

North Lanarkshire Council Report

Environment and Transportation Committee

Agenda item _____ approval noting Ref GS/NP/KS Date 24.01.19

Amey Public Services LLP: Operational Performance Monitoring Report for Q1 and Q2 2018/19 and Financial Performance as at 28 September 2018

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Executive Summary

This report outlines Amey Public Services (APS) Limited Liability Partnership (LLP) performance against its' business objectives and Council priorities for Q1 and Q2 of 2018/19, as well as financial performance as at 28 September 2018. This report also informs members of the outcome of the recent Year 8 Best Value Service Review.

Recommendations

Members are asked to:

- (1) Note APS LLP's operational performance for Q1 and Q2 2018/19, along with service delivery highlights from the same period;
 - (2) Note APS's financial performance as at 28 September 2018;
 - (3) Note the outcome of the Year 8 Best Value Service Review, and;
 - (4) Identify areas of activity requiring further detailed consideration by the Environment and Transportation Committee.
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Supporting Documents

Council Plan The Council's Service Level Agreement with APS requires the LLP to not only deliver satisfactory service performance, but also to deliver a number of additional benefits to support the Council priorities. The key performance indicators attached to Appendix One of this report demonstrate where these additional benefits are impacting on the Council priorities and were reviewed as part of the Year 8 Best Value Service Review.

Appendix 1 Q1 and Q2 2018/19 Performance Indicators & Outcomes

Appendix 2 Financial Performance as at 28 September 2018

Appendix 3 Balance Sheet as at 28 September 2018

1. Background

- 1.1 The Council created the roads, street lighting and winter maintenance services LLP in 2010, following a tender exercise for a strategic partner to deliver such services over a ten year period. The successful bidders were Amey Local Government Limited and the contract commenced on 21 January 2011. Amey LG Ltd (now Amey Public Services LLP) owns a 67% shareholding in the strategic partnership with the Council owning the remaining 33%.
 - 1.2 The Council expected the partnership to secure local employment, source local supplies and services, and ultimately secure continuous improvement in the repairs services delivered to North Lanarkshire residents.
 - 1.3. A Management Committee consisting of representatives from both APS and North Lanarkshire Council is responsible for the LLP's governance, which includes operational delivery and management, staffing, financial control and reporting, health and safety, performance monitoring and risk management. The Management Committee currently meets quarterly, with Council representation consisting of one senior Officer and one Elected Member, and APS LLP membership comprising up to four representatives.
 - 1.4 The Performance Monitoring Framework approved by the former ALEOs and External Bodies Monitoring Sub-Committee in May 2016 requires members to consider APS LLP performance twice per year.
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2. Report

Performance Indicators

- 2.1 The outcomes from the Q1 and Q2 2018-19 performance indicators are detailed within Appendix 1. APS have met or exceeded in all key performance indicators during the reporting period.

Overview of Governance Arrangements

- 2.2 As referenced in section 1.3 above, Council representation on the Management Committee enables the Council to maintain an overview of the LLP's overall performance and governance arrangements.
- 2.3 APS LLP largely satisfies the Council's required oversight arrangements, and routinely submits the monitoring information expected by Council officers in line with the timeframes specified within the LLP Agreement. In previous years, APS have failed in their requirement to prepare a draft Business Plan at least 30 days prior to the commencement of each financial year, which runs January to December, however, a draft Business Plan for the period to June 2021 was presented to the APS Management Committee at their meeting on 10 December 2018.

Year 8 Best Value Service Review

- 2.4 As per the Works Agreement, service reviews require to be carried out jointly at year 4 and 8 of the strategic partnership. The Planning and Transportation Committee considered the findings of the Year 4 review and approved the requirement for the Council to continue working with APS LLP to identify opportunities for the business to establish a stable financial position.

- 2.5 The Year 8 review commenced in July 2018 with the outcome initially reported to Infrastructure Committee in November 2018, but then carried forward to Policy and Resources Committee in December 2018. The review recommended that the Head of Environmental Assets conduct a market testing exercise to identify whether amending some of the existing contract rates and prices for a term beyond June 2021 will be more beneficial to the Council than ceasing the contract at its natural termination date. A benchmarking exercise is now currently in progress with the outcome to be reported to a future Committee.

Comments, Compliments and Complaints

- 2.6 APS do not receive complaints directly, instead they are filtered and managed through the Council's internal complaints management system. No complaints were received against APS during April – September 2018.
- 2.7 One compliment was received in August 2018 for works in the resurfacing of Towhead Road, Coatbridge, which reduced noise levels caused by HGVs.

Service Delivery Highlights

- 2.8 The following service delivery highlights were achieved during Q1 and Q2 of 2018/19:-
- APS successfully completed the carriageway surfacing programme (circa £2.3M);
 - APS successfully started the LED replacement programme on residential roads and footpaths, and the programme is progressing well. To date in excess of 8,000 new lanterns have been installed;
 - Following a successful work placement, Amey employed a Care Experienced Young Person on its Apprentice programme;
 - Amey assisted in NLC's 'Get Ready for Work' programme by participating in mock interviews of S4/S5 pupils;
 - APS signed up to the Braidhurst High School Partnership Agreement, and;
 - There has been a continued downward trend in overdue works instructions (down 35% in number and 20% in value).

3. Equality and Diversity

3.1 Fairer Scotland

There are no considerations which require to be addressed at this time.

3.2 Equality Impact Assessment

There is no requirement for an Equality Impact Assessment at this time.

4. Implications

4.1 Financial Impact

Public Accountability Obligations – Financial year 2018/19

- 4.1.1 To satisfy the Council's duty to ensure the organisation delivering roads, street lighting and winter services on its behalf is financially sound, the Council's

Section 95 Officer maintains appropriate and proportionate processes and procedures for scrutinising APS LLP's financial performance.

- 4.1.2 The Council's Legal Agreements with APS LLP specify the financial information which must be submitted to the Council including an annual business plan, monthly management accounts, audited financial statements etc., to enable Financial Solutions to assess and report any financial risk likely to arise as a result of the Council using APS LLP to deliver these services.
- 4.1.3 The Council expends both revenue and capital resources annually with APS LLP to deliver services which assist the Council in achieving its priority outcomes. For the Council's financial year 2018-19, sums of £11.327m and £9.780m are budgeted in respect of revenue and capital respectively for roads and lighting maintenance. APS operates a financial year ending 31 December 2018, and revises its forecast twice throughout the year. Based on APS revised forecast (RF2), works from the Council represent around 94% of annual anticipated net turnover.

Approved Budget and Revised Forecast 2018

- 4.1.4 The 2018 budget anticipated a breakeven position on turnover of £13.8m. As previously advised this was based on a Partnership Improvement Proposal (PIP) being agreed between the Council and the LLP. Whilst some of the improvement actions have been implemented work continues to finalise all measures. Therefore as the approved budget is not reflective of the current operating position a revised operational forecast (RF2) was recently approved which better reflects the projected financial performance for 2018. This provides a forecast trading profit for the year of £1.018m on turnover of £16.978m, mainly due to increased margins from Winter works in the earlier part of the year, and LED lighting works later in 2018. In addition, it is estimated £0.550m of the provision for future losses will be written back into the profit and loss due to the contract projecting a trading profit in the year of £0.468m. As the positive trading is mainly due to one-off effects the position will continue to be closely monitored going forward.

Financial Performance as at 28th September 2018

- 4.1.5 Based on their financial statements to 28th September 2018, members will wish to note the LLP is currently reporting a positive performance indicating a year to date accounting profit of £0.904m, which is a £0.113m favourable variance to the revised RF2 YTD forecast profit of £0.791m. Appendix 2 provides further details regarding the LLP's financial position as well as commentary to explain the key variances reported.

Overall Financial Standing – Balance Sheet as at 28th September 2018

- 4.1.6 Appendix 3 provides key balances to give members an update on the overall financial standing of the company, as at 28th September 2018, along with the previous year's comparator figures. Key balances and indicators worthy of specific note include:
- a) As a result of previous year losses the company has cumulative net liabilities of (£9.497m), an improvement on the previous year position of £0.904m, which primarily reflects the 2018 accounting profit.
 - b) A comparison of the LLP's current assets to its current liabilities equates to a net current liability of £0.974m and a current ratio of 0.65. However, a

ratio of less than 1 is generally an indication of an organisation having insufficient resources to meet its obligations, and in this instance, indicates the LLP continues to rely upon the approved parent company loan outlined below.

- c) The cumulative losses materially affects the management of cash, which totalled £0.672m and must be closely monitored to ensure the LLP has sufficient working capital to pay salaries, creditors and HMRC etc. Positive trading during 2018 has assisted with cash forecast to reach a high of £0.899m in November reducing to £0.709m in December 2018, the company's year-end.
- d) The LLP has a long-term liabilities balance of (£7.117m), which predominantly reflects current loan support of £5.956m provided by the parent company Amey LG to enable the LLP to continue delivering services. There are currently no expectations that any additional loan support will be required in 2018. Financial Solutions officers regularly obtain assurances from the LLP and Amey LG regarding their continued loan support.

4.2 HR/Policy/Legislative Impact

- 4.2.1 This report does not require consideration of any HR/Policy or Legislative impacts.

4.3 Environmental Impacts

- 4.3.1 During the reporting period APS introduced a new Environmental Reporting tool which has ten reporting metrics and a further six indicators. Month on month improvements have been evidenced in their rolling 12-Month Carbon Footprint/£M turnover, Waste Cost/£M turnover and Fuel Cost/£M turnover metrics.

4.4 Risk Implications

- 4.4.1 APS is deemed to have well "Established" risk management arrangements in place and these are routinely considered by the Management Committee to ensure any impact on service delivery, and therefore Council reputation, is minimised.

5. Measures of success

- 5.1 These reports are intended to give Members an insight into how the LLP is performing and where it is supporting delivery or adding value to the Council's priorities.
- 5.2 The Year 8 service review confirmed that the partnership is delivering on a number of its key objectives although it has fallen short in terms of overall financial expectations. Nevertheless, the partnership does deliver a cost effective service, with current rates representing very good value for money for the Council.



Head of Business Solutions

Q1 and Q2 2018/19 Performance

Service Area	Target Outcome/Purpose	2018/19 Target	2017/18 Actual	Q1	Q2	Comments
Improved Economic Opportunities and Outcomes						
OBJECTIVE: Provide supported routes out of unemployment or underemployment						
Number of Modern Apprenticeships	Contribute to the long-term economic sustainability of North Lanarkshire.	3	3	3	3	As part of APS's ongoing commitment to this programme in Q3 they have taken on a further two Apprentices.
Number and % of LLP workforce within age 16-24 age bracket	Contribute to the long-term economic sustainability of North Lanarkshire by recruiting locally based employees	5%	9 of 140 (6.4%)	8/137 5.84%	10/141 7.09%	APS continues to employ both full-time staff and apprentices in this age bracket and will continue as part of its succession planning strategy. Further, the two apprentices taken on in Q3 both fit this age bracket criteria. APS continue to investigate new ways to advertise these positions as they look to fulfil the future needs of the LLP, both from an age and diversity profile.
OBJECTIVE: Improve infrastructure to help current and incoming businesses to grow and create employment						
Number and % of street lighting repairs completed	To enable vulnerable people to feel safe in their local area	95%	95.5%	98.55%	95.75%	APS performance improved significantly in Q1. Although, there was a drop-in performance in Q2 it was still above the target/performance threshold. The current Q3 performance (end October) is back up at 97.95%.
OBJECTIVE: Help current and incoming businesses to grow and create employment						
Number of local suppliers	Contribute to the long-term economic sustainability of North Lanarkshire	7	7	7	7	APS has maintained its relationships with and use of local suppliers across contract works activities.

Service Area	Target Outcome/Purpose	2017/18 Target	2017/18 Actual	Q1	Q2	Comments
Supporting all Children to realise their potential						
OBJECTIVE: Maximise employment opportunities through our Education Provision						
School engagement activities	Provide young people with an opportunity to get an insight into a possible career and route to work	2	1	5	2	APS undertook a number of activities in Q1/Q2: Q1 – Mock interviews as part of NLC's 'Get Ready for Work' conference; Junior Roads Safety Officer (JRSO) programme awards ceremony; attendance by Amey vehicle (TRISS) at Bargeddie PS fun /open day; and 2 one-week school work placements (one NLC pupil one SLC pupil); Q2 – 1 one-week school work placement (NLC); APS attended three JRSO programme induction mornings.
Improving the Council's Resource Base						
BVES efficiencies	To positively support the partnership, deliver efficiencies to the Schedule of Rates payable via the works agreement	N/A	£341,706.98 (2017 BVES)	N/A		There is no target for BVES as this is calculated as a percentage of annual spend. The BVES is paid to NLC annually (based on calendar year spend) and is not expected to be paid until end January 2019.
Links with NLC and its subsidiary companies - Premises	Contribute to the long-term economic sustainability of North Lanarkshire.	2	2	2	2	APS continues to lease two depots from North Lanarkshire Properties LLP at Bargeddie and Blairlinn depots. In addition, for the APS Open day in September, APS hired Burnhead Community Centre, Viewpark via Culture NL.

Financial Performance as at 28 September 2018

Income & expenditure	2018 Annual Forecast (RF2) £m	2018 Year to Date			2017 Final Outturn £m	Commentary
		Revised Forecast (RF2) £m	Actual £m	Variance £m		
Income from NLC	15.666	13.083	13.354	0.271	13.191	Increased revenue due to Highways, LED and Winter works
Strategy WIP (net of provision)	0.241	0.090	0.431	0.341	(1.367)	
Other 3rd party income	1.071	0.811	0.752	(0.059)	1.222	Other clients inc. other local authorities
Total Income	16.978	13.984	14.537	0.553	13.047	Increased revenue due to surfacing, LEDs and 3rd party works
Expenditure;						
Employee costs	(5.557)	(4.537)	(4.870)	(0.333)	(6.107)	Increased employee costs
Sub-contractor costs	(1.700)	(1.477)	(1.952)	(0.475)	(1.297)	Increased costs due to utilising sub-contractors for highway surfacing works
Materials	(5.944)	(5.330)	(4.952)	0.378	(3.980)	Decreased expenditure due to increased highway surfacing by sub-contractors
Plant & Vehicle costs	(2.735)	(1.964)	(1.924)	0.040	(2.679)	
Property, Communications & Other	(0.573)	(0.435)	(0.484)	(0.049)	(0.603)	
Total resources expended	(16.510)	(13.743)	(14.183)	(0.440)	(14.666)	
Trading profit/(loss)	0.468	0.241	0.354	0.113	(1.619)	
Contract Provisions	0.550	0.550	0.550	0.000	0.000	Write back of contract losses provision for year
Management Fee	0.000	0.000	0.000	0.000	0.340	
Accounting profit/(loss)	1.018	0.791	0.904	0.113	(1.279)	

Overall Financial Standing - Balance Sheet as at 28 September 2018

Balances/ Indicator	2018 YTD Actual £m	Commentary	2017 £m
Stock	0.559	Predominantly salt and LED units	0.411
Trade Debtors	0.135	£0.020m not yet due for payment - balance of £0.115m mainly Crown Damage which is being pursued/managed	0.831
Accrued Debtors inc. prepayments	0.474	Predominantly work in progress, and rent & rates prepayments	0.172
Trade Creditors	(1.125)	Material balance which Amey aim to pay within agreed terms of 60 days	(0.584)
Other Creditors inc. VAT & other taxes	(1.688)	Accruals, deferred income and VAT	(2.379)
Cash/ Bank	0.672		0.517
Net Current Assets/ (Liabilities)	(0.974)		(1.032)
Long term Loans	(7.117)	Predominantly parent company loan of £5.956m and payroll costs to group of £0.733m. Cash management to ensure payments to suppliers has resulted in higher balances due to group for payroll costs.	(7.412)
Contract Loss Provision	(1.406)	Provision for estimated future contract losses until end of term 2021	(1.956)
Net Asset / (Liabilities)	(9.497)		(10.400)
Current Ratio	0.65	Less than 1.0 which reflects the reliance on parent company loan	0.65