AGENDA ITEM No. 2

NORTH LANARKSHIRE COUNCIL REPORT

TO:	POLICY AND RESOURCES (FINANCE) SUB-COMMITTEE		Subject:	DLO PUBLIC PRIVATE PARTNERSHIPS
From:	COMMERCIAL PARTNERSHIP MANAGER			Treatment of Income Streams from the Partnership Companies
Date:	22 October 2002	Ref: RE/RE	1	

1. Introduction

When the concept of the public private partnerships for DLO services was being developed in conjunction with the client departments and potential partners, one of the cornerstones of the relationship was joint working to improve the service delivery and reduce the overall cost of service delivery. The theory was based on the premise that with a contract based on cost saving rather than profit generation both sides would be incentivised to reduce direct costs thereby allowing the private sector to improve it's financial returns to its shareholders and the public sector to reduce the cost of the service and in the process achieving best value for the authority.

It was envisaged that the savings generated through this initiative would be shared equally by both parties which in turn would incentivise those involved in delivering the services to look at generating further savings across the whole procurement chain rather that managing their discrete function.

As the financial model developed it was recognised that the council's general fund would suffer from a shortfall in receipts through the loss of the DLO's contribution to central overheads and its overall profitability. After identifying this gap it was decided by the corporate management team that all profits generated by the partnerships be credited to the general fund.

2. Current Position

Having worked closely with both Housing and Property and Planning and Environment's client divisions over the past eighteen months it is evident that this policy is not allowing the council to get most out of the PPP arrangement and maximise the potential benefits of partnership working to both departments and the council generally. It should be noted at a strategic level there has been significant development work and innovation in service delivery, for example, the housing repairs pilot and GPS tracking systems for vehicles maintaining the roads network. As the incentivisation to generate cost savings does not have a direct impact on those delivering the service which would allow line managers to:

- Get more repairs for the same cost
- Improve the quality of service through investment in systems and processes

there is very little buy-in to adopting new working practices or taking ownership of the full procurement chain, particularly at operational level.

3. Financial Issues

The council receives a guaranteed income from the partnerships each year based on a discount on turnover and incremental efficiency savings. The Volume Discount varies from 2.02% to 8.25% depending on the partnership agreement and in addition the partnerships guarantee to reduce unit costs year on year from between .25% to .5%.

This year the council have budgeted for an income of £1.419m from these sources.

The council also have the opportunity to benefit from special dividends and shareholders dividends equal to half of the overall profit generated by the companies. This potential income is not guaranteed and can only be realised through efficiencies in the procurement chain and business development. Client departments have the ability to significantly influence and contribute to the outcome of this element and in some cases may incur direct costs in the process.

The Council has already included in it's 3 year financial plan, a net income figure of £1.519m for financial year 2003/04. This is aggregated from projections of discounts, efficiency savings, dividends and expenditure incurred by the Council on items such as pension reimbursement to the PPPs.

4. Recommendations

To maximise the financial benefits of the PPP's to the council, the committee is requested to approve:

- i) The hierarchy of income from the partnership companies should be streamed in the following order:
 - a) Guaranteed Volume Discounts and Efficiency Savings General Fund
 - b) Preferential Dividends (additional contract efficiency savings) Client Department Contract Discounts on turnover in excess of budget Client Department
 - c) Shareholder Dividends

Commercial Partnerships

(Chief Executive's)

Income streams under (b) and (c) should only be distributed on the financial projections being achieved.

- ii) Income streams to departments require to be used for:
 - Improvements to service provision on the term contract
 - The reduction of unit costs thereby increasing the amount of maintenance carried out for the same cost.
 - Offsetting departmental efficiency savings
- iii) The Commercial Partnership Manager in conjunction with the Director of Finance and client departments determines the most effective way to identify and distribute the additional revenues.

Reports are submitted to the appropriate committees for their interest



Commercial Partnership Manager

For further information on this report please contact Russell Ellerby on $01698\ 302737$