



		Option Ref	A24
1. Service Area	Property Services		
2. Option Title	Joint Venture for Property Services		
3. Summary of Option	<p>To secure a commercial Joint Venture (JV) for Property Design, Construction and Maintenance and related services in order to improve value for money and manage financial risks to the Council.</p> <p>To create a public sector Combined Property Unit (CPU) for property and estate management services over the next two to three years.</p>		
4. Rationale / Evidence Base for the Option	<p>1. <u>Executive Summary of Key Points</u></p> <p><u>Why the status quo is not sustainable?</u></p> <ul style="list-style-type: none"> • Projected significant decrease in the capital programme that provides a source of design and operational work • Potential significant rationalisation in the property estate • Need for continuous improvement through changes in the way services are commissioned and managed. <p><u>Is there any ability to make <i>reasonable</i> additional short-term savings?</u></p> <ul style="list-style-type: none"> • No - there have already been significant budget reductions in recent years • Limited maintenance budgets for the estate are spent mainly on keeping buildings safe and operational, and essential building works • Budget provision for the maintenance of the estate is already insufficient for the size of the property estate and backlog of maintenance. Consequently further reductions would only result in higher costs in the future • Chartered Association of Public Finance Accountants (CIPFA) value for money comparison show excellent performance amongst the benchmarked groups - there is limited scope to improve further with the current service delivery model • Design staff are mainly fee earning with their costs covered by the project. Therefore staff reductions do not create a revenue budget saving. <p><u>Why is a JV solution being proposed?</u></p> <ul style="list-style-type: none"> • Provides increased flexibility to respond to peaks and troughs in work demand • An opportunity to bring in commercial expertise • Flexibility to adopt more dynamic processes and procurement routes • Creates an opportunity to invest in developing the services. • There is the potential to provide job security for a highly skilled and professional work force • Has the potential to retain knowledge and experience of Council's staff. 		

Why is a JV commercial partner preferred?

- Commercial experience and expertise
- Ability to invest
- Removes many of the barriers associated with public sector working practices and processes.

Key Benefits:

- Case example, Worcestershire from its JV anticipate overall financial savings of around 25%
- Reduced accommodation need
- Potential for reduced project costs
- Providing job security
- Exporting skills which are in high demand: engineers, quantity surveyors. There is likely to be strong demand from the commercial sector which should result in a competitive service offer.

Why have a CPU and not a JV for the remainder of the service?

- There is no direct synergy between some property service activities eg valuers, strategy officers and architects - not one solution is suitable for all
- A CPU between public sector partners supports the drive by central government to have joined up asset management, one estate, one service
- Less immediate need for change - a CPU will take time to set up, property rationalisation will follow a similar time line.

2. Background Detail

Current Service Delivery Offering

The Property Group provides two distinct services to the Council:

- (i) A core support function that is necessary for the management of the portfolio
- (ii) Design and delivery of capital and revenue programmes for the Council

The services are delivered in the context of:

- The value of the Corporate Estate: £1.2 billion
- The strategic land-bank: Over £200 million
- There is a diverse portfolio of 900 sites and over 13 m square metres of floor space
- Running costs of portfolio: £40 million annually
- The capital and revenue programmes for the Council amount to in excess of £40-50 million on average annually.

A significant proportion of the Group's work is aligned with supporting services going through transformational change; identifying property need and property solutions. The importance of this role has been highlighted by the Council's decision in 2013 to consolidate property staff from across the organisation into the property group.

Summary of Recent Changes:

During the last four years the group has experienced a period of rapid change and downsizing with the number of staff reducing by over forty posts. Savings have been achieved amounting to almost £2 million when work for its services have been increasing, most notably through:

- Large capital investment in Schools Capital Refurbishment Programme (SCRCP) of £90m over a four to five year period
- Basic Need programme for additional school places of £68m over a four to five year period
- The need to maximise asset value through land allocations
- The need to achieve high levels of capital receipts to support financial planning
- The need to ensure that properties are safe to use
- Improved asset management planning

The Group has increasingly commissioned services from private and public sector partners. A key partner is Faithful and Gould who have been commissioned to provide project management, quantity surveying and design solutions linked particularly to education programmes. The value of these works amount to circa £100 million over a four to five year period.

The Council also accesses the regional/national framework contracts for design and construction services from the commercial sector. In-house maintenance service also delivers nearly £7 million of works for the Council as well as private sector partnership with Nottinghamshire based company, Woodheads.

Review of Service Performance

During December 2013 a detailed Value for Money exercise was commissioned which was undertaken by CIPFA and reviewed in detail the property service provision against 22 other benchmarked authorities. The findings were generally excellent across most of the 60 + indicators.

With the launch of Redefining Your Council, the property group held a series of workshops during May 2014 undertook a SWOT analysis with property staff on the current service delivery model. This was supplemented by visits to Warwickshire and Worcestershire who were identified by CIPFA as undergoing transformational change.

Summary of findings:

- Internal systems and procedures can inhibit productivity
- There is a need to have flexibility with staff resourcing to respond to change
- There is no 'one size fits all' solution for each part of the property group
- There is an established professional skill base particularly amongst quantity surveyors and architects that is recognised and is marketable
- Joint venture arrangements in various guises were identified as offering potential for improvement
- The operational unit should have the capability to seek trade outside of the public sector domain.

Property Strategy & Estates Management – Rationale/Evidence

- The Statutory obligations are adequately addressed eg in relation to the control of asbestos, legionella etc and the portfolio is maintained to an acceptable standard
- It is unlikely health and safety requirements will decrease in nature in future years
However, over time as the property estate gets smaller, less resources would be

required to monitor and manage

- In terms of maintaining the estate, a recent report to Finance and Property Committee identified the challenges the Council faces in sustaining the property estate at its current size. There is limited scope for budget reductions in the foreseeable future
- A strategic management function is required to ensure that property meets service needs, enhancing asset value and facilitating efficiencies for example via identification of co-location opportunities
- As the Council seeks to progress transformational change the demand required to support this process will increase, particularly in relation to asset management planning both at a corporate and service level
- At a time of severe budget pressure it is important that asset values are maximised and buildings are optimally used
- The work associated with the future size and shape of the property estate and the connection it has with ways of working programmes means that it will be extremely difficult to accurately predict current need during the next three years. The likelihood is that extra demand will arise to manage the transformational change process. However, in the longer term, a smaller estate will mean a lower demand for this nature of activity.

Proposal:

Bearing in mind the significant reductions and changes in the staffing levels over the past five years and other factors outlined above, there is little scope for realising significant savings over the next two years or so.

In view of the foregoing, it is recommended that a CPU option with other public sector bodies is fully explored. This has the potential to deliver significant financial and operational benefits to the Council and also has the potential to create an innovative public sector joint venture in the region.

Design, Construction & Maintenance

- Direct works operations which provides the Council with an in-house capacity to undertake design and maintenance services for the Council's capital and revenue programmes
- These services have a proven track record of undertaking works promptly to high quality/standards and at competitive cost. However, these are heavily reliant on departmental spend and suffer from issues associated with identifying a consistent and steady flow of work. These issues are likely to become more extensive as programmes contract
- In addition to the above, the Council relies heavily on external framework contracts and external contractors to undertake design and construction services to deliver capital and revenue works for the Council. This includes for example, SCRP, Basic Need and Refurbishment programmes. This area accounts for approximately 80%+ spend of the Council
- A JV will also help to mitigate redundancies that will arise as programmes decline
- Given the declining and variable works programmes and financial challenges facing the Council, it is considered an opportune time to radically change the service delivery model. This will be underpinned by robust commissioning and contract management in order to improve VFM and mitigate the impact of volatile programmes
- Fundamentally, the main reasons why a commercial JV is a preferable option are twofold. Firstly, there is a shortage of suitably skilled and experienced design/construction staff with a track record in the public sector, and as a result this

group of staff are highly sought after by the sector, looking for growth in business. Secondly, for the sector having exclusivity of services to a well-known public sector client like NCC is a significant strategic acquisition even though volume of work is not guaranteed.

Proposal:

In recognition of the above it is proposed that a commercial sector JV be established. This has the potential to deliver significant savings to the Council in the cost of capital and revenue funded building programmes.

5. What Will the Outcomes of the New Service Be?

- A property service that can maintain full support to the Council and departments at a time of key transformational change
- A change to a more dynamic design and operational service that can better respond to changing demands where professional expertise is fully exploited
- An establishment of a longer term 'road map' for joined-up service provision that should provide for reduced staffing costs for partners involved; a service that can respond to varying demand and is able to utilise specialisms embedded within existing resourcing structure.

6. Projected Net Savings to the Budget

WHAT IS THE PERMANENT BUDGET?	GROSS £000	10,114	NET £000	6,280
WHAT ARE THE PROJECTED NET SAVINGS TO THE BUDGET?				
	2015/16 £000	2016/17 £000	2017/18 £000	TOTAL £000
Gross Saving	0	0	0	0
LESS Loss of Income	0	0	0	0
LESS Costs of Reprovision	0	0	0	0
NET SAVING	0	0	0	0
WHAT ARE THE NET SAVINGS AS A % OF NET BUDGET?	0.0%			

Sizeable savings (up to 25%) are anticipated from the Design, Construction and Maintenance Services JV. These projections are based on a recent procurement exercise by a comparable County Council who have transferred all the services to a private sector partner. This is due to a fundamental shift in the way projects are delivered with a shift to design and build solutions, removal of management/non-fee earning posts as a consequence of integration of the service with the private sector partner, and economics of scale. In other words, savings arise from a fundamental change in the way the services are procured and delivered.

Further savings will emerge from the implementation of alternative ways of working and property rationalisation. These are yet to be quantified.

Note – the above savings are additional to £1.036m envisaged in the existing business case as a part of the 2014 budget.

7. Estimated Implementation Costs

	2015/16 £000	2016/17 £000	2017/18 £000	TOTAL £000
Capital Costs	0	0	0	0
Revenue Costs	50	50	0	100

Note: Only indirect costs incurred relating to procurement and legal support. It is important to stress that external implementation/procurement costs are expected to be minimal because standard procurement routes that are readily available.

8. Projected Permanent FTE Reductions

WHAT IS THE CURRENT PERMANENT FTE					131.0
	2015/16	2016/17	2017/18		
WHAT ARE THE PROJECTED PERMANENT FTE REDUCTIONS?	0.0	0.0	0.0		0.0

Note: No staffing reductions are anticipated but approximately 70FTE staff will transfer into a JV and CPU under TUPE arrangements

9. Anticipated Impact

ON SERVICE USERS AND COMMUNITIES

No negative impact. Consistency of service delivery during a period of significant change and longer term improved access to specialists and quicker response times

ON OTHER ORGANISATIONS / PARTNERS

No negative impact. Potential for greater sharing of services and promotion of joined up asset management

ON OTHER PARTS OF THE COUNTY COUNCIL

No Negative impact. There may be some sensitivity on losing direct control over the service delivery

10. Initial Equality Impact Assessment

It is not believed that the proposal will have a disproportionate / adverse or negative impact on people with protected characteristics.

WILL A FULL EQUALITY IMPACT ASSESSMENT BE REQUIRED? (Y/N)

N

11. Risks and Mitigating Actions

Securing a JV partner: The objective will be to achieve staff transfer security, and provide an improved service delivery at reduced cost. Risks in relation to service transfer to a JV are minimal and can be effectively managed through good commissioning and contract management.

Loss of staff during transition period: Changes will cause anxiety amongst staff and this may result in an increasing loss of experienced staff. However, with a proven JV partner provide a degree of certainty over job security.

The extent of ways of working programme scope and property rationalisation: The level of property service support is inextricably linked to changes in property and accommodation need. The extent of change is unknown at this stage. It is important that as the Asset Management Plan for NCC is developed that there is a parallel review of the level of property service that is required to support it.