



14 September 2015

Agenda Item: 8

**REPORT OF SERVICE DIRECTOR TRANSPORT, PROPERTY &
ENVIRONMENT**

**ESTABLISHING A JOINT VENTURE FOR PROPERTY DESIGN AND
OPERATIONS**

Purpose of the Report

1. This report outlines the options that have been developed and evaluated and seeks an in-principle decision from Members on the preferred option.

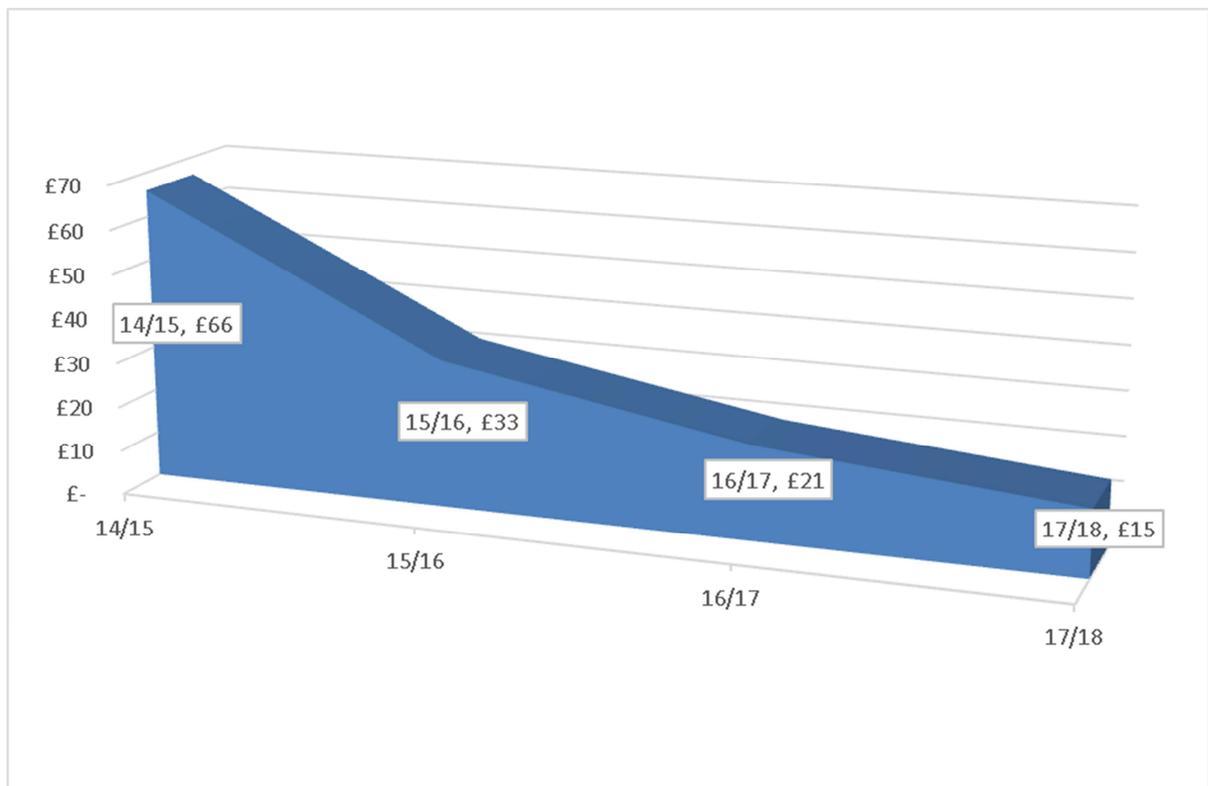
Information and advice

2. This report contains an exempt appendix, which is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) (Information relating to any individual and the business affairs of a particular person (including the authority holding that information)). The exempt appendix provides details of the terms agreed. Disclosure of this information would prejudice the parties' commercial interests.
3. In late 2014 the Property Group put forward outline business cases for two options that were approved by the County Council as part of its Medium Term Financial Strategy (MTFS) earlier this year.
4. One of the options involved the establishment of a Joint Venture for Property Design and Operations.
5. For ease of reference, the rationale for this option for change (**Appendix A**) is summarised below:
 - A significant decrease in the value of the capital programme that provides the principal source of design and operations work; which is projected to reduce significantly over the next 18 months and beyond.
 - Design and operations staff required to deliver the programme are similarly likely to contract by half.

- A 50% reduction in the size of design and operations staff will make the functions unsustainable: from 70 to 35 FTE.
 - Risk of significant redundancy and termination costs for the authority: up to £1 million.
 - Loss of experience and skills to deliver projects and programmes for the Council.
6. The whole of the Property Group comprises 124 staff: 70 FTE are engaged in Design and Operations which leaves 54 staff who are engaged on Corporate Property Strategy, Asset Management and Planning, Compliance (asbestos, fire, legionella and occupier risks), and Strategic Commissioning and Contract/Performance Management.
 7. Given the financial challenges facing the Council it is vitally important to strengthen asset management planning, rationalise the property estate, and urgently progress the one public estate initiative to reduce the cost of property holding and occupation. It should be noted that from the benchmarking analysis undertaken recently it is evident that the cost of corporate estate runs into £40 million annually because of its size and condition. Therefore, in the medium to long term it is not a sustainable model going forward.
 8. Furthermore there is, greater than ever, the need to generate capital receipts and develop strategic sites for the land bank: urgently progress one property estate to share public estate and assets amongst other public sector bodies. In addition asset management planning and management of the corporate estate is complex and has many organisational challenges.
 9. It is also appropriate to stress that there are few linkages between estate and asset management, planning, and design and operation. Any synergies between the two are minimal at best. The focus of asset management planning is on property strategy, strategic commissioning and contract management; whereas the primary remit of design and operations is project/programme delivery.
 10. In view of the foregoing it is concluded that it would be too risky at this juncture to entrust asset management planning and corporate property strategy in the hands of a partner as it would lead to diminution of strategic control and oversight. Therefore these services are to be pursued as a separate option as explained in the Outline Business Case (OBC) approved by the Council: an Integrated Property Unit comprising other public sector bodies.

11. On a related subject, it should be noted that 'soft' facilities management (FM) such as cleaning, grounds maintenance, car parking, security, and office accommodation management typically tend to be managed as separate businesses from building design and operations services because there is very little synergy between the two. Therefore these services have been excluded from the scope of the Property JV proposal.
12. The Property Joint Venture for Design & Operations would undertake capital and revenue works and programmes for the Council but the turnover is expected to decline sharply after the next 18 months and beyond. For example, the revenue and capital programme for 2017/18 currently stands at £6 million, and even after making an allowance for new education basic need projects and new schools in 2017/18, the projected programme is £15 million. There are no new building projects in the pipe-line and the trajectory is downwards. Beyond that there will be a requirement to develop additional income streams.
13. In summary the demands for non-design are likely to rise over the next 3-5 years as the Council develops and implements its long-term asset management plan.

Figure 1: Forecast Property Capital programme value (£ millions)



14. Because of the declining value of the capital programme it is expected that a new Joint Venture for Design and Operations arrangement would need to be in place by **April 2016**.

15. The in-house design and maintenance staff have extensive experience and are nationally recognised by professional bodies as demonstrating excellence in their field. Accordingly, one of the key objectives of the Joint Venture is to retain these assets by enabling their skills and experience to generate additional income through a successful commercial partner.

16. The main services within scope of a Joint Venture are:

- Administration, business and ICT support officers connected with design and delivery
- Architects, including technicians and assistants
- Building Engineers
- Building Surveyors associated with the design service
- Business generation posts and similar connected with design and delivery
- Contract Administrators
- Mechanical, electrical and plant engineers and associated technicians
- Payment and invoicing posts connected with design and delivery
- Project Managers
- Quantity Surveyors, including estimators and technicians operating in this capacity
- Resource Planners
- Site Supervisors
- Trade staff, joiners, plumbers, electricians and similar
- All management posts associated with the above

17. There have been on-going discussions between the County and the neighbouring councils in relation to collaboration and the sharing of resources for the delivery of property design and operations.

18. Unlike the County Council, the neighbouring councils have sizeable capital programmes and contract out their design and maintenance work. There is an obvious synergy that will be considered further. Once this Joint Venture is fully operational the door will be open for our neighbours to join at a later time, should they wish to.

Options Considered

19. The following options have been explored over the last 8 months and are summarised as follows and discussed in more detail below:

- (i) Status-quo
- (ii) Outsource the services to the private sector
- (iii) Develop a Joint Venture between Nottinghamshire County Council and a publically owned external commercial partner

20. It was identified at the point that the option for change was put forward last year, that maintaining the current model for service delivery (an in-house team delivering the existing capital programme) would not be sustainable beyond the start of financial year 2016/17 as there will not be a sufficient volume of work. The likelihood is that a reduction of posts would be required resulting in the Authority being liable for the associated costs. The skill base would be eroded to the extent that the remaining resources would not be able to undertake the full spectrum of work.

21. The result would be that any remaining work would need to be serviced by external resources, at a cost premium to the Council. It is also worth pointing out that NCC experience of external consultants in the last couple of years has been somewhat variable; in part due to the fact that the programme is reducing. Lack of commercial skills and expertise means that there is limited scope to increase external income in a sector that is competitive. Therefore status-quo is not a viable option.

22. Outsource of the services through open competition could be expected to take 12-18 months minimum to procure. It will be a costly exercise in resource terms and in advisory fees. There is no certainty that acceptable bids would be received. This taken together with the projected reduction in the size of the works over the same period means that staff reductions will have to be made before the revised arrangements are in place, which would result in considerable costs to the council as explained in paragraph 19. In addition outsourcing is not a collaborative partnership model going forward and most importantly it will diminish the County Council's control and influence leading to possibly higher costs for the Council. Accordingly, this option is the least preferred. A joint venture model with the private sector would add further complexity and delay and may be less attractive to the market.

23. Outsourcing will only be investigated further if a suitable Joint Venture partner cannot be agreed. This option is probably the least attractive to impacted staff as it introduces the greatest degree of uncertainty about the on-going security of employment.
24. The third option is to establish a joint venture with another publically owned organisation that is able to complement our skilled resources with the ability to find alternative sources of work for them and, over time, developing a source of income for the authority. This is a tried and tested business model for local authorities and there are a growing number of Joint Ventures being developed across the country, including the Council's own JV with Cormac for Highways.

Features of the Joint Venture Options

25. The key features of either of the Joint Venture options are summarised below:
- i. Strategic commissioning and contract management will rest with the County Council as a client.
 - ii. There will be a commercial and exclusive service contract between the County Council and the Joint Venture partner for the provision of building design and operations.
 - iii. The new Joint Venture would aim to be a Teckal company; which means it is controlled by local authority(s) and can trade outside by up to just under 20% of its turnover – which has been introduced into law by the Public Contracts Regulations 2015. Legal advice is being taken on how to ensure the joint venture is compliant with the procurement regulations.
 - iv. An 'Admitted Body' pension fund would be created for the Joint Venture based on actuarial valuation. The Council will retain responsibility for the historical pension deficit relating to the transferring staff, and the company scheme would commence on a fully funded basis. The company would assume liability for any future deficit.
 - v. The business and commercial risks of operating the Joint Venture rest with the partner; rather than the County Council.

- vi. The jointly owned Teckal body would be financed and supported jointly by the partners as an “in-house” department common to them both although it is expected that the partner would bear a greater proportion of the business and commercial risk.
- vii. The County Council will be a minority shareholder on the Board of the Joint Ventures.
- viii. Profits from third party revenue will be shared 50:50.
- ix. The terms of the contract including the break clauses and any reserved matters for the Council will be negotiated as a part of the final business case and due diligence.

Key strategic considerations

26. It is important to take into account of the following strategic issues for the Council:

- o Short term risks to the Council
- o Long term opportunities in the wider public sector market
- o The impact on any local relationships e.g. with other public sector bodies
- o How long the arrangements will be in place and the impact on the future direction of NCC

27. This report is seeking a decision from the Committee on the option that is most closely aligned to the Council’s strategic objectives.

Reason/s for Recommendation/s

28. The following recommendations have been made as they represent the best solution for the council to retain access to skills and experience in the face of declining turnover.

Statutory and Policy Implications

29. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) It is recommended that the Committee:
 - (i) Approves the appointment of the preferred partner as outlined in the exempt appendix ; and
 - (ii) Note that a final business case is to be developed and will be taken back to Committee for approval.

Jas Hundal
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For any enquiries about this report please contact:

Constitutional Comments (SSR 02.09.2015)

30. The recommendations set out in this report fall within the scope of decisions which may be approved by the Finance and Property Committee.

Financial Comments (TR 25.08.2015)

31. The full financial implications relating to the proposal will be developed as part of the final business case.

Background Papers and Published Documents

32. 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.

Electoral Division(s) and Member(s) Affected

33. Ward(s): n/a
Member(s): n/a