

## **Joint Committee: 21 November 2013**

### **Title: Worcestershire Regulatory Services Growth Potential – Strategic Partnership**

#### **Recommendation**

The Joint Committee is recommended to:

1. Note the further work undertaken to develop the growth potential of Worcestershire Regulatory Services
2. Approve commencement of a procurement process to test the market for interest from commercial organisations in developing a strategic partnership for delivery of regulatory services.
3. Request partner councils to identify, by 1<sup>st</sup> March 2014, additional regulatory functions to include within the scope of procurement of a strategic partnership

#### **Contribution to Priorities**

A strategic partnership will provide a means of reducing the net cost of WRS to partner councils whilst securing the capacity and resilience of WRS in an uncertain future climate. This will in turn directly support delivery of current WRS priorities.

#### **Introduction / Summary**

This report provides an update on progress in realising WRS growth potential as means of delivering net operating cost reductions to partners. It sets out proposals for a strategic partnership with a commercial organisation.

#### **Background**

In September 2012 this Committee considered a report on potential growth opportunities for WRS which would reduce the net cost of WRS to partner councils, maintain the capacity of the shared service and provide financial benefits to the partners as an alternative to continued cost reductions resulting from government austerity. It was resolved that WRS continue to explore opportunities to grow the business

## Report

by taking on other partners or being contracted to deliver similar services for others.

Over the last year considerable work has been undertaken to pursue a number of opportunities to carry out work for other councils. This has focused mainly on neighbouring county and District councils. Despite some modest value packages of work of a specialist nature being secured, it has not been possible to conclude an agreement for substantial work with another authority that will materially reduce the partners' net operating costs of WRS. One of the issues that has arisen is the basis on which work would be undertaken for. Some have expressed a preference in becoming partners in WRS whilst the view of Worcestershire Chief Executives has been very clear that any agreement should be contractual, preserving the benefits to existing partners. In part progress has also been limited by constraints of WRS managerial capacity which does not include commercial sales/ marketing skills.

During this period a number of commercial organisations have become aware of WRS interest in expanding its activities and work for other councils. This interest has led to initial discussions with a number of national companies to understand what opportunities they perceive from working with WRS. The common approach emerging from this is the commercial organisation developing a strategic partnership with WRS from which all partners would gain benefit.

Management Board has reviewed the progress to date and concluded that pursuit of a strategic partnership presents a better solution to realising WRS growth potential than trying to enter into other arrangements directly with other councils. Management Board believes a strategic partnership can deliver the following outcomes which will benefit all Worcestershire councils:

- a) Maintenance of technical expertise and capacity of WRS
- b) Retention and growth of regulatory services jobs within Worcestershire
- c) Maintenance of local, democratically determined regulatory services standards and service levels to Worcestershire residents and businesses
- d) Reduction in net cost of delivering regulatory services to Worcestershire councils.
- e) Financial benefit to Worcestershire councils from commercial development and exploitation of WRS capacity including potential initial investment linked to future cost reductions
- f) Contribution to growth in the Worcestershire economy

Management Board believes that those WRS strengths that a partner can lever commercially for mutual financial benefit are:

- a) WRS technical expertise
- b) WRS technical and administrative capacity
- c) WRS business processes and technical infrastructure
- d) Central England location
- e) Available on-site grow on space
- f) Potential client network/ sales pipeline
- g) Reputation for innovation
- h) A long term partnership arrangement, circa 15 years

We need a commercial partner to bring skills and capacity to the partnership to exploit these WRS strengths that the WRS partners either do not have or cannot direct. The essential requirements of a commercial partner are:

- a) Understanding of and established commercial links with the UK public sector market place
- b) Proven track record of developing new products and services within the UK public sector market place
- c) Experience of translating public sector skills and products to commercial offerings through partnering
- d) Up-scaling products and service into growing markets
- e) Integration of products and services with customer business processes and ICT systems
- f) Financial capacity to invest in product development and marketing
- g) Willingness to bear risk for financial gain

WRS does not possess detailed UK public sector market intelligence on present and future demand for regulatory services. Discussions with peer contacts and private sector organisations operating in the UK public sector marketplace indicate that many UK public sector organisations face the same challenges as WRS partners:

- a) Reducing funding driving the need for greater efficiencies
- b) Rising demand and customer expectations
- c) Difficulty in recruiting/ retaining staff, especially experienced specialist staff
- d) Increased pressure to develop shared services/partnership working
- e) Political obstacles to successful and timely joint working/ shared services development and implementation

WRS was created to address many of the above challenges and therefore the UK public sector provides the most immediate and obvious potential market for a WRS strategic partnership offer. Within the UK public sector the local

authority regulatory services market currently in scope for WRS is most immediately accessible and provides a platform from which to develop related regulatory products and services to other sectors. This can be readily done leveraging the technical infrastructure and business expertise developed by WRS and its partner to other services within the local authority family and public sector organisations such as police, fire and health.

Initial discussions with the private sector indicate that volume transaction processing activities like licensing and registration can be taken to market relatively quickly. This can then be built on incrementally to other services which do not depend upon physical presence for delivery such as providing technical advice. This would create early income generation enabling development of the infrastructure necessary to deliver more complex products and services including those which require “boots on the ground” and are presently out of scope for WRS such as building control and private sector housing.

WRS partners will benefit from a strategic partnership in three ways – financial, resilience and reputation.

Financial benefits will accrue from the introduction of commercially driven efficiencies and displacement of WRS support, management, infrastructure and overhead costs from the partners to customers secured through the partnership. Partners will receive a share of surpluses (profits) from provision of partnership services to external customers. It is also likely that a commercial partner will provide up-front investment as part of the return for a suitable contract period.

Creation of WRS enabled substantial efficiencies to be gained without a commensurate reduction in resilience. By retaining capacity but selling it outside the WRS partners key skills and critical mass will be maintained that would otherwise inevitably be eroded by driving down further the WRS establishment. Further development of WRS capacity over time will increase overall resilience.

Innovative delivery that maintains the quality of services to local communities whilst reducing net cost will enhance the reputation of the partner councils at a time when publicity over cuts to public services is having a generally negative effect.

## **Financial Implications**

The financial benefits from a strategic partnership are difficult to quantify because of the very limited market intelligence available to WRS and the lack of any

comparable business model operating elsewhere. From the initial discussions with a number of companies several have indicated scope for investment in WRS, reductions in costs of regulatory services to partners and potential sharing of profits. Further soft market testing needs to be undertaken to improve this understanding which will ultimately then be tested in a formal procurement.

Recent strategic partnership procurement in South Worcestershire for Revenues and Benefits has delivered revenue cost savings of around 15% from day one. On top of this there is potential for profit sharing from work undertaken for other councils. This is not a direct comparator as the nature of the work involves more volume transaction processing than would be the case for WRS.

There will be costs involved in procuring a strategic partnership. These relate to specialist legal advice and project management and are estimated in the region of £20k. These costs will be contained within the balance of funding available from WRS set up and ICT costs. There would also be significant staff resources required from the host authority

## **Legal Implications**

Extensive specialist legal advice has been sought on both the forms of strategic partnership and procurement of a strategic partner. It is clear that a strategic partnership will have to be based on a contractual arrangement between the WRS partner councils and commercial organisation involved. This has implications for the current joint committee model which relies on the Hamburg and Teckl judgements of the European Court (currently being codified into EU law) that permits public authorities to set up joint arrangements between themselves as a means of delivering their functions. The present partnership agreement would thus be superseded by a joint contract with a commercial organisation.

The value of such a contract will require it to be procured by competitive dialogue under EU procurement rules. This process is likely to take around 9 months from formal advertising of our requirements. Management Board therefore advises that this procurement process begins at the earliest opportunity.

An OJEU procurement will be required using the competitive dialogue process. This will lead to a contract between WRS partner councils and the chosen commercial organisation.

Legal arrangements will be necessary to delegate authority

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## Risk

to the strategic partnership.

There are a number of significant risks associated with the proposals set out in this report.

Though a new financial framework for WRS was agreed by the Joint Committee at its September meeting, a number of partners have identified the need for additional reductions in their contributions from 2014/15 onwards. The most significant of these is Worcestershire County Council which currently funds around 30% of WRS net operating costs.

Work is underway to agree how the County's aspirations for cost reductions can be achieved but the outcome of this is presently far from clear. It is however likely that implementation of current proposed savings would severely diminish WRS trading standards capacity. The uncertainty and impact of this would almost certainly affect the attractiveness of WRS as a strategic partner to commercial organisations. It is Management Board's view that this uncertainty and that attaching to meeting financial requirements of other partners needs to be clarified or resolved before formal procurement commences.

As noted above, whilst initial discussions with some private companies have indicated the potential for financial benefit from strategic partnership the nature and extent of this is at present far from clear. Procurement is a costly exercise not just for the procuring authority but also for bidders. If the outcomes of procurement are not sufficiently clear to bidders there is a risk they will not participate to avoid incurring abortive costs. This would also be an issue if the procurement failed to identify sufficient benefits making it worthwhile all 7 councils entering into a strategic partnership. This has potential for reputational damage to all councils concerned.

Management Board recognises these risks but considers that this work must progress alongside negotiations around future partner funding of WRS if it is to provide any alternative solution to simple cuts in contributions. Adoption of a structured project management approach will balance these risks and ensure that the project is halted if the likelihood of successful procurement becomes unrealistic.

## Sustainability

The objectives set out in this report will ensure future sustainable operation of regulatory services within Worcestershire.

**Contact Points**

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**Background Papers**

Worcestershire Shared Services Joint Committee  
18/12 Worcestershire Regulatory Services Growth Potential  
27 September 2012

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