

Ip&e Ltd – A company wholly owned by Shropshire Council

1 Background

1.1 Shropshire Council began a programme of organisational re-design, informed by a more robust understanding customer need, having already taken £87m out of its budget since 2009. In 2012 Shropshire Council created ip&e Limited, a company that is wholly owned by the Council, which is now central to the Council's plans to improve outcomes for residents and businesses, reduce costs and generate income.

1.2 The company's business and growth strategy aligns with the Council's need to save a further £80m by reinventing the way all council services work, focused on the customer, cutting out waste, managing demand, creating job growth and where possible, reinvesting profit for public good. This also tied in with Shropshire Council's aim to become a commissioning council, with a relatively small central commissioning and democratic core.

1.3 Politically the creation and ownership of a local authority trading company as the provider of choice was deemed by Shropshire Council's Cabinet and Council to be preferable to a straight outsourcing model.

1.4 ip&e limited provides a range of frontline and business support services, delivering better outcomes for people. Everything we do is designed to add value. Our key asset is our staff. We are innovative and different. We apply a deep understanding of the public sector in which we work, along with the ability to design and create better solutions for local people and our customers. This provides better value services and outcomes for less cost.

1.5 The profit we earn is invested back into public services and delivering better outcomes. We do not pay dividends to private individuals. This is a key feature and benefit and one which appeals to public sector and third sector clients along with Shropshire residents.

1.6 The company has ambitious plans for future growth. The company's turnover is estimated to rise from just over £1m in financial year 2014/15 to £15m by the end of financial year 2015/16. Our workforce will expand from 50 to over 500 members of staff at the end of the financial year.

1.7 Our principal client is Shropshire Council and the residents of Shropshire. We also deliver frontline and design and consultancy services to other public sector clients outside of the county. We are also about to expand our customer base to provide services for private sector and third sector clients. We operate across the UK.

1.8 Our public sector consultancy business is set to expand over the next 12 months. Our client base is increasing nationally as we continue to use frontline professionals, design consultants and professional associates who review, design, test and deliver new ways of working that benefit local people and local communities.

2 How was ip&e set up?

2.1 A company model was used, further to statutory powers under the Localism Act 2011, to enable profit to be generated by trading with a view to creating 'public profit'. Any return made by the company can be re-invested in local public services. This can be done relatively quickly and needs to include the identification and appointment of directors and the formation of a board comprising officers and Members.

2.2 In Shropshire, the first step was to create the company and develop a 'strategic contract' between the council and the company to deliver services on the council's behalf. The original model was to simply transfer support services into the company and provide them back to the Council and potentially sell managed support services to other local authorities.

2.3 A council operating in this way would be considered to be a 'Contracting Authority' under the Public Contracts Regulations 2006 the council would have to undertake open procurement processes in the award of its contracts under the Regulations. To enable the direct award of contracts to a council-owned company, a council has ensure the company is able to take advantage of the 'Teckal' exemption so as to enable the contract award to be treated as an award of a contract 'in house', without undertaking an open procurement.

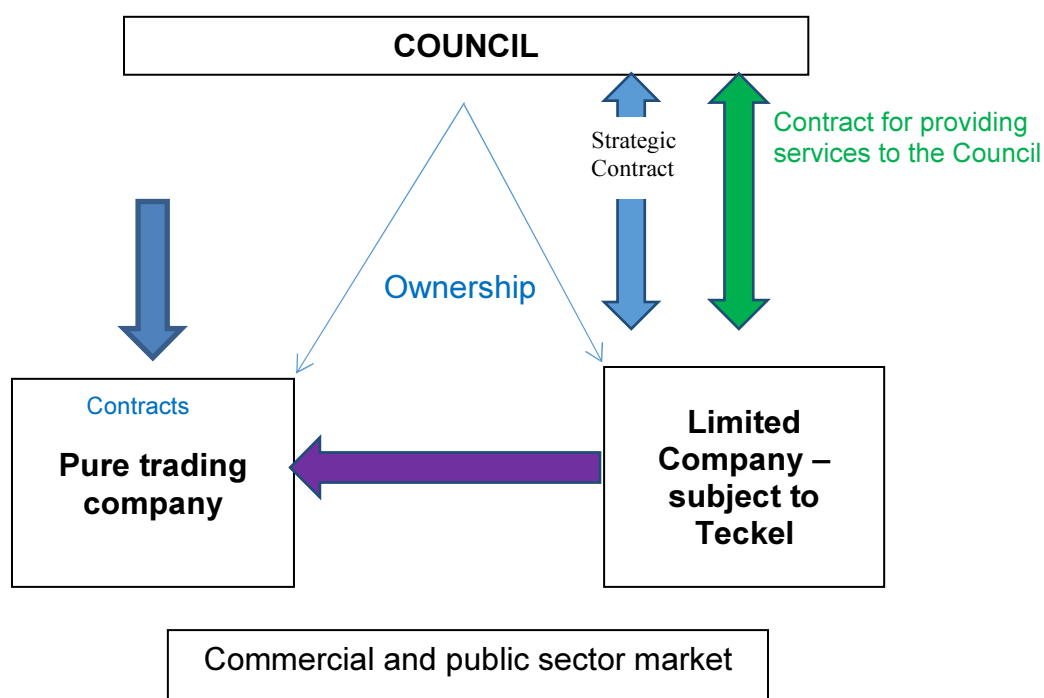
2.4 The criteria for qualifying for the Teckal exemption are that the:

1. company is wholly controlled by public bodies (without any private ownership) including by the public body contracting with the company (the 'control test'); and
2. the essential part of the company's activities must be undertaken for the member(s) of the company (the "function test").

2.5 'Essential part' is currently interpreted by case law to mean approximately 90% of the turnover of the company. The legislation on this is changing as a result of a European directive. The essential element has reduced to 20%.

2.6 As a result of the restrictions of the Teckal exemption, and to maintain Teckal status, a company is restricted in its ability to trade with third parties. However, it is possible to do this. Shropshire Council has set up a second company as part of a group to focus purely on traded activity. This second company would not be required to utilise the Teckal exemption, to undertake commercial trading with third parties.

Overview of company structure



3 Business Support and Regulatory Services

3.1 In parallel to the development of ip&e, work began on creating an innovative model for the delivery of regulatory, development management and business support services. The idea was to bring together most of the Council's main regulatory and planning functions including: Trading Standards, Environmental Health, Licensing, Development Management, Building Control and Natural and Built Environment Services – we gave the group the working title of Fulcrum Business Support and Regulatory Services. The business model was relatively simple: we would focus on reducing our operating and support costs; explore how we could generate new income streams to protect the services from the effects of continually reducing revenue budgets; and we would try to create a new organisational culture taking the best of the public service ethos combined with a more commercially astute approach.

4 Identifying and Understanding the Risk

4.1 Our first task was to understand and manage risk by identifying a number of delivery models and seeking specialist legal advice. In particular, we wanted to know whether and how we could trade and generate income and understand if this could compromise our core regulatory roles and duties. We originally looked at four options: a social enterprise model, a strategic partnership/joint enterprise, formal or informal collaboration and delivery through a council company. We completed a comprehensive options appraisal and risk assessment, informed by the legal advice, and came to the conclusion that the best option was to re-design and deliver services through a council-owned company – that's where ip&e Ltd came in. This

model would allow us to trade commercially with a focus on both public sector and commercial markets.

5 Creating a New Delivery Model

5.1 At the outset we wanted to reduce costs and exploit the benefits of technology to support this quest and to increase our productivity through a greater focus on agile working. We wanted to reduce our reliance on using traditional office space, moving to a hot-desk' environment, using local hubs and home working to both reduce our accommodation costs but to support the wider culture change we were trying to promote.

5.2 We also reduced our management costs and re-balanced the professional and technical roles to deliver some functions and activities more efficiently and cost effectively. We had to make a relatively small number of compulsory redundancies but the majority of these were in management posts. Overall since 2009 we have taken around £4m equivalent to around 55% of the gross budget so really had no further to go – we are now leaner than lean!

5.3 In completing this re-design, we believe we can create sufficient capacity in the system to maintain the correct balance between delivering core regulatory services which remain fit for purpose and resilient and generating new income streams from the public and commercial sector markets. Maintaining service quality levels and improving where we can is fundamental to the re-design. We have extensive experience of using a robust methodology for measuring and tracking customer satisfaction and improving customer service processes called SERVQUAL. It has been around for some time, but not terribly well known or utilised in the UK, but it works when combined with more qualitative approaches. It helps to baseline initial customer perceptions and expectations and provides valuable information to target improvement activity.

6 Adopting a More Commercial Approach

6.1 We anticipated the main benefits were the ability to generate new income streams to support the continued delivery of core regulatory services functions, the ability to create a new service culture reducing reliance on bureaucratic and convoluted processes and over burdensome policies and to have the freedom to buy support services in the market – demanding higher quality and lower cost.

6.2 Clearly, the latter freedom to operate in this way presents a major challenge for the Council's Commissioning and Support Services functions in terms of how to fund to fund commissioning and support services if individual services and teams could go to the market for their support services like HR, Finance, Legal, IT and Customer Contact.

6.3 It was this latter development which allowed ip&e Ltd to contract with Brent Council for the completion of a review of their regulatory services functions. This provided an opportunity to demonstrate its capability and effectiveness as a commercial enterprise and to deliver a high quality review, recommendations for improvement and an implementation report for Brent. We believe our experience

and capability, combined with our understanding of local government and our ability to trade, provides a viable, more attractive and cost-effective alternative to private sector consultants which other Councils might want to utilise.

**Paul McGreary Operations Director Local Government ip&e Ltd 24 June
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