

Meeting of the Joint Meeting of the Environment Overview and Scrutiny Committee and Rural and Communities Overview and Scrutiny Committee



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Extraordinary Meeting

Monday, 27 June 2022, 2.00 pm

Committee Members present

Councillor Ashley Baxter
Councillor Richard Cleaver
Councillor John Cottier
Councillor Phil Dilks
Councillor Barry Dobson
Councillor Gloria Johnson
Councillor Philip Knowles
Councillor Nikki Manterfield
Councillor Sarah Trotter
Councillor Hilary Westropp
Councillor Hannah Westropp

Cabinet Members present

Councillor Adam Stokes (Deputy Leader of the Council and Cabinet Member for Finance and Leisure)
Councillor Rosemary Trollope-Bellew (Cabinet Member for Culture and Visitor Economy)
Councillor Mark Whittington (Cabinet Member for Waste Services and Climate Change)

Officers

Richard Wyles (Chief Finance Officer)
Nicola M^cCoy-Brown (Director of Growth and Culture)
Graham Watts (Assistant Director of Governance and Deputy Monitoring Officer)
Chris Prime (Interim Communications Manager)
Ian Yates (External Consultant)
Mark Jones (Project Lead)
Jordan Brooks (IT Helpdesk Engineer)

1. Apologies for Absence

Apologies for absence were received from Councillors Richard Dixon-Warren, Ben Green, Robert Reid and Ray Wootten.

2. Disclosure of Interests

No disclosure of interests were made.

3. Grounds Maintenance Options Appraisal

Prior to the commencement of consideration of this item, a point of order was raised which questioned why the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee or the Companies Committee had not been given the opportunity to consider this report given it related to the procurement of a service currently provided by EnvironmentSK Ltd.

The Chairman stated this may be explained as part of the presentation of the report.

The Cabinet Member for Waste Services and Climate Change presented the report which provided detail on the work undertaken to develop a new specification for the Council's grounds maintenance service and invited consideration of providing a recommendation to Cabinet on the way forward in respect of the future delivery of the service.

The Council's grounds maintenance service had been provided by EnvironmentSK Ltd, a wholly owned Council company, since 1 March 2019, with responsibility for the grounds maintenance of Council-owned land, including General Fund and Housing Revenue Account land.

Being a predominately rural district, 3% of the land being maintained was in urban areas, with 97% being in rural locations. Other areas were also maintained, including 21 closed churchyards and three parks in Grantham, the total cost of the service being £1.016 million for the current financial year. This was split between £428,000 in respect of the Housing Revenue Account and £588,000 in respect of the General Fund. Further details regarding the services provided to the Housing Revenue Account and General Fund were set out in the report at paragraphs 1.5 to 1.10.

In line with the Council's management of its finances and a commitment to run services more efficiently and effectively, whilst taking best value into consideration, it was considered necessary to review the contract in place with EnvironmentSK Ltd and the management of the grounds maintenance service moving forward.

Mr Ian Yates, external consultant, was appointed in order to develop a new grounds maintenance specification. He delivered a presentation setting out a framework which could be used to test the market in respect of future service delivery. A demonstration of the Statmap system was presented to the Committee, which was a detailed digital mapping tool able to provide an accurate measurement of all grassed areas, verges, hedges and other areas currently maintained. This was

considered as an essential element of managing the contract, given the district consisted of 365,000 square miles with at least 1.5 million square metres of grass requiring cutting. These were fragmented across the whole district, made up of individual pockets of areas requiring maintenance as part of the contract. Thousands of elements of data were able to be managed through the Statmap system, which had been updated and refreshed so that each site in the district was accurately represented. The system was a visual tool which was easy to use, especially when measuring sites and calculating maintenance programmes, including detailed breakdowns of the work required at each location.

The Chief Finance Officer provided an overview of the specification requirements which defined the key works to be delivered. These were set out in paragraphs 1.19 and 1.20 of the report. As part of the revised specification, work had been undertaken to align the levels of service received by the Housing Revenue Account and General Fund, recognising that Housing Revenue Account land currently received more regular cuts due to its higher financial contribution. This alignment meant there would not be two different standards of service, making it much less complicated for contractors. The proposed realigned standards consisted of the following:

- Amenities grass open spaces (General Fund) – retention of 10 cuts per year on a cut and drop basis, whereby cuttings were not collected
- Amenities grass open spaces (Housing Revenue Account) – reduction from 14 cuts per year, to 10 cuts per year on a cut and drop basis, whereby cuttings were not collected
- Highway verges – retention of the existing level of service and alignment with the frequency of cuts chosen for the General Fund amenity grassed areas of 10 cuts per year
- Closed churchyards – retention of the existing level of service and alignment with the frequency of cuts chosen for the General Fund amenity grassed areas of 10 cuts per year
- Wild meadows (General Fund) – retention of the arrangements currently in place
- Hedges (General Fund) – increase in the number of cuts from once per year to twice per year in line with the current service delivered to Housing Revenue Account land
- Hedges (Housing Revenue Account) – retention of the arrangements currently in place
- Sheltered housing schemes grass (Housing Revenue Account) – there was currently some flexibility and choice in relation to sheltered housing schemes grass which could allow bids to come forward prior to making informed decisions. The current standard was 14 cuts per year, with the first half being on a cut and collection basis, whereby cuttings were collected and taken offsite, and the second half being on a cut and drop basis. The new standard could either take the form of 16 cuts on a cut and drop basis or in line with the General Fund standard of 10 cuts per year on a cut and drop basis. It was recognised that there was a disproportionate cost associated with the cut and collect service due to specialist equipment and the time taken to complete the activity at the required standard
- Council homes assisted gardens – retention of the current frequency of grass and hedge cuts, however, consideration would be given to a height reduction

programme. Any such changes would require the undertaking of statutory consultation

- Parks – minor modifications proposed to service specifications and ability to invite alternative proposals to deliver cost savings whilst maintaining Green Flag status. It was emphasised that none of these minor modifications would detrimentally impact the achievement or maintenance of Green Flag status at any of the parks
- Uffington cricket and Empingham playing fields – removal of these sites from the specification as the locations would be transferred to Stamford Town Council from April 2023 when the new contract took place

An earlier question was reiterated in respect of why this item had not been referred to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee or the Companies Committee.

The Chairman explained this report was focusing on the function and practicalities of the service, how it would be delivered through the revised specification and use of a mapping system which could help contractors understand the details of every area maintained in the district to make the service more efficient.

The Cabinet Member for Waste Services and Climate Change provided further clarity that this report had been commissioned from the perspective of South Kesteven District Council as a customer, reviewing the way forward and the options available in respect of the grounds maintenance service. Referring to the options contained within the report, the options were noted as follows:

- Retention of the services of EnvironmentSK Ltd
- Accessing the grounds maintenance supplier market
- Insourcing the service

It was restated that no preferred option had been identified and the key considerations would be operational efficiency and value for money. The next stage of the process would facilitate options appraisals and submission of full business cases.

The principal reason this item had not been referred to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee was because currently there were no details of what the costs associated with delivering the service were going to be. This information would become available as part of the options appraisal which was the next stage of the process.

A suggestion was made that the performance of the current contract should have been evaluated and assessed, taking into account that the costs associated with delivery of the current and previous contract were available, and this should be reviewed by the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee given that, ultimately, this was a financial decision.

In response it was explained the reason the report had been submitted to a joint meeting of the Environment Overview and Scrutiny Committee and Rural and Communities Overview and Scrutiny Committee was to consider the options

available now that full mapping and data of the complete area of the district had been completed, with new proposed specifications for the future of the service having been developed. These could be costed more effectively, with the current provider, other operators in the market and potentially an in-house service being able to determine how much it would cost to deliver the service at the required specification and standard. Once this information had been received as part of the next stage of the process and those comparisons could be made, it may then be necessary for the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee to become involved in considerations.

A comment was made regarding the unsightly nature of a cut and drop service, highlighting cuttings from domestic properties were used in anaerobic digesters to generate electricity and whether the Council was missing an opportunity. It was suggested that this should be included as part of the options being considered.

A question was raised regarding the competitive procurement process and at what stage the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee would become involved prior to a decision being taken by Cabinet.

The Chief Finance Officer explained there was currently nothing for the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee to scrutinise. This was due to the cost of providing the service against the revised specification from sources outlined in the various options set out in the report not yet being known. The updated specification needed to be priced against the currently supplier, other suppliers in the market or an in-house alternative to ascertain the anticipated cost of delivering that service. It was clarified that, as part of the process, the cost of delivering the revised specification may fall within the existing budget provision, in which case there would not be any necessity for further scrutiny of the finances associated with the service. However, if the cost of delivering the revised specification exceeded the budget and provision in the Medium Term Financial Strategy, the Council would need to consider whether to allocate further resources to that service. This process would involve the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee as part of the normal annual budget setting process. Alternatively, it may be necessary to re-assess the specification of the service and reduce, for example, the number of cuts to bring the cost in line with the existing budget provision. It was necessary to undertake the procurement process as recommended in the report in order that the options identified could be costed up.

A question was raised regarding hard areas, as set out in paragraph 1.20 of the report, regarding council-owned car parks and whether they were included in the 'hard area' definition. It was confirmed that hard areas did include Council-owned car parks and were listed on the Statmap system, as well as being referenced in the updated specification with various trigger points dictating when specific works would be required.

Reference was made to questions raised at previous meetings of the Companies Committee regarding average costs of labour and charge-out costs for labour in respect of EnvironmentSK Ltd and the grounds maintenance contract to calculate the margin and real cost of the service outside of any profit generated by the

company. To date an answer to these questions had not been provided. However, the work undertaken on a revised specification was welcomed, as was the options appraisal which sought to look beyond the existing service provider. It was agreed that cost and quality were equally as important, and this process provided an opportunity to undertake a thorough piece of work to determine the best way of delivering the service.

Questions were raised regarding the proposed consultation in respect of a workshop with all Councillors scheduled to be held two weeks prior to the final outcome being presented to Cabinet. It was suggested this did not leave sufficient time for the outcomes of the workshop to be taken into account and feed into proposals for consideration by Cabinet.

The demonstration of the Statmap system highlighted the different pieces of maintenance work required across the district. It was believed it may be more cost effective to split pieces of work out into different contracts, especially differentiating smaller and larger jobs, offering local providers the opportunity to undertake smaller, local works.

The Cabinet Member appreciated that concerns had been expressed regarding EnvironmentSK Ltd at previous Companies Committee meetings, however, they could not speak on the company's behalf at this meeting, given the focus was on services delivered to the Council as a customer.

In response to the suggestion of splitting different pieces of work, whilst it was accepted various providers may be able to do different aspects of the work better than others, consideration needed to be given to economies of scale associated with only having one major external provider.

The recommendation in the report asked the joint Overview and Scrutiny Committee to support all options, which a Member stated they would be unable to agree to as they felt it would not be possible to support all of the options set out in the report. They welcomed the suggestion raised earlier in the meeting that local providers could be procured for smaller works as part of contracting out the service.

A concern was expressed in the recommended commencement of the procurement process before knowing what was in place now in respect of EnvironmentSK Ltd's costs, and ultimately whether the company was making a loss or profit. It was understood that the company made a £130,000 loss in its first year and a £40,000 loss in its second year of operation, with a loan of £500,000 being provided by the Council to help establish the company. A two-part question was raised as to what would happen to the company should it not be awarded the contract as part of the procurement exercise for the Council's grounds maintenance service and in respect of repayment of the loan.

A further question was raised regarding fuel costs and whether any providers had contacted the Council to report they were unable to deliver services in accordance with the original specification from a cost perspective.

Clarification was sought over the concerns previously expressed regarding EnvironmentSK Ltd and whether the company was providing value for money.

A Member expressed their preference of retaining the service with the current wholly Council-owned provider or offering an in-house service, ensuring that profit stayed within the Council as opposed to external providers.

The Chief Finance Officer explained the report outlined the business case as to why it was considered appropriate for the market to be invited to bid for the work and establish whether there were economies of scale and efficiencies that could be achieved. It would provide transparency, benchmarking and assess value for money in order that consideration could be given to what the market, as well as the existing provider, could offer against the revised specification, which since its review meant there would not be any ambiguity or inaccuracies associated with pricing.

In terms of the procurement process, it was reported this was not an onerous process as it would be delivered through an ESPO framework. This meant, in practice, all due diligence of potential bidders and the necessary documentation had already been undertaken. It was important the process was thorough and there was no suggestion the Council was only going out to the market as part of a benchmarking exercise, which was not the case.

Regarding the current provider, there were potential diseconomies of scale as, despite the best endeavours of EnvironmentSK Ltd, the company had not been able to penetrate the private market solely due to the scale and inadequate profit margins associated with additional works. Its fixed costs and fixed assets meant it was unable to scale up and absorb work at a rate which may have been required in order to act more competitively.

A question was raised as to whether there was flexibility in the specification or this could be tweaked as part of the procurement process.

It was acknowledged that the ESPO framework did reduce the burden of paperwork associated with the tendering process, however, to support the Council's principal objective of being the best place to live, work and visit, a concern was expressed the framework would exclude businesses local to the district. A question was raised whether local businesses could be encouraged to provide a price for the contract outside of the ESPO framework.

The Chief Finance Officer emphasised the Authority had to be mindful of its Contract Procedure Rules, as well as respective public regulations. The contract was more than £1 million per year over a period of five years, representing a significant financial commitment for the Council. Contract Procedure Rules would not allow the award of such a contract to be limited only to local businesses or providers. The suggested process of breaking down the contract into component parts would result in significant diseconomies of scale and pose difficulties in respect of delivery and monitoring. The use of multiple contractors would inevitably lead to a risk of the distortion in quality of service on a geographical basis across the District. For this reason, it was therefore recommended the contract be offered in its entirety for the whole of the Council's ground maintenance service.

Regarding the ESPO framework, this was a national framework which consisted of a thorough vetting process in terms of a provider's financial resilience, their ability to

upscale and capacity within their structures to ensure delivery of the specification was not compromised.

A question was raised regarding the loan provided to EnvironmentSK Ltd, which a Member understood was actually nearly £600,000, querying how much had been paid back in respect of interest and the principal loan.

An amendment to the recommendation was suggested to reflect the options should be investigated as opposed to supported.

It was reported the loan centred around the procurement of the assets that EnvironmentSK Ltd needed to operate, including vehicles, mowers and other equipment and was a commercial loan between the Council and the company. The loan was not paid back out of any profit made by the company and had been built into the company's business model as one of its costs. Confirmation was provided that the company had requested a loan holiday midway through last year to allow its cashflow to restabilise. In the event of the incumbent provider not being awarded the new contract, assets would be appropriated back to the Council. If the service returned in-house, the assets would be transferred back to the Council. In the event that another external provider was awarded the contract, it was highly likely they would want or need the equipment to ensure the necessary infrastructure was in place to deliver the required specification. In this scenario, the assets would be sold to the new provider, offsetting a proportion of the loan against income received from the sale.

In response, a comment was made the assets would have depreciated in that time.

A comment was made regarding the previous external provider who had managed the contract, prior to EnvironmentSK Ltd, that the service at that time was not delivered to a high standard. A key problem was that the provider was located in Cheshire with teams being sent from Doncaster to address urgent issues in the south of the district. It was felt this was not representative of the Council's commitment to safeguarding the environment. In terms of the ESPO framework, the headquarters for the nearest grounds maintenance provider was Northamptonshire so the option regarding external providers would result in services that were not local, responsive or flexible. The belief was an in-house service, or service operated by a Council-owned company, would provide greater flexibility regarding any necessary variances to the specification or contract, than would be the case with an external provider.

The Cabinet Member was asked to clarify their concerns regarding EnvironmentSK Ltd's delivery of the service in accordance with the current contract. They reported having previously raised concerns at the Companies Committee regarding profitability and various aspects of the specification and works, which was one of the reasons why this review of the specification and options appraisal had been sought. They emphasised having no preconceived opinion as to the final decision in terms of which of the options in the report should be supported.

A Member explained, in the event of an external provider being appointed, the likelihood would be they would take over a local depot, staff and equipment and

effectively run it as a local business. The location of the provider's headquarters would therefore not necessarily have any impact on delivery of the service.

In terms of EnvironmentSK Ltd, a Member suggested the only way it could have made a profit was to secure external revenue and provide the service at a price which was higher than it cost to deliver it. Unfortunately, it was apparent the external revenue was not there at the correct price for the company to be successful.

Clarification was sought that staff would be consulted prior to the commencement of the options appraisal process.

The Chief Finance Officer confirmed the specification had been developed in such a way that it could be modified depending upon the costs that ultimately came back as part of the procurement process. Potential bidders would cost the contract on the frequency of cuts in line with the overall budget envelope that the Council was operating within. At this stage a contract would not have been awarded so it was perfectly reasonable for there to be a process of engagement between prospective bidders and the Council to potentially modify the frequency and complexity of the specification to suit or fall within the original budget.

It was reported that, should an external provider be awarded the contract, existing staff would TUPE across. The location of the current EnvironmentSK Ltd operation was where the previous external grounds maintenance provider had operated from. It was expected any new provider would seek to do the same ensuring they were anchored within the district and had a local presence.

In considering the recommendation contained within the report, it was suggested and agreed the words 'investigation of the possible options' be used instead of the words 'support the options'.

A further suggestion was made the words 'market testing' should be used instead of the word 'procurement'. In response, the Chief Finance Officer explained the term 'market testing' may suggest that the Council was only undertaking this process to receive the information, whereas a commitment to undertake a full procurement process represented a more serious intention to understand what the market could offer in respect of delivering the Council's grounds maintenance service.

Further discussion followed on a potential alternative option to split the contract into different parts, enabling more than one contractor to bid for respective works, as opposed to one large contract. It was acknowledged there may be opportunities in respect of local Parish or Town Councils, over time, to consider devolving some responsibility from South Kesteven District Council's grounds maintenance specification. However, at this stage it was recommended the options set out in the report should be progressed. It was emphasised the award of a contract based on these options would not prevent conversations on this basis taking place at a later stage.

Having been proposed, seconded and voted upon, it was **AGREED**:

- 1. That the Environment Overview and Scrutiny Committee and Rural and Communities Overview and Scrutiny Committee supports the investigation of the possible options in respect of the future delivery options of the grounds maintenance service and recommends to Cabinet that procurement commences to assess the future delivery options of the grounds maintenance service.**

Councillors Ashley Baxter and Phil Dilks requested that their vote against this resolution be recorded in the minutes.

The meeting closed at 15:43