

<b>CABINET</b>	<b>DATE</b> 24 July 2024	<b>ITEM NO</b> 15
<b>TITLE</b> GS Plus Ltd and GSS Ltd – Review of Direction of Travel	<b>WARD (S)</b> All	
<b>CHIEF OFFICER</b> Director of Finance	<b>CABINET MEMBER</b> Finance, Resource and Social Value	
<b>DECISION CLASSIFICATION</b> Key Non-exempt report & appendices	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b> Yes	

## **I. Decision Required**

This report makes the following recommendations to the decision-maker:

- 1.1 To agree to the continuation of the Council’s trading companies GS Plus Ltd and GSS Ltd beyond 31 March 2025, based on the existing delivery model and governed by a new 10-year Strategic Partnering Agreement to be developed and implemented by this date.
- 1.2 To agree to retain the responsibility for the net assets / liabilities from GSP’s membership of the RBG Pension Fund (the pool is currently fully funded).

## **2. Links to Our Greenwich missions**

2.1 This report relates to the Council’s agreed missions as follows:

- People's health supports them in living their best life – the Facilities management and cleaning services promote safe and healthy learning, working and public amenity environments.
- Children and young people can reach their full potential – SEN passenger services provide safe and supported transport to school for the most vulnerable.
- Greenwich plays an active role in tackling the climate crisis and improving environmental sustainability, in line with our commitment of being carbon neutral by 2030 – Fleet Management provide modern, well-maintained vehicles that fully comply with or out-perform current emissions standards and work to support RBG goals.

- Everyone has the opportunity to secure a good job – the Companies embrace the London Living Wage as a minimum and provide additional pathways to local employment through the in-house Gateway Agency.
- Our Council works in the most efficient and effective ways possible – as a hybrid provider of essential public services, the companies have developed a results-driven, flexible and cost-effective service.

### 3. **Purpose of Report and Executive Summary**

- 3.1 This report asks Members to consider the future direction of travel of the Council's trading companies GS Plus Ltd and GSS Ltd in view of the fast-approaching timescale covering the existing period of trading up to 31 March 2025 and the substantial turnaround and lowered risk profile that has been achieved in the companies' financial performance and ongoing prospects, including external funding opportunities since the last review in 2019. Together with the benefits of avoiding further TUPE of GSP/GSS staff to alternative school cleaning providers and the employment impact of redundancies outlined in section 6.4.1 and the further avoidance of additional costs up to £2m covering those GSP/GSS redundancies, loss of externally generated profit and overhead recovery, loss of RBG income streams and potential pay harmonisation pressure against the RBG MTFs, as covered in sections 4.5 and 6.5.1-2, these factors support the recommendation to agree to continue GSP/GSS trading operations.

### 4. **Introduction and Background**

- 4.1 Greenwich Service Solutions Ltd (GSS) was established as a company to trade with public and private sector organisations following decisions made by Cabinet on 17 November 2008. At its meeting on 16 June 2009, the Cabinet agreed to set up a second company, GS Plus Ltd (GSP) which was initially to be based around the Council's former Trading Services Department. Both companies were set up in recognition of increasing budget constraints in the public sector and the effects that single status (at the time) had on the Council's ability to compete financially for commercial contracts and maintain existing service clients. The report highlighted that the pressures were impacting on school catering, cleaning and passenger services; these pressures still fundamentally exist, albeit the balance of risks has more recently changed as the highest-risk service, catering, is no longer provided. The new companies were set up to be autonomous and have flexibility to set their own terms and conditions and therefore operate a multi-tier workforce in line with business needs.

4.2 GSS was a new company with zero trading history. Its turnover was built up to a peak of more than £10M with the inclusion of the Kent Schools catering contract which provided about 15,000 meals daily from 150+ sites over the county. Unfortunately, the company was not able to retain this key contract due to the additional cost of paying the Living Wage from 2014/15, which had a major impact on the business and turnover reduced substantially to under £3m by 2018 with deteriorating returns. At that time around two thirds of this turnover was derived from the Gateway Employment Agency and payroll service, which itself is dependent on the business activities of GSP and GSS. Other trading activity included a few non-RBG school cleaning contracts, a residue of widely dispersed school catering contracts and the facilities management of a community centre in Lewisham. Apart from a local school cleaning contract which continues successfully, most of these other activities were uneconomic and were ended.

4.3 GSP was established as a “Teckal” company (now under Regulation 12 of the Public Contracts Regulations) that enables work to be placed by the parent local authority while remaining exempt from tendering requirements, provided that no less than 80% of total company turnover is generated from Council funded activities. Work is primarily on contracts for RBG, its service delivery partners such as GLL and borough funded schools, with its main areas of activity including:

- Fleet Management (including workshops, testing & body shops)
- Passenger Services,
- Facilities Management & Building Cleaning Services,
- Schools ICT support
- Schools Catering (since discontinued).

Overall sales turnover in the first decade of operations remained more stable at over £30m with any loss of external contracts offset by the increase of demand led RBG services including passenger transportation, together with the impact of the shared commitment by the Companies and the Council to pay the London Living Wage (LLW) as a minimum from 2014/15, which had over several years risen at a faster rate than general pay and prices. This extra pay pressure (which many competitors choose not to apply) had the effect of reducing margins on catering and cleaning services and along with wider budget pressures faced by RBG, its partners and by all schools, in particular, had weighed heavily on the company’s ability to retain contracts and cover costs, resulting in operational losses. Furthermore, while all schools are responsible for their budget spend and procurement decisions the

academisation and subsequent grouping of schools led to more price challenges as trusts sought to exercise their increased buying power.

- 4.4 A review of both companies' direction of travel was undertaken considering these challenges which had seen GSP/GSS primarily reacting to market forces. The review provided a more planned and proactive approach to the known factors shaping the environments the companies operate in. In practice the two separate companies of GSP/GSS operate as a group and going forward it was clear that their future is integral as they are inter-dependant and decisions on one side will need to consider the impact on the other.
- 4.5 On 20 February 2019, Cabinet considered a report on the future direction of GSP/GSS and a decision was taken to insource Fleet, Passenger and the Cleaning and Facilities Management of RBG buildings, but move away from the provision of Catering, Building Cleaning and ICT support to schools over a period of transformation of up to 3 years. This action was likely to result in the closure of the Companies and was also likely to incur over £1m additional cost pressures to the Council caused by the effect of harmonised terms and conditions. While any change to standardise terms would be voluntary and is not legally required, it would come about over time in any event as new staff are recruited as part of the RBG workforce or following a reorganisation (unconnected to the insourcing). This decision was ratified by both Company Boards on 28 February 2019 who also agreed a 3-year Implementation Business Plan which was itself ratified by the Chief Executive, RBG, in consultation with the Cabinet Member for Finance & Resources, reflecting the joined-up approach between the Council and the Companies. A link to the Cabinet report for background including the original reports and reasoning for setting up GS Plus/GSS is set out below (item 17).

[Cabinet - 20 February 2019](#)

- 4.6 At the same meeting, Cabinet also requested the Chief Executive, Cabinet Member for Finance & Resources, Director of Finance and the Head of Legal Services to provide six monthly updates to a small Working Group of Councillors to be nominated by the Leader.
- 4.7 The GS Plus Ltd/GSS Ltd Member Working Group was set up to receive these updates and is chaired by Councillor Christine May. The Cabinet Member for Finance, Resources & Social Value also attends the meeting as the Cabinet Member with responsibility for GS Plus/GSS. Officers representing both the Council and the Companies also attend the meetings.

- 4.8 On 16 December 2020, Cabinet agreed to align the business transformation timescales for the companies with the Council's MTFS to 2024/25, extending the planned timescales by a further 3 years. This reflected the severe impact of the pandemic on the Companies and the need to support RBG, NHS, schools (including non- contracted schools) and community organisations.
- 4.9 This report provides information on the transformational position achieved to date and lays out the business case for a further strategic review of the companies' direction of travel, given the level of change now achieved and the fast-approaching timescale for the return of services to RBG by 31 March 2025. This timescale would require an immediate diversion of focus to allow for the necessary volume of detailed preparatory work and consultation in both the companies and RBG, to achieve an orderly absorption of services back into the Council and to liaise and plan for future arrangements with any external clients affected by the further withdrawal from services. It is now likely that this process may run beyond the March 2025 timescale. In the interim, the companies have also worked on back up plans to continue trading as a going concern. This has enabled the Boards of Company Directors to be satisfied that the companies, in their present position and having de-risked from catering and other poor performing services, now remain financially viable on an ongoing basis to protect the interests of the companies' staff and creditors and of RBG as parent.

## **5 Company Transformation Achievements & Direction of Travel**

- 5.1 In summary the review programme initiated in 2018 and flowing from the decisions approved by Cabinet in February 2019 has achieved the following key outcomes: -
- Governance, Board and engagement arrangements improved including wider management and staff involvement, closer working with RBG.
  - Policies reviewed and updated and realigned with RBG objectives.
  - Financial standing, risk management, service budgets and monitoring reviewed delivering savings, improved stability and where feasible, implemented strategies to improve trading margins and share benefits with key clients, for example in containing some inflation pressures.
  - Wound down services that were no longer economic to provide.
  - Accessed £2.1m govt. grants to support staff and services in the pandemic.
  - Supported schools in the reprovision of catering services including the bulk TUPE transfer of 226 staff with protected or enhanced terms under the Greenwich Schools Partnership procurement.

- GSP now demonstrates financial stability delivering trading surpluses for 4 successive years.
- GSS financial turnaround; following major service and covid disruption is now on target to achieve a growing trading surplus for the 2nd year running.

5.2 The above work, which commenced with a view to exiting a range of services and returning others to the Council, had forced the companies to take an urgent deep look at costs and income to minimise potential risks and losses. In hand with the major disruption then brought about by covid, which also served to demonstrate the additional level of flexibility and access to resources that could be achieved with an arms-length partner in the provision of public services, the resulting extension of the transformation programme has allowed the companies to considerably reduce the main operational risks faced by completing the planned exit from catering activities and from the most at-risk school cleaning contracts, which were under intense financial pressure from the large academy groups.

5.3 All this hard work has transformed the Council's trading companies into leaner, fitter and successful trading entities which having turned a corner, now present an opportunity for RBG to revisit the decisions made in 2019 when the outlook was very different and allow the companies to continue trading indefinitely.

5.4 This positive outlook is reinforced by the success achieved in parallel of increasing external services such as vehicle workshop activities and growing school cleaning clients, including new or expanded sites and securing the return of the Endeavor Trust Academy who originally moved to another cleaning provider at the start of the transformation journey in 2019.

## **6 Current Scale and Scope of the Companies**

### **6.1 Financial Targets**

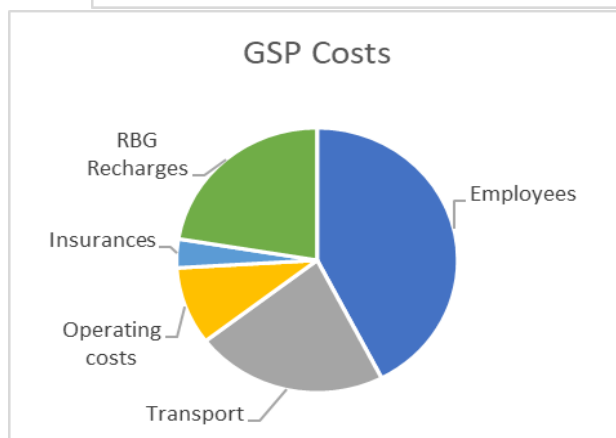
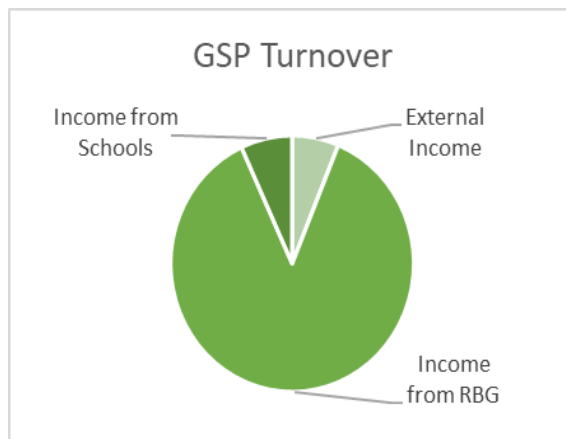
The Company Boards have approved budget forecasts for 2023/24 and budget targets for 2024/25, together with potential low-risk based forecasts for planning purposes, covering a further 3-year period should the companies continue trading within the current operational sectors. Further background on the scope of current operational services is described in Appendix A attached.

<b>Table I</b>	2023/24 surplus £m	2024/25 surplus £m	2025/26* surplus £m	2026/27* surplus £m	2027/28* surplus £m
GSP	0.181	0.199	0.219	0.239	0.254
GSS	0.037	0.037	0.040	0.043	0.046

\*Subject to approval by RBG

## 6.2 Turnover and Costs

GSP turnover (sales) is estimated at £23.2m of which 87% is generated directly with RBG, 7% is from borough schools and 6% from other organisations, the public or from GSS charges. This demonstrates that the proportion of income generated from within the parent local authority and associated funded schools remains comfortably above the 80% 'Teckal' threshold for council awarded services to remain exempt from tendering requirements under Regulation 12 of the Public Contracts Regulations. Of the £23m of total expenses to deliver services £5.12m or 22.25% comes from recharges by RBG to GSP including vehicle costs and support services. Together these figures help illustrate the close ongoing relationship with the parent.



6.3 GSS turnover is estimated at £1.8m of which 86% is derived from trading activities including Gateway agency staff and payroll services to the sister company GSP, around 10% from Gateway agency staff placed with external catering providers and 4% directly from school cleaning contracts. 93% of total GSS costs are staffing related, with the remainder consisting of operating costs and a recharge from GSP for shared management costs, which adds further value to the return to surplus now achieved by GSS.



6.4 Staffing Analysis.

**GSP-** Currently 299 staff are employed directly by GSP, with 42% who TUPE transferred to the company on RBG terms and conditions and 58% that have since been appointed on new terms and conditions. Many staff hold more than one part-time position either within a service (e.g. cleaning) or across services (e.g. cleaning/passenger). Some hold multiple employment positions, for example cleaning across numerous RBG/GLL/school funded client sites. There are 368 employment positions currently filled by the 299 directly employed GSP staff.

**GSS-** There are 21 permanent staff employed directly by GSS covering admin and cleaning roles plus around 127 Gateway agency staff on regular temporary placements across GSP and GSS covering vacancies, sickness and temporary workloads and on catering positions supporting Chartwells.

Some of the above staff may in practice work across both companies, for example staff in support services or others who work part-time in GSP and take up additional ad-hoc roles in Gateway.

A more detailed analysis of staffing is included as Appendix B to this report.

6.4.1 Of these staff, a number of positions will be “at risk” should the current decision to fold the company be implemented. This will include:



- 108 cleaning positions will need to TUPE to new providers for 29 schools.
- 4 Schools ICT staff roles will come to an end as TUPE is not feasible.
- 4 Fleet workshop positions if non-RBG external trading work is curtailed.
- 21 Managerial and support staff whose roles may not transfer to RBG.
- 127 regular Gateway roles will come to an end as the agency cannot operate within RBG. Some may be absorbed into permanent vacancies on new terms, but others will need to be released.
- A currently unspecified number of GSP/GSS roles will also be affected by RBG savings targets agreed under the MTFS over the next 12-24 months.
- It is assumed that the cleaning of GLL sites funded by RBG (libraries/Children's Centres) will continue to be provided.

6.4.2 Provisional funding has been outlined within the companies' financial plans of £550k to allow for any severance costs associated with these eventualities. All but the final staff impacts above can be avoided should RBG agree to the continuation of the companies. Should the company continue it is expected that some of the staff impact of the MTFS targets can be managed over a longer period to reduce the need for compulsory severance (for example by natural turnover).

## 6.5 Other Financial Considerations

### 6.5.1 Disaggregating Budgets.

Returning the companies' services to RBG at March 2025 would also require a substantial exercise to unpick and realign budgets across the RBG client departments that currently pay for GSP/GSS services and overheads. These will also include the circular effect of overheads and other recoveries which are charged by RBG for services currently provided to GSP (e.g. depot costs, rents, finance support and IT). Some of these may be complex to capture fully, including the loss of externally funded overheads, leading to new budget pressures. Conversely, any decision to continue trading operations will avoid the need for this time-consuming exercise which could otherwise impact both financially and on staff resource availability for the implementation of key MTFS workstreams.

### 6.5.2 Impact on the MTFS.

The additional future cost pressure to RBG of amalgamating a single tier workforce back into RBG pay scales discussed earlier in section 4.5 is currently estimated at £1m-£2m, given that a growing proportion of GSP staff

(58%) are now engaged on new terms and conditions. The option to continue trading will, if agreed, remove a future budget pressure which would otherwise be added to existing MTFs gap pressures.

### 6.5.3 Pension Accounting.

As part of the 2019 review of the companies, the Council accepted responsibility for the net assets/liabilities arising from GSP's membership of the RBG Pension Fund relating to staff who transferred to GSP with protected RBG terms and conditions. Should the companies continue operations, a decision will be required to determine where any future responsibility should sit, either:

- Pension accounting Option A: To continue with the current position; to retain the responsibility for the net assets/liabilities arising from GSP's membership of the RBG Pension Fund (the pool is currently fully funded)
- Pension accounting Option B: To transfer the responsibility for the net assets/liabilities arising from GSP's membership of the RBG Pension Fund to GSP which will require the reporting of any future funding liability or surplus as part of the GSP annual Statement of Accounts.

Given the companies are fully owned entities of RBG, the number of ex-RBG staff has reduced considerably since 2019 and are not material to the size of the Pension Fund, and that the pool is fully funded, pension accounting option A is recommended. This will have the added benefit of maintaining the relative transparency of the annually reported trading positions for GSP, as part of the audited Statement of Accounts.

### 6.5.4 Strategic Partnering Agreement.

A further consideration, should the companies continue trading and subject to the ongoing retention by the companies of sufficient levels of resilience funding, relates to the options for future profit-sharing arrangements between the companies and RBG as the guarantor/shareholder. Should approval be given to continue trading beyond 31 March 2025, it is proposed to develop a profit share mechanism, as part of a new 10-year Strategic Partnering Agreement (which will incorporate scope to vary service/performance levels with annual reporting) to be agreed before this point between the companies and RBG.

## **7 Conclusion and Recommendation**

7.1 It is recognised that since the previous decisions by the Council in February 2019 and December 2020 a lot has happened including Covid, benefits the Companies obtained as independent organisations during Covid, flexibility to assist the Council and other organisations, loss of a lot of staff to other companies, some school clients recognising the benefits they had with GSP/GSS, etc. Throughout this journey the companies have been successful partners and have made a modest profit, making efficiencies to reshape operations and support functions, and showed great resilience. During Covid the Council agreed to delay consideration of returning specific services to RBG until 2024/25 and align with the councils MTFs (we are at that time). Due to the above and the companies being successful and with a much lower risk profile, the Company Boards made a decision that the companies remain viable and recommend that RBG now makes the decision that the companies be allowed to continue trading beyond 31 March 2025, alongside a new 10-year Strategic Partnering Agreement to be signed off by both parties by that point.

## **8. Available Options**

- 8.1 Option 1 - Agree to the continuation of the companies trading beyond 31 March 2025 based on the existing services and delivery model and governed by a new 10-year Strategic Partnering Agreement to be developed and agreed by this date.
- 8.2 Option 2 - To close the companies and insource services in line with the end of the current 31 March 2025 timescale (albeit the completion of any wind-up process is now likely to extend further into 2025 in any event).

## **9. Preferred Option**

- 9.1 Option 1 - Agree to the continuation of the companies trading beyond 31 March 2025 based on the existing services and delivery model and governed by a new 10-year Strategic Partnering Agreement to be developed and agreed by this date.

## 10. Reasons for Recommendations

10.1 The content of this report identifies the turnaround that has been achieved in the financial performance and ongoing prospects for the Council's trading companies since the last review in 2019. The extended transformation timescale has enabled a major de-risking of services to be implemented alongside an in-depth and continuous reshaping in search of further operational efficiencies. The resulting evidence of improved financial performance now achieved together with the avoidance of potential TUPE of GSP/GSS staff and the cost and employment impact of redundancies outlined in section 6.4.1 and the further avoidance of an additional £1m-£2m potential pay harmonisation pressure and loss of overhead recoveries and income streams against the RBG MTFs, as covered in sections 4.5 and 6.5.1-2 further support the recommendation to continue operations.

## 9. Consultation Results

9.1 The proposals contained within this report have arisen as part of the regular governance arrangements for reporting management information to the company Boards, who consist of an Executive Managing Director and Non-Executive Directors, including RBG officer appointees, with each company Board chaired by an RBG Member appointee. As part of the 2022/23 Audit Directors were required to make a specific declaration that the companies remain financially viable and are expected to be capable of operating as a going concern. Having considered the position the Boards took the decision that the companies are indeed capable as operating as a going concern for the foreseeable future, unless directed otherwise by the Council and to take limited steps in that direction. The Companies commenced discussions with the GS Plus Ltd/GSS Ltd Member Working Group, as part of a process to seek approval, as part of an updated, mature, strategic partnering relationship, to deliver a full range of trading activities on an ongoing basis.

## 10. Cross-Cutting Issues and Implications

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Legal</b> including Human Rights Act	The Council is under a fiduciary duty to manage its resources effectively and efficiently. In addition, the Council is subject to a best value duty under the Local Government Act 1999 to secure continuous improvements in the way it discharges its functions. In discharge of	Azuka Onuorah, Interim Director of Legal Services 16th July 2024

	<p>those duties the Council has reviewed the future direction of its two trading companies and proposes to maintain the current arrangements, continue trading beyond 31 March 2025 and enter into a new 10 year Strategic Partnering Agreement.</p>	
<p><b>Finance and other resources</b></p>	<p>The report proposes to maintain the status quo arrangements for GSP and GSS, allowing them to continue trading beyond 31 March 2025 and entering into a new 10 year Strategic Partnering Agreement.</p> <p>The councils MTFs does not provide for any estimated costs associated with their cessation / rolling back into the council. As such, there is no direct financial effect from the decision in this report. Allowing the companies to cease would incur costs as set out in 6.5 of the report. This would result in a one off loss of resources to the wider council group (i.e. the council plus its subsidiaries) and on an ongoing basis, whereby residents / the taxpayer would see a rise in the cost of services.</p> <p>By allowing the subsidiaries to continue trading, resources are not consumed for the purpose of meeting any potential redundancies and restructuring costs (as outlined in the report) and therefore, in accordance with the original Strategic Partnering Agreement, subject to the ongoing investment needs of the relevant subsidiary, are available for the redistribution of that surplus back to the council. The council has agreed a large number of savings to be delivered from 2024/25, including those related to operations involving GSP – the repatriation of this surplus will ensure that the savings</p>	<p>Damon Cook, Director of Finance, 15 July 2024</p>

	from these specific initiatives can be met in full in their first year.	
<b>Equalities</b>	The recommended decision Option I will effectively retain the status quo and will therefore have a remote or low relevance to the substance of the Equality Act. There is no apparent equality impact on end users. The Companies are owned by the Council and are fully aligned to promote the Royal Borough of Greenwich's commitment to the Equality Act 2010 and the Public Sector Equality Duty as expressed in the Council's Equality and Equity Charter and the Council's Equality Objectives 2020-2024. Any proposals for change affecting staff or services will be the subject of a full equalities assessment.	Mark Armstrong, Head of Accounting & Business Change (GSP/GSS Transformation) 20/5/2024
<b>Climate Change</b>	While the report has no direct Climate implications to consider, the Companies are owned by the Council and provide services which are fully committed to contribute, in partnership with the Council, to the Greenwich Carbon Neutral Plan agreed by Cabinet on 18 November 2020. The recommended decision Option I will effectively retain the status quo. This includes supporting the Council in the transition towards net zero and the provision and enhancement of charging facilities at Birchmere, together with maximising recycling of used materials and parts and reducing the use of disposables across services.	Mark Armstrong, Head of Accounting & Business Change (GSP/GSS Transformation) 20/5/2024

## 11. **Report Appendices**

11.1 The following documents are to be published with and form part of the report:

- *Appendix A: GSP/GSS Service Business Planning*
- *Appendix B: GSP/GSS Staffing Analysis*

## 12. **Background Papers**

GS Plus Ltd & GSS Ltd – Annual Reports 2022/23 and Interim Report 2023/24,  
Cabinet 24/1/24 - Item 10

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