision outweighed the advantages and had recommended an option accordingly.
- (xvi) It was confirmed that all the employees employed by Serco were employed responsibly, at living wage with access to a pension scheme. Operatives did work quickly and there was a lot of work to do, however those on the refuse collection rounds finished work once all the bins were emptied, this was frequently before the end of contracted hours. It was important to recognise that Serco was a responsible employer. Council officers had a sense of what the company was like and employee turnover was not high, some employees had worked in their roles for many years.
- (xvii) The resilience provided by a company the size of Serco was explained and reference made to the considerable training provision, expertise of staff and good safety record of the company, together with the quarterly meetings held with the contractor where such matters were discussed. A recent Health and Safety Executive inspection had been passed with no recommendations made. The area of work concerned was high risk. Officers were satisfied that the contractor was doing a good job, in a safe way and was providing a good service.
- (xviii) Councillor Harper-Davies referred to page 21 of the agenda where the approach taken to assessing the options available to the Council was set out.
- (xix) In response to reference to the capital tax allowance available to a private company and whether that enabled the contractor to buy the fleet at a lower cost than the Council could, it was stated that the maximum term that the contract could be extended to took the Council to 2024. At the time the current contract extension period expired, a maximum further extension of 4 years was available. Serco were not prepared to purchase new fleet and depreciate over that remaining 4 years as that was uneconomical, so that option was not available to the Council. If the Council wished to extend the contract to 2024, it needed to either lease or buy the fleet for that. It was reiterated that buying the fleet was the best option.
- (xx) There was further reference to how the terms and conditions of Serco employees differed from those of Council employees and the importance of ensuring welfare and training of contractor's staff. Further information was provided on the contractor's training provision.
- (xxi) In response to a question regarding whether going out to tender for a new contract at this stage had been considered by the parties involved so that that option could be compared against the option of extending the current contract, Councillor Harper-Davies stated a procurement review process had been followed and all options had been looked at. A full tendering process would come at a cost to the Council and the current contractor was providing a good

- service. Councillor Harper-Davies also considered that the health and safety of Serco employees was correctly looked after and that if employees were unhappy with their employer they would not stay.
- (xxii) In response to a further suggestion that an in-house service should have been considered and there was no cost information available to allow the feasibility of that to be assessed, further reference was made to the risks involved with such an option and that a fleet was required regardless of how the service was provided. An in-house service would require not only fleet, but also skilled operatives and a licensed depot which the Council did not have. Evidence from the consultant suggested that an in-house option would be much more expensive. A tendering exercise may have resulted in the option to extend the contract no longer being available to the Council.

Having assisted the Board, Councillor Harper-Davies, the Strategic Director of Neighbourhoods and Community Wellbeing and the Head of Cleansing and Open Spaces left the table.

There followed further brief discussion by the Board, in summary:

- (i) The issue to be considered was whether extending the current contract was the best option for the Council. The view was expressed that it was. The Board had heard all information required on the matter.
- (ii) The concern regarding risks to the Council of owning a 4 year old fleet at the end of the proposed extension of the current contract and whether the most cost effective option was for the Council to purchase the fleet was repeated.
- (iii) Reference was made to the exempt appendices making reference to papers which were not available for consideration at this meeting.
- (iv) The view was expressed that it remained a concern that options in the future would be restricted by the decision and it may be appropriate for the Cabinet to reconsider.
- (v) Reference was made to the contract extension being only 4 years, but the fleet to be purchased depreciating over 8 years. The view was expressed that not all options had been explored. The Council could have gone out to tender and found a new contractor who could have provided the vehicles. The opportunity to compare that option had been lost, together with the option of in-house provision. An advantage of the latter was that the Council could better set its own agenda in terms of the service provided.

RESOLVED that the decision of the Cabinet be supported.

Reason

Having considered the decision and the reasons for it, the Board was content that the decision was appropriate.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 5th November 2018 unless notice to that effect is given to the Democratic Services

Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Scrutiny Management Board.