

18 June 2018**Agenda Item: 9****REPORT OF THE SERVICE DIRECTOR, PLACE AND COMMUNITIES AND THE
MANAGING DIRECTOR FOR ARC PROPERTY SERVICES PARTNERSHIP
LIMITED (ARC PARTNERSHIP)****PERFORMANCE OF ARC PARTNERSHIP FOR THE YEAR 2017/2018****Purpose of the Report**

1. To inform the Committee of the performance of Arc Partnership within the financial year 2017/2018.
2. To inform the Committee of progress made in establishing Arc Partnership as a sustainable business model.
3. To allow members to consider whether there are any 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 NCC. This is an exclusive 10-year Service Contract (2016-2026), with the potential for a 5-year extension through to 2031.
5. The proposal to develop a Joint Venture (JV) resulted from an assessment of possible options developed and considered through the Finance and Property Committee, and in September 2015, the said Committee unanimously agreed to develop a JV with Scape Group Limited to provide property design and operational functions.
6. The driving force for establishment of the Joint Venture was to mitigate an expected reduction in NCC capital spend from £45m in 2016/2017 to £25m in 2017/2018, and then lower over subsequent years. If nothing was done, and Property Services was to reduce at an equivalent rate to its future income, it would be necessary for a reduction of up to 50% in the current establishment over the medium to long-term, with a potential redundancy cost of up to £1m.
7. 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. Nottinghamshire

County Council also engaged Local Partnerships to undertake a number of Gateway Reviews on this Investment Decision.

Organisational Structure

8. As a business, over the last twelve months Arc Partnership has focused on ensuring the correct organisational capability to deliver both the core programmes of work for NCC, and sustainable and profitable third-party growth, was in place. Arc Partnership are now ready to deliver focused, planned growth.
9. 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 professional services spend forecast for 2018/2019 at less than £100k). Within the current establishment of 78.4 posts, 20% of which are new starters, evidence of Arc Partnership's right-sizing of the organisation, and the need for broader organisational capability.
10. 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.
11. Employees' propensity for change operationally, commercially, and culturally, in line with the new business model, remains both high and positive, and Arc Partnership have restructured to simplify the operating model. By way of example, 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

12. 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.
13. Revenues at year end of £35,248,000 represents a 66% increase on 2016/2017 out-turn, which emphasises that the work Arc has undertaken with NCC to streamline the commissioning and delivery process, is working. Notwithstanding the ongoing drive for continuous improvement in quality of output, VFM and customer excellence.
14. 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.
15. 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 NCC Advanced Payment Facility, as planned, and all creditor payments are being managed in line with credit terms. We have also generated the appropriate profit/cash to facilitate the repayment of the two £200,000 Shareholder cash loans, which also includes over and above an additional payment of

£12,612 of interest due for the period 01.04.17 – 24.05.18, to both NCC and Scape Group, on 24 May 2018. This therefore allows the business to trade in 2018/2019 debt free, and there are no significant overdue debtors, with work in progress being actively managed.

16. During the period, Arc Partnership also contributed fee income of £156,000 to Scape Procure, from the use of Scape Frameworks, which helps support shareholder value/dividends. Scape Group dividends to NCC 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).
17. During 2017/2018, Arc Partnership reset its Target Operating Model, underpinned by a more robust Financial Model, right-sized the organisational structure, embedded robust financial/commercial procedures, and agreed a revised 2018/2019 fee matrix.
18. Within the year Arc Partnership established a monthly NCC/Arc Partnership Finance Group, which delivered a smooth year end NCC financial reconciliation process, and bodes well for more robust financial reporting quarterly, and ultimately monthly, at project and programme level as appropriate.
19. The planned introduction of the new Scape Financial System during 2018-2019, will further support robust financial/commercial controls and reporting at project and programme level, whilst providing NCC with robust financial reporting to support their P2/BMS financial reconciliation processes.
20. In summary, a more robust financial performance in 2017/2018, with a focus on momentum and growth as we enter 2018/2019, and the delivery of more challenging financial targets.

Operational Performance

21. 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

22. During the financial year, within the Arc Construction Responsive Repairs and Servicing business, Arc Assist managed 7020 calls, delivered 6429 responsive repairs, and 3490 compliance services, across the corporate estate.

Contractual KPI Performance

23. During Q4 of the last financial year, Arc Partnership collaborated with the NCC Client to review the Contractual KPI's for the partnership to ensure that all were fit for purpose. To that end, KPI 9 was withdrawn, and KPI 11 will be replaced by KPI 11A. The move from KPI11 to

11A simplifies the measure, as previously with KPI 11 Arc Partnership were penalised for finishing early. KPI 11A is simply a predictability of project time from start to finish. KPIs 16, 17, 19, 20 (customer surveys) are under review with NCC as are the NCC Client performance measures, KPIs 23 and 24. All other active KPIs are on target and moving to upper quartile performance. Attached as **Appendix 1** are Arc Partnership's Contractual KPIs for 2017/2018.

- 24. Arc Partnership now have arrangements in place to monitor, review and manage Scape Delivery Partner performance, the detail of which for 2017/2018 is attached as **Appendix 2**.
- 25. Arc Partnership have 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.
- 26. Arc Partnership have established a summary of all projects in Defect Liability Period, and a breakdown of all defects by contractor, including costs, was implemented on 1 April 2018, to identify trends and drive performance on zero defects.

Safety, Health and Environmental Performance

- 27. For Arc Partnership employees, the Accident Incident Rate (AIR) for the period 2017/2018, was zero. During the year we had two accidents against the All Accident Incident Rate (AAIR), and the Near Miss Incident Rate (NMIR) was zero. We had two Enforcing Authority visits during the period, neither of which resulted in follow-up actions.
- 28. For the financial year 2017/2018, 96.65% of waste amassed by Arc Construction Services, was diverted from landfill, and similarly our delivery partners reported an average of 97.92%.
- 29. Management, delivery and review of CDM pre-construction design risk management arrangements, with regard to both projects and programmed works, is working well, with 100% monitoring between NCC and Arc Partnership, now in train.
- 30. Both our internal SHE arrangements and OHSAS 18001:2007 Accreditation (achieved in year), requires that the Arc Partnership Managing Director (Safety Director) will ensure, on an annual basis, that the Safety Management System (SMS) is formally reviewed to ensure its continuing suitability, adequacy and effectiveness for Arc Partnership activities, taking account of the monthly review findings of the SMS reports and relevant Safety Committee findings.
- 31. The Annual Management Review took place, which was designed to summarise health, safety and environmental performance of Arc Partnership, for the financial year 2017/2018. It incorporated all learning, inputs and outputs, and established Arc Partnership's safety, health and environmental objectives in the form of the Safety, Health and Environmental (SHE) Action Plan 2018 – 2019. Its aim is to help drive continual improvement as part of the Arc Partnership Safety Management System, underpinned by "Visible Leadership" on site.

Procurement and Local Spend

- 32. Arc Partnership inherited, outside of formal Scape Framework Delivery Partners, within Arc Construction Services a supply chain that had not been novated to Arc Partnership

(Responsive Repairs and Servicing), and a general sub-contract supply chain that had not been formally contractually engaged, the majority of which were over OJEU financial levels, and therefore needed to be market tested.

33. During the last financial year Arc Partnership have worked collaboratively with NCC colleagues to ensure, despite the lack of novated contracts, that the supply chain engaged on the Responsive Repairs and Servicing Framework within Arc Construction Services, were deemed to be sufficiently compliant in order to allow the re-procurement of these Frameworks to take place within the current financial year. In undertaking this compliance exercise there were a number of Framework Partners that Arc Partnership had to change through poor performance, and/or as a result of entering administration. The current Framework arrangements (2+1+1) are currently in year three, with 2017/2018 representing the year one extension, with re-procurement to be completed by 1 April 2018.
34. In developing a strategy and plan for re-procurement of responsive repairs and servicing within Arc Construction Services, we have partnered with North Yorkshire County Council, who are currently preparing to procure the exact service lines within a similar timescale, and on a similar property portfolio. This represents a shared service approach, with shared costs and learning from both parties, including the rationalisation of future Lots, and broader commercial considerations.
35. Throughout all our procurement activity Arc Partnership are determined to keep as much sub-contractor and supplier spend with Nottinghamshire and surrounding areas – keeping the “Nottinghamshire Pound” within Nottinghamshire. In undertaking re-procurement exercises, particularly within Arc Construction Services, we were, and are, acutely aware that there are many SMEs that have worked for NCC for many years, and it is, and was, important to ensure local SME engagement within our supply chain going forward. This was achieved on our Mechanical and Electrical Frameworks, and Arc Partnership are confident that similar results will be delivered on current tenders for Lift Servicing and the Asbestos Analyst Framework.
36. The one area of concern remains general building sub-contractor provision including groundworks and specialist services. Arc Partnership have put in place a one-year delivery model, based upon a local medium-sized construction company acting as the focal point into Arc Construction Services for the delivery of general building sub-contractor services, through a myriad of SME delivery partners. This has allowed breathing space to think through the tender strategy and plan for general building that ensures ongoing SME involvement going forward.

Client Collaboration

37. The new organisational arrangements for both Place and Property Services within NCC, bodes well for the partnership, with strong NCC client structure/arrangements being put in place, supported by external support from Turner & Townsend. Arc Partnership are represented within the NCC Review of NCC arrangements, which is welcomed. Collaborative working is becoming embedded between Arc Partnership and NCC 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.

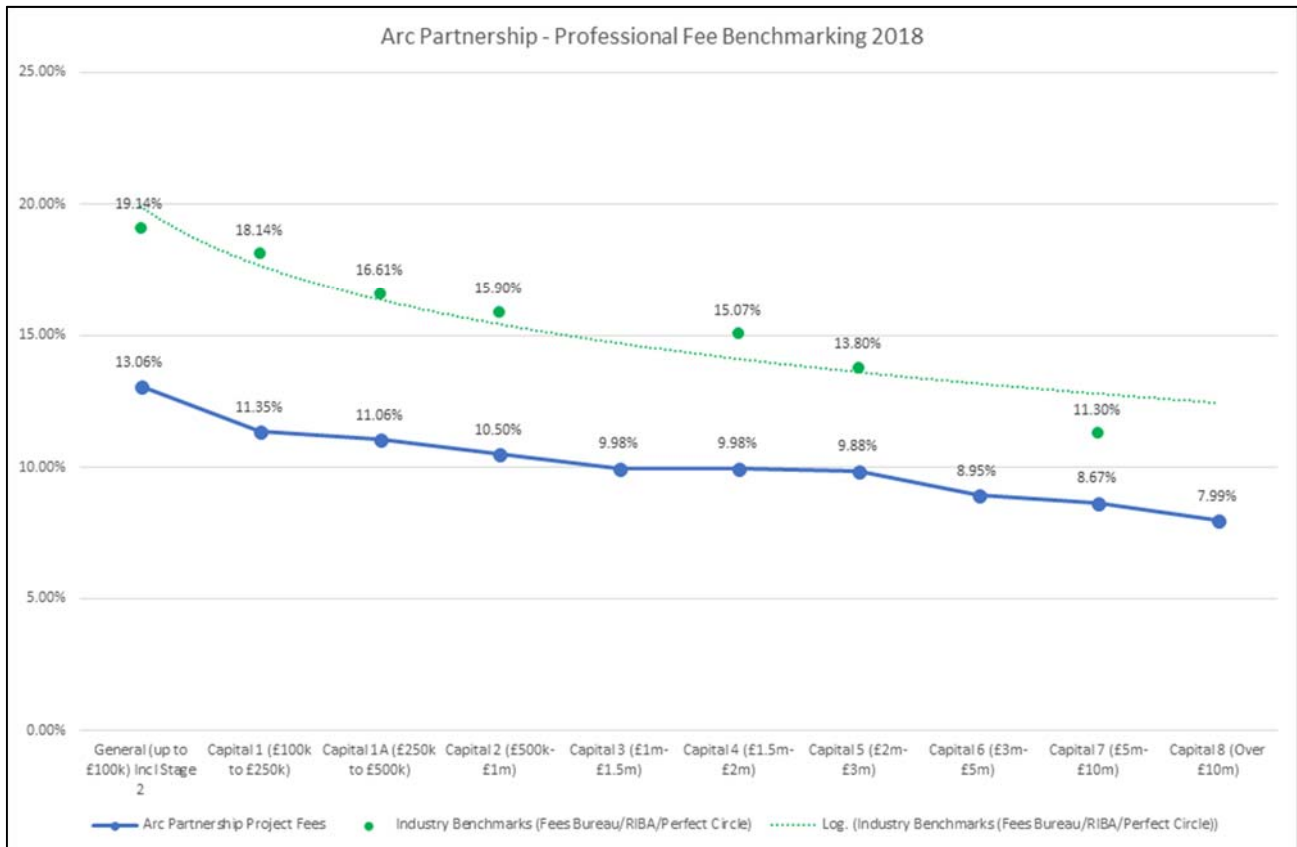
Commercial Performance

38. Excellent progress has been made within year embedding robust commercial governance arrangements across the business, with all employees' propensity for change and ownership of commercial policies and procedures remaining high. Focus of the commercial teams will now be upon the commercial performance of the business in terms of quality of outcome, VFM, growth and profitability.
39. Key activity within the year included: updated Delegated Authorities; NEC 4 training for all staff/clients and introduction of standard templates/trackers for NEC 4; updated Latest Estimated Costs (LECs) to strengthen sign-off processes; updated tender settlement processes introduced to strengthen sign-off governance, and recently introduced updates to address contractor tender sign-off and identification of tender risks.
40. Mapping and agreement of NCC Insurance Claim Processes took place, and further work is in train to agree all insurance scenarios across new build, refurbishment and works to external clients including Academies.
41. Arc Partnership collaborated with NCC Finance Team to process final accounts early, to allow the release of any budget underspends, that would normally only be accessed 12 months after practical completion of each project.
42. Other key commercial activity in train includes: refresher training on anti-competition, bribery and corruption; establishment of formal Contract/Procurement Registers and central document store; compliance with GDPR; compliance with the Arc Service Agreement through the effective monitoring and updating of the Schedule of Compliance; Best Value Review of Arc Construction Services; finalisation of procurement plan to bring all subcontracting arrangements into a structured and compliant position; embedding of commercial arrangements for key projects and programmes of work to deliver resource, cash and profit forecasting within monthly project reviews, and, enhancement/standardisation of tender documentation.
43. Arc Partnership undertake formal risk reviews in order to ensure its Risk Register is current, and we link into NCC Place Leadership Team (RS&EMG). Attached as **Appendix 3** is a copy of Arc Partnership's Risk Register as at 1 May 2018.

Value for Money (VFM)

44. VFM and benchmarking is critical within Arc Partnership, in evidencing its performance within this area. Notwithstanding the financial/commercial governance arrangements put in place across the business, an Arc/NCC Benchmarking group, with external support from Gleeds, has now been established. Activity from this will support many NCC needs, i.e. S106 standard costings, NCC DRC Valuations, as well as Arc Partnership's need for robust benchmarking data to evidence our 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.
45. Detailed below are Arc Partnership Professional Fees benchmarked against national data. Our benchmarking methodology was drafted and agreed with NCC before being applied. The industry benchmarks are based on the Fees Bureau National Fee Benchmarking Subscription

Services, which Scape Group subscribes to and benchmarks several services against. 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.



Business Development and Third Party Income

46. Third party income at the end of the financial year, against a business model target of £60k was £76,441k, on external revenues of £703,501k. The fee target for 2018 – 2019 is £334,884, with an additional third-party stretch fee target of £250,000.
47. Arc Partnership's primary focus is the delivery of property design, programme management, planned and reactive maintenance services to NCC 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. However, Arc Partnership will follow the work as directed by our clients, which will extend our boundaries of operation to suit.
48. To support our ambition for growth Arc Partnership have 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. Whilst at the same time support the continuous improvement and development of the Arc Partnership Team, to a new commercial target operating model, able to compete in a private sector model whilst never detracting from our public-sector ethos. By leveraging the support of these three organisations Arc Partnership now have the organisational capability to offer our core client and third-party clients – strategic project definition and inception, feasibility, pre-construction concept and design development, detailed technical design,

programme/commercial management, construction and handover, project close-out and soft landings.

49. Arc Partnership have now agreed the Contracting Strategy for 2018 – 2019 with Arc projects being delivered through Scape Framework Partners, directly procured local SMEs, and Arc Construction Services who will deliver circa £6.5m of project works in the year (including responsive repairs and servicing). Arc Partnership will act as Principal Designer, Principal Contractor, Designer and Contractor, in delivering its portfolio of works.

Summary

50. 2017/2018 represented the first full operational year of Arc Partnership and through collaboration with NCC clients, positive steps have been taken to establish the Joint Venture as a robust business model, with the appropriate organisational capability to deliver profitable third-party growth. Nothing is ever finished and Arc Partnership focus will remain on being “Trusted to Deliver” – with due regard to VFM, quality of output and customer excellence.
51. Within Arc Partnership’s Operational Plan (attached as **Appendix 4**), we set out our goals, objectives, strategies, plans and actions for the delivery of our targets for next year and in support of our Business Plan 2018 – 2021. The plans put forward will be monitored by Scape Group’s Transformation Team, to ensure agreed activity is managed and actioned, with quarterly reporting on performance through the formal JVCo Board.

Other Options Considered

52. None

Reason for Recommendation

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

Statutory and Policy Implications

54. 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.

Crime and Disorder Implications

55. There are no direct crime and disorder implications within the report.

Financial Implications

56. Arc Partnership continue to perform strongly, as do Scape Group and both organisations contribute a significant financial dividend to the County Council.

Implications for Sustainability and the Environment

57. Arc have strong environmental credentials, and support the Council by delivering a wide range of sustainable building projects across the corporate estate and schools.

RECOMMENDATION/S

It is recommended that:

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

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Service Director, Place and Communities

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

Constitutional Comments [SLB 31/05/2018]

58. Finance and Major Contracts Committee is the appropriate body to consider the content of this report. If Committee resolves that any actions are required it must be satisfied that such actions are within the Committee's term of reference.

Financial Comments [RWK 30/05/2018]

59. 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