

# ASSETS AND SERVICES COMMITTEE

20 MARCH 2019

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## AGENDA ITEM B2

### AMENITIES CONTRACT 17A REVIEW REPORT

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#### **Purpose of Report**

This report is to inform council and receive feedback on the review process under Section 17A of the Local Government Act 2002 for the Amenities contract.

#### **Recommendations**

Officers recommend that the Council:

1. *Receive the Amenities Contract 17A Review Report.*
2. *Provide feedback on the options of internal delivery, delivery through contract (e.g. City Care Limited) and a shared service.*

#### **1. Executive summary**

Local authorities are now under an obligation to review the cost effectiveness of current arrangements for meeting community needs for good quality infrastructure, local public services and local regulation. Where a review is undertaken local authorities must consider options for the governance, funding and delivery of infrastructure, local public services and local regulation that include, but are not limited to:

- a) in-house delivery
- b) delivery by a Council Controlled Organisation (CCO), whether wholly owned by the local authority, or a CCO where the local authority is a part owner
- c) another local authority
- d) another person or agency (for example central government, a private sector organisation or a community group).

Conducting regular section 17A reviews is a good way of demonstrating that you are delivering activities in a manner that is cost-effective for a local authority (and therefore ultimately households and businesses).

Section 17A is one of several measures designed to encourage councils to seek efficiencies, and to encourage councils to "partner" with each other and with other bodies to deliver services efficiently.

In this case we believe the reviews are required, however the cost to review options that are implausible need to be removed and the remaining options given more analysis upon feedback for council.

As time is short in this process due to reviews having been delayed for the amalgamation resolution this process is seen as the best option to expedite the process.

## **2. Background**

Service reviews are required by the Local Government Act 2002 s17A as amended in 2014. Reviewing services is mandatory requirement when there is:

- Significant change to levels of service, or
- Council enters into a significant contract for service.

Note: A significant contract for service may either be a new contract or the renewal of an existing contract.

The Local Government Act 2002 requires that all services are reviewed by 8 August 2017. After the first round of reviews there is a six-year cycle of mandatory reviews, or whenever a review is required by the two trigger points listed above. The Local Government Act 2002 requires that a service delivery review should periodically assess “the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good quality local infrastructure, local public services, and performance of regulatory functions”.

A full s17A service review determines the cost effectiveness of funding, governance and service delivery that best meet the needs of communities. Options are considered for each service being reviewed and must include the following mandatory options - Council Controlled Organisation (CCO), shared service and contracting out.

Not all services will require a ‘full’ review. At Council’s discretion service reviews are not required where:

- Council is legally obliged to deliver the service
- Council has a binding contract that has more than 2 years to run
- Council has recently carried out a review that considers the mandatory options
- Council considers that the costs of a review outweigh the benefits, such as:
  - Small service area operating costs
  - Contract value below a determined threshold
  - No workable alternatives

For those services not exempt for any of the above reasons Council is required to carry out a full detailed review. The review must consider the mandatory options and any other reasonable option including:

- In-house governance, funding and delivery
- In-house governance and funding, but

- delivery by a CCO, whether wholly owned by the local authority, or a CCO where the local authority is a part owner
- another local authority
- another person or agency (for example central government, a private sector organisation or a community group)

- Responsibility for governance and funding is delegated to a joint committee or other shared governance arrangement, with delivery options as set out above.

The Local Government Act 2002 does not define the services or what is considered 'significant'

### **3. Discussion**

#### **3.1 Options not to analysed**

(a) responsibility for governance and funding is exercised by the local authority, and responsibility for delivery is exercised by—

- (i) a council-controlled organisation of the local authority; or
- (ii) a council-controlled organisation in which the local authority is one of several shareholders; or
- (iii) another local authority;

It is the Officer's opinion that there is little value in having the formation of a CCO either singularly or jointly.

CCOs provide local authorities with opportunities and challenges. They give a local authority the opportunity to engage people with the right skills and experience to focus on operating a business or other undertaking on behalf of the authority.

The challenge is that the local authority remains accountable to its community for the CCO's performance. However, CCOs operate best at arm's length from the local authority and operate in a complex environment. Unlike a privately owned entity, a CCO must meet the expectations of both its shareholders and its community. It operates in a political environment and is accountable to its community for its use of community assets or ratepayer funds.

With SWDC's vision of "The Best Little Council" the CCO scenario puts services further removed from governance and a greater level of oversight is needed including:

- appointing directors for the new entity;
- managing an effective relationship with the CCO;

- setting an appropriate monitoring framework;
- engaging with accountability and reporting documents prepared by the CCO; and
- meeting the local authority's own accountability and reporting requirements in the Act.

The formation of such would be costly and for the relatively small size of the contract and services. A change in the governance of the services is not required and would bring no added value to the services.

The use of another authority to carry out the services would only be feasible with the use of Carterton District Council and would have to be via their in-house works. If this was a viable option it would be more cost effective to do this internally or via a shared service rather than surrender the service to a council of a similar size and similar capability.

The services discussed are of a local geographic nature and cannot be outsourced, i.e. the service needs to be delivered in the time and place e.g. a park or water plant not delivered elsewhere such as media support or IT can be.

### **3.2 Options to be reviewed**

*"responsibility for governance, funding, and delivery is exercised by the local authority:"* This is an option with an internal workforce and systems to support them.

*"responsibility for governance and funding is exercised by the local authority, and responsibility for delivery is exercised by another person or agency"* is the current model with governance and funding via council and delivery via City Care Limited.

*"responsibility for governance and funding is delegated to a joint committee or other shared governance arrangement, and responsibility for delivery is exercised by an entity or a person"* This is an option as a shared service where governance is done via a predetermined framework e.g. via committee and the works are delivered via a contractor or a business unit of the councils within the shared service. This is similar to our current Solid Waste Contract or Libraries.

These options can take several forms in operational delivery however at the high level it can be summarised as internal, external or shared service delivery.

### **3.3 Amenities**

While the argument against the formation of a CCO still holds for Amenities as it does Waters, the Amenities contract could be delivered either in whole or in part internally, via a contract or a shared service. The governance framework for a shared service would be far easier via a committee than that of a CCO.

The barriers to internal options in Amenities are low, with internal options requiring less capital outlay than other services and lower risk in delivery than waters.

### **3.4 Working with other councils**

Joint arrangements may arise as a consequence of numerous factors, not least of which is political and public pressure for efficiencies and cost savings. This was a major driver for the Amalgamation debate.

At a more pragmatic level, however, shared services can develop in response to a number of considerations. These will include meeting new statutory obligations or standards (e.g. waters and health) and the alignment of policies, plans and activities to help ensure a consistent process (e.g. The Combined District Plan rules), to enable smaller councils to build capability, and to deliver more effective services.

Joint delivery options outside of CCO's may be more feasible where all or most of the following criteria are met:

- the service requires a high degree of technical or specialist expertise
- there is little evidence of substantial variation in service levels across different local authorities
- there is evidence of economies of scale, or of the potential to recognise economies of scale
- the service involved a high level of processing of transactions
- the service has a low degree of financial or political risk
- successful delivery of service has a high degree of reliance on technology.

### **3.5 Working with community groups**

Options of shared services and internal delivery can more easily combine and utilise community input. CCO's being further removed from council governance can, at their choice utilise and combine with the community rather at the council's insistence.

Within the Amenities area there is greater scope to be enhanced through community involvement and this can be through internal delivery or via contract.

### **3.6 Systems**

The biggest issue in the move to internal teams or shared services for delivery via contract or internal business units is systems. Systems of work to attain the Level of Service (LOS) and systems of Governance to control set LOS and Key Performance Indicators.

With the AssetFinda system the control over routine work schedules and programing is overcome. However, there is substantial work in setting up

the system to achieve this. With the governance systems, this needs to be resolved collaboratively between the partners of the service before the setup of the service so a system of attaining agreement is in place to make the required decisions as the service is implemented.

Systems for Health and Safety, cost centres, financial management etc. all need development outside of the status quo of current delivery under contract with governance and funding via council.

### **3.7 Consultation**

Consultation has not been undertaken on the options to not receive detailed review over all options, i.e. CCO.

### **3.8 Legal implications**

This report meets the requirements of the Act to review the options as stated. Further analysis will be done on the remaining options to ensure the statutory obligations are adhered to through reviewing all stated options as per section 17A of the act.

### **3.9 Financial considerations**

The purpose of not having detailed analysis of insupportable options is the reduction in time and cost. The final conclusion and report will have financial implications and this will be discussed within that report and recommendation.

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