

MEETING:	Cabinet
MEETING DATE:	22 January 2015
TITLE OF REPORT:	Joint property vehicle (JPV)
REPORT BY:	Assistant director place based commissioning

Classification

Open

Key Decision

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function to which the decision relates.

NOTICE has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

Wards Affected

County-wide

Purpose

To consider the proposals for a joint property vehicle (JPV) with Worcestershire and the alternative options for commissioning of property services.

Recommendation(s)

THAT:

- (a) Herefordshire Council does not join the proposed joint property vehicle as a founding member; and**
- (b) the director of economy, communities, and corporate, produce a further report following completion of a review of the options for ensuring a sustainable property service for Herefordshire including consideration of joining or becoming a customer of the joint property vehicle once it has been established.**

Alternative options

- 1 Become a founding member of the JPV – the target launch date for the joint venture (JV) is 1 April 2015. The decision whether to join from day one is, therefore, needed in January 2015. Seven potential partners have been identified in Worcestershire, Herefordshire, Shropshire and Warwickshire with most headquartered in Worcestershire. It is currently proposed that the main office would be in Worcestershire with a satellite office in Herefordshire. Herefordshire's contribution to total costs (£43.8m est.) would be approximately 20% (full business case estimates). Many of the benefits which are identified for the JPV have already been substantially delivered in Herefordshire. For example, significant progress has been made in the county towards the implementation of a single public estate and the consolidation of the council's operational estate, contracts, and client team. Further benefits are possible but Herefordshire is significantly ahead of the other partners in most areas where benefits are expected. This option is therefore not recommended.
- 2 Do minimum – the contracts put in place after the end of Herefordshire Council's strategic partnership with Amey were intended to be interim arrangements. The intention was to allow time to develop a more sustainable approach to property services. The 'do minimum' option would be to re-let similar arrangements potentially for longer terms. However, this option does not address succession planning and the sustainability of the client side operation.
- 3 Other collaborations – the council has started to investigate options for collaborations.

Reasons for recommendations

- 4 The recommended approach will allow the council to properly assess all its options for the future of property services without incurring the costs associated with the establishment of the proposed joint property vehicle. This would allow the council to retain the option of joining or becoming a customer of the joint property vehicle once it has been established and allow the exploration of other approaches to collaboration. This will ensure we take the best approach for Herefordshire Council.

Key considerations

Origins and objectives of the JPV

- 5 The JPV is a development of the Worcestershire capital and asset pathfinder (WCAP) set up as part of an initiative supported by the Local Government Association (LGA) and Department for Communities and Local Government (DCLG) in 2010/11. The WCAP has led to over 40 projects in Worcestershire involving co-location and property sharing amongst partners and has led to the development of a 'one town' approach to the strategic development of public sector assets in a number of towns.
- 6 The partners now feel that further progress can be made in using property to promote service integration and economies of scale. They believe that the way to achieve this is to bring together the estates functions of each partner into a single organisation. The partners therefore agreed to start investigating the possibility of setting up the JPV in May 2013. The Cabinet Office process has been followed and has resulted in a full business case (FBC) completed in October 2014.
- 7 The JPV would create a public sector owned company to provide a single property management unit across a range of public sector bodies. Potential partners

considered in the development of the business case have been Herefordshire Council, Hereford and Worcester Fire and Rescue Service, Redditch Borough Council, Warwickshire Police, West Mercia Police, each authority's police and crime commissioner, Worcester City Council, and Worcestershire County Council.

- 8 The FBC has now been developed and has been considered and analysed by the council's finance and asset management teams during the preparation of this report. The FBC proposes that implementation of the company will begin from the second quarter of 2015.
- 9 The potential benefits identified in the FBC include cost savings – driven by a reduction in establishment numbers, contract alignment, and property rationalisation – and other benefits including: a more commercial approach to property management; swift payment for small and medium enterprises (SME); and locality reviews delivering improved service for the community; and encouraging main contractors to invest in local apprenticeships. In the longer term the JPV aims to drive regeneration and growth and provide better value through increased purchasing power.

Analysis of savings

- 10 An analysis of the cost savings has been carried out by Herefordshire Council's finance team. This is a more tailored analysis based on the specific circumstances of Herefordshire. The benefits identified in the FBC are likely to be valid overall, however, the detailed circumstances of Herefordshire mean that the level of savings are likely to be lower than the average (see financial implications and appendix 1). For Herefordshire, in the early years, set-up costs are significantly higher than savings, with pay-back on a net present value basis (3.5% discount rate – the rate specified for business cases in the treasury green book) not until year five: 2019/20. The set-up and running costs of the JPV are a significant influence.
- 11 The payback from the JPV is assessed against a 'do nothing' scenario. The analysis carried out by the council's finance and asset management teams shows that when assessed against savings that Herefordshire Council would expect to make without joining the JPV, the JPV would not be anticipated to break even for Herefordshire. Net present value of net savings over 10 years for the JPV option is £1.94m versus £3.67m by not joining the JPV.

Other benefits

- 12 A number of the benefits identified in the FBC will have less of an impact for Herefordshire Council. For example, the council's services are already largely commissioned via contracts with external commercial organisations. These contracts have been recently market tested via procurement which put in place both swift payment terms for SMEs and encourage the use and development of local suppliers.
- 13 Herefordshire Council, working in partnership with its suppliers has already attained academy status from the Construction Industry Training Board across its contracts in public realm and property services – demonstrating a commitment to apprenticeships, training, and work experience for young people still at school.
- 14 Since 2010 Herefordshire Council and its partners in the county have also been successfully pursuing a locality strategy which has seen locality reviews (similar to the proposed 'one town' reviews) carried out across the whole county. The first wave of these reviews completed in 2014 delivering integration across government

departments, local government, parish councils, community groups, and the third sector. More can always be done and the council and its partners continue to identify and exploit opportunities. The move towards one public estate is, therefore, already underway and all government departments operating in Herefordshire are co-located in some form (including the NHS Hospital Trust, Herefordshire Clinical Commissioning Group, Environment Agency, Ministry of Justice, Department for Work and Pensions, Probation Service, and (potentially) Driver and Vehicle Standards Agency). Herefordshire Council also maintains a set of multi-agency offices across the county which offer flexible office facilities to multiple organisations.

- 15 In Herefordshire, as part of its locality reviews, twenty community asset transfers will have completed by April 2015. Transferring assets to the community has already led to a reduction in the council's maintenance liability of approximately £1m per annum. Community groups have accessed sources of funds that are not available to the council to develop and maintain facilities that have become the focus of community development and regeneration; examples include the Ross sports centre (£200k) and Hereford Model Engineers (£50k) where in 2012 land and buildings at Broomy Hill were transferred to the Hereford Society of Model Engineers, which run a mini railway and education centre.
- 16 Herefordshire Council recently re-procured its public realm and property related contracts. Important aspects of these contracts are swift payment terms for SMEs, encouragement to use and support the development of local SMEs, and an emphasis on workforce development and training. The council and its providers have already attained academy status from the Construction Industry Training Board (CITB). The jpv has committed itself to delivering similar benefits for its partners in the future.
- 17 Herefordshire has been driving forward its locality strategy since 2010. This has resulted in the delivery of cross-public sector locality reviews covering the entire county. The implementation of recommendations from the first round of reviews is now complete. The council and its partners will continue to look for opportunities to move towards a single public estate although a number of the benefits of this approach have already been delivered in the county.
- 18 In the longer term the JPV aims to drive regeneration and growth for its partners. However, Herefordshire Council has already developed a strong track record of cooperation with public and private sector partners to bring forward property-led regeneration through projects such as the Old Market Development and Hereford Enterprise Zone.

Conclusion

- 19 While the JPV proposals are not considered to provide a level of benefits which would be attractive to Herefordshire Council, the business case does highlight that the other partners could benefit from such an approach. However, the council needs to ensure the best approach for Herefordshire. Whilst it is recommended that the council should not join the JPV as a founder member, it will still be necessary to ensure we retain a successful and sustainable model for delivering property services in the future.
- 20 There are a number of potential ways in which this can be accomplished. It is therefore recommended that a further review be carried out to determine the most appropriate approach for Herefordshire. Options to be considered would include:
 - a. Considering taking advantage of the flexibility offered by the JPV by becoming

- a customer of its services or potentially a full partner once established;
 - b. Exploring joint ventures with other authorities;
 - c. Putting in place a partnership agreement with a private sector partner while retaining an intelligent client/strategic asset management capability within the council;
 - d. Other forms of public sector collaboration e.g. with neighbouring authorities.
- 21 It is proposed that these, and any other options, form part of an option appraisal with a preferred option being the subject of a future report

Community impact

- 22 Herefordshire's locality strategy was established in 2010. Its objectives were: strengthened community leadership; local service delivery meeting the needs of communities; joined up local services; and working in partnership with empowered communities.
- 23 Local democracy has been enhanced with the local councils and their use of participatory budgeting, community led planning and increased number of robust action plans produced. One of the key benefits has been the positive difference made by members working with their parish councils. Benefits have been delivered by consolidation of the public estate with all government departments operating in Herefordshire being co-located in some form. The lessons learned from the locality reviews will continue to support these changes as opportunities arise.
- 24 It is vital that any new approach to delivering property services will continue to develop in line with these aims.
- 25 The recommendations support achievement of the council's corporate plan objectives to:
- Make the best use of the resources available to meet the council's priorities;
 - Continually looking for improvement and remaining open to challenge

Equality and human rights

- 26 The recommendation of this report is that a wide-ranging option appraisal is carried out which will identify the preferred way forward for property services in Herefordshire Council. An equality impact assessment will form part of the option appraisal and will be used to inform the choice of preferred option. A more detailed assessment of the impact of the preferred option on equality and human rights will then form part of the implementation plan for that option.

Financial implications

- 27 Joining the JPV would require initial investment of £400k – including one-off and running costs net of savings over the first two years. The net savings over 10 years are estimated by the JPV working group to total £1.9m with a break-even in year five 2019/20. This is based on expected efficiency staff savings within the JPV and further rationalisation of properties. This is based on estimated levels of savings

which are not guaranteed and might not be achieved.

- 28 It is anticipated that the council could exceed this level of saving without the upfront costs by continuing its own rationalisation plans outlined in the medium term financial strategy. It is expected that a review of the property function will also highlight options around contract management to deliver further cost savings.

Legal implications

- 29 There are no legal implications arising from a decision not to join the JPV as a founding partner. Legal services will be involved in assessing the potential legal implications of alternative options for future service delivery as part of the recommended review.

Risk management

- 30 ISSUE – Herefordshire needs to ensure that it continues to have a professional property service; the current team is mature; we must do something
- 31 ISSUE – Herefordshire will need to continue to drive property enabled savings from: efficiencies; rationalising the operational estate; community involvement; devolving services – this challenge is key to the council's sustainability

Risks of not joining the JPV

- 32 RISK – opportunities to drive the single public estate are missed by not being part of the JPV; RESPONSE – Herefordshire Council has already driven integration within Herefordshire that is not obvious elsewhere; Herefordshire Council will be open to opportunities identified in the 'one town' reviews and has a track record of a cooperative approach
- 33 RISK – the increased regional influence of the JPV drives additional investment which will not be available to Herefordshire; RESPONSE – Herefordshire Council's track record of influence is good and should be measured against any expected gains
- 34 RISK – we replace an effective, local service for an organisation that is just starting to go through the transformation that has already taken place in Herefordshire; RESPONSE – the benefits case and financial case for the JPV assumes that all partners are at a similar level of development. The council's finance department has based its assessment of the JPV on savings and benefits that Herefordshire Council could realistically expect to gain

Risk of joining the JPV

- 35 ISSUE – the financial case in the FBC appears to be based on targets based on overall industry benchmarks with no sensitivity analysis; there are no guaranteed savings in the FBC; RESPONSE – Herefordshire Council's finance department has carried out an analysis based on a more detailed assessment of the benefits and providing estimated benefits which give a greater level of confidence
- 36 ISSUE – the benefits identified for Herefordshire Council have largely been delivered or are in process; RESPONSE – the progress in Herefordshire towards a single public estate will provide useful experience for the JPV whether Herefordshire Council is a founding partner or not. The council will still be able to cooperate with any plans to consolidate the public estate

- 37 ISSUE – there is no mention of community asset transfers in the FBC; this has been a major benefit of Herefordshire’s localities strategy; RESPONSE – the council’s experience will be available to the JPV
- 38 RISK – Herefordshire will be a minor partner in the larger group; there is a risk that the service provided will be remote and unresponsive; RESPONSE – the FBC promises ‘high quality customer service’ to its partners. This will be driven, in part, by a culture change programme led by Innovation Central Ltd
- 39 RISK – there is a risk that the progress on integrating the public estate in Herefordshire through its localities strategy stalls as the JPV learns how to deliver these complex projects; RESPONSE – In assessing the JPV business case, the council has assumed that a client team will be required. This client team would need to retain the understanding built up via Herefordshire’s approach to localities
- 40 RISK – there is likely to be a need for strong client teams within each of the JPV partners to manage stakeholders and drive the integration of the public estate; this will erode the efficiency savings; RESPONSE – this has been included in the assessment of the full business case

Consultees

- 41 The JPV FBC has been developed collaboratively by the partners. This approach has led to a document that reflects the input provided by local specialists and a document that is understood and endorsed by all the partners. This has facilitated the analysis of the local situation in Herefordshire (in particular by finance and corporate asset management) which has underpinned the conclusions and recommendation of this document.
- 42 Further consultation will be carried out as part of the proposed review of alternative options for future service delivery of property services.

Appendices

Appendix 1: Chief Finance Officer’s financial analysis of JPV FBC

Appendix 2: Full Business Case Joint Property Vehicle Project Version A – Issued 20 October 2014.

Background papers

- None identified