

REPORT OF THE LEADER OF THE COUNCIL

PERFORMANCE OF ARC PARTNERSHIP - 2017/2018

Purpose of the Report

1. To inform Committee of the performance of Arc Partnership for the financial year 2017/2018.
2. To inform Committee of progress made in developing Arc Partnership as a sustainable business.
3. To enable Committee to consider any additional actions required in relation to the detail contained within this report.

Information

Organisational Context

4. Arc Property Services Partnership Limited, trading as Arc Partnership, is a Joint Venture Company formed by Nottinghamshire County Council (NCC) and Scape Group (SG) on 1 June 2016, focused upon the delivery of property design, programme management, planned and reactive maintenance services to the Council, and based upon a 10-year service contract to 2026, with the potential for a 5-year extension to 2031.
5. The driving force for establishment of the joint venture was to mitigate an expected reduction in Council capital spend from £45m in 2016/2017 to £25m in 2017/2018, reducing further in subsequent years. If nothing was done, and Property Services was to reduce at an equivalent rate to its future income, it would have been necessary for a reduction of up to 50% in the staffing establishment over the medium to long-term, with potential redundancy costs of £1m+. It would have also meant that key skills were lost to the Council, and there would be an increasing reliance on specialist external expertise at a cost premium.

Organisational Structure

6. Over the last twelve months Arc Partnership has focused on developing its organisational capability to deliver core programmes of work for the Council, and generating sustainable and profitable third-party growth. Arc Partnership is now ready to deliver focused, planned growth. At the point of transfer 74 staff were transferred into Arc Partnership, alongside £1.2m of agency/professional services spend. As at 1 April 2018 the establishment stands at 84 posts, with 4 vacancies and 78.4 FTE (all staff are now employed directly with Arc Partnership, with agency/professional services spend forecast for 2018/2019 at less than £100k). This provides evidence of Arc Partnership's right-sizing of the organisation.

7. Arc Partnership also made a commitment that at least 10% of employees should be trainees to help support succession planning, and it is pleasing to note that there are currently seven trainees in post, (trainee architects, architectural technologists, quantity surveyors, mechanical and electrical engineers), all studying at local universities, with a formal arrangement in place with both Nottingham and Nottingham Trent Universities.
8. Sickness levels for the year were less than two days per employee, which is extremely positive when measured against public sector average sick day statistics.

Financial Performance

9. Financial results for the financial year 2017-18 delivered an underlying operating profit of £587,000 which, after other set-up/non-operating costs and depreciation, delivered an operating profit of £352,000, with revenues of £35,248,000 (representing a 66% increase on the 2016/2017 out-turn, in recognition of the work Arc has undertaken with Council commissioners to streamline the commissioning and delivery process).
10. The Partnership is required to comply with IAS 19 Pension Costs. As a result the Accounting Pension Deficit as at March 2018 was £6,562,000. However, the underlying principles of valuation for this purpose are much more prudent than the Triannual Valuation used to calculate pension fund contributions. The next Triannual Valuation is March 2019.
11. Over the last financial year, Arc Partnership's cash position has improved considerably (year-end cash was £937,000), which allowed the removal of the Council's advanced payment facility, as planned. All creditor payments are being managed in line with credit terms. Arc has also generated sufficient profit to facilitate the repayment in full of the two £200,000 shareholder cash loans provided by the Council and Scape as part of the Company start up arrangements. This allows the business to trade debt free.
12. During 2017/18 Arc Partnership also contributed fee income of £156,000 to Scape Procure, from the use of Scape Frameworks, which helps support shareholder value/dividends. Subsequent Scape Group dividends to the Council for the financial year 2017/2018 were a total of £425,000 (£250,000 final dividend 2016/2017 and £175,000 interim dividend 2017/2018).
13. In summary, Arc delivered a robust financial performance in 2017/2018, with a focus on momentum and growth into 2018/2019, and the delivery of more challenging financial targets.

Operational Performance

14. The table below details all 2017–2018 construction projects commissioned, delivered and in delivery by value band:

Value Band	Budget	No of Projects
£0-50K	£3,120,751.39	273
£50-100K	£2,564,535.63	37
£100-250K	£3,036,235.04	19
£250-500K	£1,754,222.63	5
£500K-1M	£8,286,865.34	12
£1-3M	£1,508,601.44	1

£3M+	£16,516,154.00	4
Total	£36,787,365.47	351

15. During the year Arc Assist managed 7020 calls, and delivered 6429 responsive repairs, and 3490 compliance services across the Council estate.

Contractual Performance

16. Arc Partnership has collaborated with Council commissioners to review the contractual KPIs (Key Performance Indicators) to ensure that all were fit for purpose. Arc is meeting all current KPIs. Attached as **Appendix 1** are Arc Partnership's Contractual KPIs for 2017/2018.

17. Arc now has arrangements in place to monitor, review and manage its key sub-contractor supply chain performance, the detail of which for 2017/2018 is attached as **Appendix 2**.

18. Arc has adopted NCC's Compliments/Complaints Policy and Procedures, and in 2017/2018 customer service trends recorded 36 formal letters of compliment, and 1 formal letter of complaint.

Safety, Health and Environmental Performance

19. For Arc Partnership employees, the Accident Incident Rate (AIR) for 2017/2018 was zero. There were two Enforcing Authority visits during the period, neither of which resulted in follow-up actions.

20. For the financial year 2017/2018, 96.65% of waste amassed by Arc Construction Services was diverted from landfill, and delivery partners reported an average of 97.92%.

21. Management, delivery and review of CDM (Construction, Design and Management) pre-construction design risk management arrangements, with regard to both projects and programmed works, is working well, with 100% monitoring between the Council and Arc Partnership now established.

22. OHSAS 18001:2007 Accreditation was achieved in 2017/18.

Procurement and Local Spend

23. During the last financial year Arc has worked collaboratively with Council colleagues to market test its supply chain to allow the re-procurement of service sub-contracting frameworks. Re-procurement will be completed by 1 April 2019, and will improve sub-contractor performance and financial efficiency further.

24. Arc Partnership is determined to keep as much subcontractor and supplier spend within Nottinghamshire and surrounding areas as possible – keeping the "Nottinghamshire Pound" within Nottinghamshire. In undertaking re-procurement exercises Arc is acutely aware that there are many SMEs that have previously worked for the Council for many years, and it is important to ensure local SME engagement within the supply chain going forward.

25. Arc Partnership has also taken appropriate steps to adhere to the requirements of the Modern Slavery Act 2015.

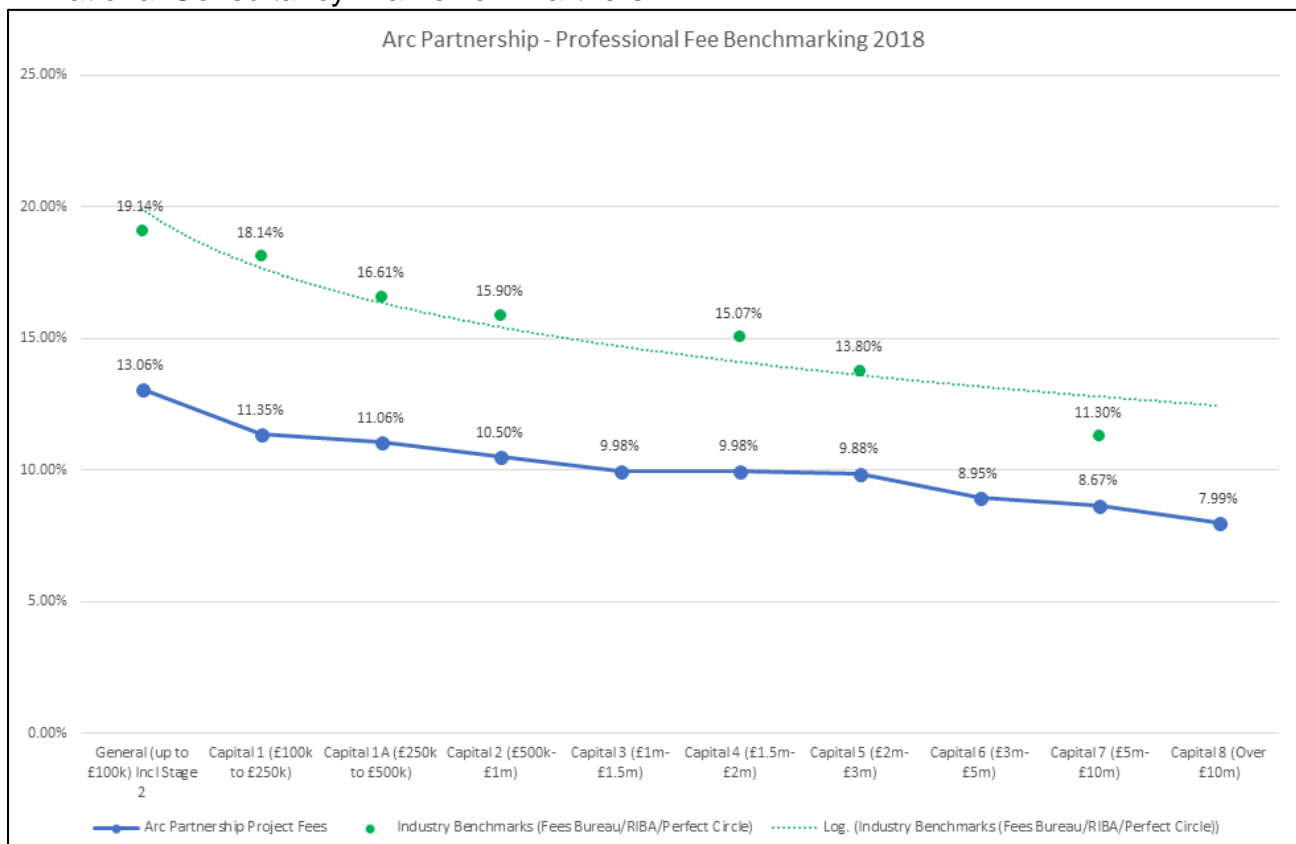
Client Collaboration

32. The new organisational arrangements for both Place and Property Services within the Council bode well for the partnership, with strong Council client structure/arrangements being put in place. Collaborative working is becoming embedded between Arc Partnership and Council service clients generally, but specifically, robust working relationships are in place, and developing, with the Service Directors for Place and Communities and Investment and Growth respectively.

Value for Money (VFM)

33. VFM and benchmarking is critical within Arc Partnership. Notwithstanding the financial/commercial governance arrangements put in place across the business, an Arc/Council Benchmarking group has now been established. Activity from this will support many Council needs, as well as Arc Partnership's need for robust benchmarking data to evidence VFM drivers on works design and delivery, using evidence based criteria such as the ESFA Annual Benchmark Data/Scorecards which includes cost per pupil place for school expansions.

34. Detailed below are Arc Partnership's Professional Fees benchmarked against national data. The industry benchmarks are based on the Fees Bureau National Fee Benchmarking Subscription Services. The Fees Bureau provide benchmarking services nationally for the RIBA, but Arc Partnership also benchmark against the professional fees levied through the National Consultancy Framework Partners.



School Places Scorecards

35. VFM is further illustrated in the Education Skills Funding Agency (ESFA) School Places Scorecard. The Scorecards published annually by the ESFA most recently for 2017/18 display a snapshot of the progress local authorities are making in delivering good quality school places. Full details of the score cards can be found on the ESFA pages of GOV.UK (www.gov.uk/government/collections/school-places-scorecards). In brief, though, the scorecards show that in Nottinghamshire in recent years, additional school place provision (predominantly required within primary schools) has been delivered at costs that compare well with other local authorities and the English average, with around 9,000 places created since 2010 at an average cost of £9,240 per place, compared to an England average of £16,088 per place.

Business Development and Third Party Income

36. Third party income for Arc in 2017/18, against a business model target of £60,000 was £76,441, on external revenues of £703,501. The fee target for 2018 – 2019 is £334,884, with an additional third-party stretch fee target of £250,000.

37. Arc Partnership's primary focus is the delivery of property design, programme management, planned and reactive maintenance services to the Council over ten years, with an ambitious spend profile over the period 2018 – 2019. Arc will build upon this partnership as a platform for growth, and the initial geographical area of operation will focus on the footprint of the new Scape Regional Framework.

38. To support its ambition for growth Arc Partnership has partnered with three external, Nottinghamshire based organisations, Anderson Green (M&E), CBP Architects, and Perfect Circle (Gleeds), who collectively increase Arc's breadth of service provision and commerciality. By leveraging the support of these three organisations Arc Partnership has the organisational capability to offer the Council and third-party clients strategic project definition and inception, feasibility, preconstruction concept and design development, detailed technical design, programme/commercial management, construction and handover, project close-out and soft landings.

Summary

39. 2017/2018 represented the first full operational year of Arc Partnership and through collaboration with the Council, positive steps have been taken to establish a robust business model, with the appropriate organisational capability to deliver profitable third-party growth. Nothing is ever finished and Arc Partnership's focus will remain on being "Trusted to Deliver" – with due regard to VFM, quality of output and customer excellence.

40. Arc Partnership's Operational Plan (copies will be made available at the meeting) sets out the goals, objectives, strategies, plans and actions for the delivery of Arc's targets for next year and in support of its Business Plan 2018 – 2021. The plans put forward will be monitored and scrutinised through the Arc Board.

Other Options Considered

41. None.

Reason for Recommendation

42. The Arc Partnership continues to show significant business growth alongside improvements to service delivery.

Statutory and Policy Implications

43. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

44. These are set out in the body of the report.

RECOMMENDATION

It is recommended that:

1) Members consider whether there are any actions required in relation to the detail contained within this report.

Cllr Mrs Kay Cutts MBE
Leader of the Council

For any enquiries about this report please contact: Mick Allen, Group Manager, Place Commissioning, Tel: 0115 9774684

Constitutional Comments [SLB 15/08/2018]

45. Policy Committee is the appropriate body to consider the content of the report. If Committee resolves that any actions are required it must be satisfied that such actions are within the Committee's terms of reference.

Financial Comments [RWK 30/08/2018]

46. There are no specific financial implications arising directly from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None.

Electoral Division(s) and Member(s) Affected

All

APPENDIX 1

Contractual KPIs

Arc Partnership –KPI Summary – Q4, 2017/18				
No	DESCRIPTION	Target	Target	Trend from Q2
1	PROJECT COST (TOTAL) < BASE BUDGET 50% projects below base budget	50%	92% (13 projects)	
2	PROJECT CONSTRUCTION COSTS < FORECAST 75% projects below forecast	75%	100% (13 projects)	
3	PROJECT FEE SCALES Below national average % rate	19.14%	10.68%	
4 - 8	PROJECT CUSTOMER SATISFACTION SURVEYS 95% projects satisfactory or better	95%	96% Average score 9.5/10	100%
9	Withdrawn from performance scheme			
10	PREDICTABILITY OF PRE-CONSTRUCTION TIME <10% variance in >60% of projects	60%	62%	68%
11	PREDICTABILITY OF CONSTRUCTION TIME <10% variance in >75% of projects	75%	65%	65%
11a	PREDICTABILITY OF PROJECT TIME <75% of projects on time or early	75%	73%	
12	WHOLE LIFE COSTING	50%	N/A	
13	USE OF PROVISIONAL SUMS/RISK IN CONTRACTS	75%	N/A	
Arc Partnership –KPI Summary – Q4, 2017/18				
No	DESCRIPTION	Target	Target	Trend from Q3
15	R&M RESPONSE TIMES 85% jobs responded to on time	85%	90%	88%
18	R&M REPAIRS COMPLETED ON TIME 90% jobs completed on time	90%	90%	85%
22	PLANNED SERVICING SCHEDULES 95% jobs completed on time	95%	95%	96%
16,17, 19,20	R&M CUSTOMER SURVEY DERIVED MEASURES Various – insufficient data to report on at this stage	Various	N/A	
14	EMPLOYMENT OPPORTUNITIES OFFERED BY ARC Maintained at level above original transfer	71 FTE	82.3 FTE	82.3
11	RIDDOR REPORTABLE ACCIDENTS 0 incidence	0	0	
23, 24	CLIENT PERFORMANCE MEASURES No client briefs returned for clarifications / No client changes to projects	<20%	No data	

APPENDIX 2

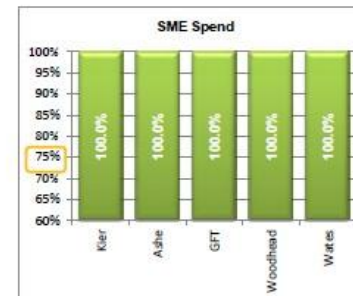
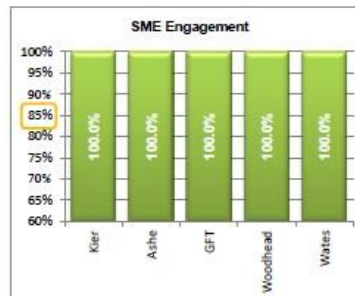
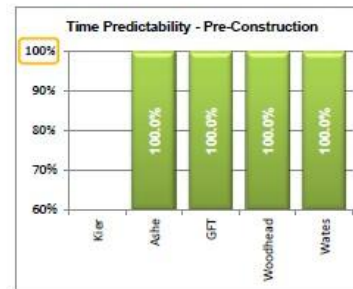
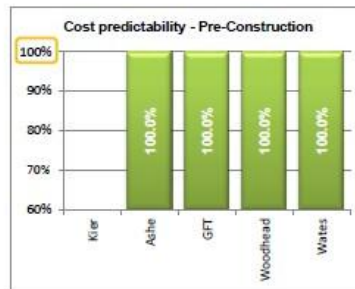
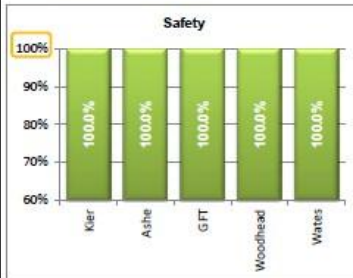
Scape Delivery Partner Performance



Scape Delivery Partners Performance 2017-2018

Average performance reported for Nottinghamshire County Council and Arc Partnership projects complete or due to complete after 1 April 2016

March 2018



Note: Charts based on the April submissions of data for all projects (live and completed) for Nottinghamshire County Council and Arc Partnership with a completion date after 1 April 2016.

These are average figures.

Local Labour and Local Spend may not have taken into account client requested suppliers or contractors who are out of the required area for the KPI to be achieved.

Pass mark for each KPI circled on each chart.

