

Meeting: Cabinet
Date: 4 March 2024
Classification: Part 1
Key Decision: No
Title of Report: Independent review of Southend Care Ltd and Vecteo

Executive Director: Claire Shuter, Executive Director of Strategy and Change
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Executive Councillor: Cllr Tony Cox, Leader of the Council

1. Executive Summary

- 1.1. In November 2023, Southend City Council (SCC) appointed 31ten Consulting to undertake an independent review of two of its wholly owned companies; Southend Care Ltd (SCL) and LHCS & Southend Travel Partnership Ltd (known as 'Vecteo'). The outcome of the review recommends that the Council continue with the wholly owned companies but with significant changes to the governance, operational efficiency, commissioning, contract management and relationship management.

2. Recommendations

It is recommended that Cabinet:

- 2.1. **Accept the findings of the independent reviews of Southend Care Ltd and Vecteo**
- 2.2. **Approve the implementation of the proposed recommendations and that the Shareholder Board will monitor the progress against the action plan**

3. Background

- 3.1. In November 2023, Southend City Council (SCC) appointed 31ten Consulting to undertake an independent review of two of its wholly owned companies; Southend Care Ltd (SCL) and LHCS & Southend Travel Partnership Ltd (known as 'Vecteo').
- 3.2. The independent review followed SCC's own recent internal audit and financial assessments. The review considered and reflected on the findings of this work and evaluated whether the companies are viable entities, capable of providing a financial return to SCC and delivering quality services.

3.3. 31ten considered the strategic context for the operation of the companies, conducted a desktop review and stakeholder interviews to establish a financial baseline and current state, and presented an options appraisal for the business operating model.

4. Findings and recommendations

4.1. Summary of findings specific to SCL:

4.1.1. Financial assessment: The company performed well over its first five years of trading but increased cost pressures from salary costs and higher than expected inflation has resulted in financial instability. The proposed savings plans are considered to be potentially deliverable but may have wider implications that needs further analysis.

4.1.2. Stakeholder review: The evaluation identified opportunities to move to a more community-based model of care, the adaptability of the company to changing market preferences, and a view that the SCL and SCC were more distant in their relations than would be expected for a Teckal company.

4.1.3. Benchmarking review: This identified that for residential and nursing care rate better value is available in the local market than current contract rates with SCL. Project 49 and Viking House were considered to be operating significantly under capacity, inflating costs.

4.1.4. Governance and management review: The links with the Council could be further deepened to ensure the alignment of the Service Plans and Company Business Plan with Council priorities to limit duplication, focus on the customer journey, and deliver a more holistic service.

4.1.5. Options Appraisal: Four options were identified and assessed against financial and non-financial criteria.

Option 1: Continuing with the current arrangements.

Option 2: Maximising the benefits of "Teckal" status.

Option 3: Moving the services in-house for Council delivery.

Option 4: Collapsing SCL and commissioning services from an external provider.

Option 2 "Teckal Maximisation" was recognised as the preferred option for the following key reasons;

- It had no negative financial impact.
- No negative impact on the ability to trade.

- Gives SCC a greater level of control to plan services and support integration.
- Cost of change is relatively low.

4.2. Summary of findings specific to Vecteo:

4.2.1. Financial Assessment: With the inception of Vecteo (March 2020) coinciding with the outbreak of COVID-19, Vecteo suffered major financial pressures, and as such were unable to mobilise their intended business model to self-deliver more routes to maximise fleet usage through integration of services as well as re-tender and engage with a variety of transport providers. External drivers (e.g. inflation, COVID) placed Vecteo in a challenging financial position whereby rising costs required additional investment from the Council in order to maintain operations and service delivery.

4.2.2. Stakeholder Review: The evaluation identified several cross-cutting themes:

- Cost misalignment
- Lack of clarity over the company's purpose and objectives
- Lack of clarity over roles and responsibilities
- Unrealistic expectations
- A lack of clarity over the process for route planning and route optimisation and
- a lack of clarity over responsibility for compliance.

4.2.3. Benchmarking Review: The review identified that the cost of the Council's direct delivery of SEND transport is cheaper than that commissioned from the wider local market when examining the average daily cost per child. When considering costs in other comparable Local Authorities, Southend pays less for SEND transport for school age children and young people than Medway, Bournemouth and Swindon but more than the Isle of Wight. From the data reviewed it can be concluded that it is cheaper for Vecteo to directly deliver this service than for Vecteo to commission this service from the local market.

4.2.4. Governance and Management Review: Whilst Vecteo was initially established as a Joint Venture partnership, it is now wholly owned by the Council. It is structured as a wholly owned company limited by shares. Several opportunities have been identified that would support the commercial progression of Vecteo. Due to the complex nature of the company's establishment, it is yet to maximise the benefits of a Teckal structure.

4.2.5. Options Appraisal: 5 options were identified and assessed against financial and non-financial criteria:

Option 1 – Continuing with the current arrangements (As Is)

Option 2 – Moving the company to “Teckal” status

Option 3 – Moving third party commissioned services in house and continuing self-delivered services through the company (Hybrid)

Option 4 - Moving third party commissioned services in house and continuing self-delivered services through the company utilising Teckal status (Hybrid+Teckal)

Option 5 – Moving all the services under Council control

Option 2 (Teckal) was chosen as the preferred option. The Options appraisal has demonstrated a clear preferred direction of travel in the form of the 'Teckal' option, as outlined below:

- No negative financial impact.
- No negative impact on the ability to trade.
- Provides SCC a greater level of control and a better ability to jointly plan services and resources across the Council.
- Cost of change is relatively low.

4.3. Appendix 1 sets out the recommendations from the review, owners and timescales for implementation.

5. Reasons for Decisions

5.1. The findings and recommendations presented are the result of an independent review.

6. Other Options

6.1. Comprehensive options have been presented in both reviews. In addition the Cabinet could decide not to accept the findings of the review or the recommendations and continue with the arrangements for the companies as they are. The likely consequence of this is that the financial viability of the companies will deteriorate and the quality of services will be compromised.

7. Financial Implications

7.1. Implementation of the recommendations identified through the independent review should enable the companies to return to or sustain financial viability and enable savings for the Council.

8. Legal Implications

8.1. Section 95 Local Government Act 2003 enables the Council to undertake commercial activities in relation to their ordinary functions. This power authorises the Council to provide transport facilities connected to its SEND functions. The power to trade for commercial purposes is extended by the general power of competence in the Localism Act 2011.

- 8.2. This activity can only be carried out by a company within the meaning of the Local Government and Housing Act 1989. Companies under the control of local authorities and subject to their influence are governed by the provisions in Part V of the 1989 Act.
- 8.3. A company limited by shares offers greater flexibility to the Council, particularly in relation to the distribution of profit and raising capital. Any profits that are made may go back to the council through the payment of dividends or service charges. The Council must also ensure full cost recovery for any services or resources it provides to the companies.
- 8.4. How the companies are run, managed and financed will require oversight by the S151 officer and Monitoring Officer to ensure compliance with the rules governing local authority companies.
- 8.5. The Leader/Cabinet act as the shareholder on behalf of the Council and the Shareholder Board has delegated authority to manage the companies. These reviews may prompt a refresh of the terms of reference of the Shareholder Board and a review of the governance underpinning the companies.

9. Policy Context

- 9.1. None arising from this report

10. Carbon Impact

- 10.1. None arising from this report

11. Equalities

- 11.1. Both companies provide services to residents with protected characteristics. Improvements to the governance and financial stability will support the companies and associated services to continue.

12. Consultation

- 12.1. 31ten worked collaboratively with SCC officers and key stakeholders in SCL and Vecteo throughout the review.

13. Scrutiny

- 13.1. This report was presented to Policy & Resources Scrutiny on 15 February 2024.
- 13.2. In response to the questions raised by the committee, clarification has been added to recommendation VEC13.

14. Appendices

- 14.1. **Appendix 1**: Recommendations

15. Report Authorisation

This report has been approved for publication by:		
	Name:	Date:
S151 Officer	Joe Chesterton	26/01/2024
Monitoring Officer	Kim Sawyer	25/01/2024
Executive Director(s)	Claire Shuter	25/01/2024
Relevant Cabinet Member(s)	Cllr Tony Cox	30/01/2024