

Report of Chief Fire Officer

9. Joint Property Vehicle – Full Business Case

Purpose of report

1. To summarise the content of a Full Business Case (FBC) for a Joint Property Vehicle (JPV) and analyse the potential benefits for the Fire Authority.

Recommendations

It is recommended that, subject to all other partners participating:

- i) the Authority approves the formation of a new JPV company, limited by shares and becomes a shareholder in that company holding an equal share with all other partners;*
- ii) the Chief Fire Officer appoints officers to represent the Authority as a Shareholder and in establishing the Board for the new company;*
- iii) the Authority authorises the Chief Fire Officer to agree the Articles of Association of the Company, formal Shareholder Agreement and Service Level Agreement, in conjunction with the Treasurer and Head of Legal Services;*
- iv) the Authority authorises the Chief Fire Officer to work with the other partners to nominate and appoint a Managing Director of the new company, following company formation; and*
- v) the Authority authorises the transfer of relevant employees to the new JPV company and authorises the commencement of formal consultation with Trade Unions and staff on the proposals.*

Introduction and Background

2. On 26th March 2014, the Policy and Resources Committee noted the summary of an Outline Business Case (OBC) for a Joint Property Vehicle (JPV), which proposed the creation of a model where the respective estates functions of partner organisations might be brought together without authorities losing individual sovereignty over their properties or losing local control over the services delivered. It was expected that a Joint Property Vehicle between partners managing the collective estate could realise potential revenue savings through more efficient management of public property. The Policy and Resources Committee agreed to support further work towards the creation of a Full Business Case (FBC), where the Authority would decide whether to be a core partner in a proposed JPV concept. In developing the FBC, the prospective shareholders are:

- Worcestershire County Council
- Herefordshire Council
- Worcester City Council
- Redditch Borough Council
- Warwickshire Police
- West Mercia Police, and
- Hereford and Worcester Fire Authority

3. On 2nd June 2014 a further report was presented to the Policy and Resources Committee which agreed that progress of the development of an FBC was noted, the fully funded secondment of a member of the Service's staff to the project, and potential consultation with staff and representative bodies as and when appropriate. In addition, the Policy and Resources Committee approved the use of up to £30,000 from the Development Reserve as and if necessary to support the work towards the FBC. It has not been necessary to use any of this allocated reserve.

4. To oversee the management of the project, a Shadow Shareholder Group (SSG) was established consisting of senior representatives from the partner organisations. Bruce Mann, the Chief Executive of the Government Property Unit (GPU) and Treasurer to the Cabinet Office acted as the Chair of the Shadow Shareholder Group (SSG) and the Chief Fire Officer represented this Authority. Reporting to the SSG were a number of project work-groups, which utilised substantial input from Officers of the Service on a range of functional areas such as Finance, ICT, Legal, Facilities and Project Management. A Full Business Case has now been completed.

Full Business Case (FBC)

5. The Full Business Case (FBC) is a comprehensive document which runs to many pages and it is not practical to reproduce the full document here. An electronic version is available for elected members from Committee Services upon request. A summary of the key factors relevant to the Fire Authority are contained at appendix 1.

6. The FBC outlines activity which is required to deliver the JPV concept if approved by partners. Extensive work has been undertaken to advise on the practical elements, which will ensure that the company will be established in time to deliver the savings identified. This timescale provides a stretching target for delivery and to ensure that the leadership team will be in place at the appropriate time, the Shadow Shareholder Group (SSG) approved the commencement of the recruitment process for the JPV Managing Director, although an appointment to this post will not be made until the FBC is approved by all partners. All other staff will transfer into the JPV from April 2015, under the Transfer of Undertaking (Protection of Employment) Regulations 2006 ("TUPE Regulations"), which has been agreed by the Legal and Human Resources (HR) work-groups.

Analysis

7. In conjunction with other Members of the Finance Group the Treasurer has reviewed the financial aspects of the Final Business Case (FBC), that were prepared by the project team, and comments as follows:

- (i) The level of savings proposed by the project team is based upon work completed for the Outline Business Case (OBC) by the consultants, Ernst & Young. The Finance Group has not been able to verify these figures as they are based on “professional judgement and experience”. It is not clear how much of this experience is from a period before austerity measures had already been taken.
- (ii) The saving is a mixture of “better” procurement/management and property rationalisation, but the project has not been able to identify specific savings from each area.
- (iii) The overall savings from the JPV may be overstated as they include the impact of property rationalisation and contract renegotiation decisions already taken by one of the major partners.
- (iv) As there is little scope for the JPV to rationalise FRA operational property (savings from a potential move of the HQ function will occur with or without the JPV) there is unlikely to be any saving from Rates for the FRA.
- (v) The FBC does not include the on-going running costs of the JPV nor the short-term implementation costs.
- (vi) As has been stated the Finance Group has been unable to verify the savings levels proposed, but the project team has carried out a sensitivity analysis on the impact of savings being +/-20% of the level proposed. The impact of this at Year 10 is +/- £0.045m.

8. Taking all of the above adjustments into account it will be Year 4 before there are any net cumulative savings for the FRA.

9. The potential savings position for the Fire Authority can be summarised as:

	Yr 1 15/16	Yr 2 16/17	Yr 3 17/18	Yr 4 18/19	Yr 5 19/20	Yr 6 20/21	Yr 7 21/22	Yr 8 22/23	Yr 9 23/24	Yr 10 24/25
FBC Headline Savings	47	102	154	221	315	346	361	386	390	404
JPV Running Costs	-61	-61	-61	-61	-61	-61	-61	-61	-61	-61
One Off Costs	-100									
Sub total	-114	41	93	160	254	285	300	325	329	343
Rates (savings not realisable)		-15	-29	-64	-97	-101	-107	-110	-110	-110
TOTAL	-114	26	64	96	157	184	193	215	219	233

10. The estimated saving for this Authority in Year 10 is therefore estimated at £233,000 per annum. However, having regard to the sensitivity analysis mentioned at paragraph 7(vi) (above), the actual saving could range from £0.187m - £0.289m, which is still significant.
11. There are a number of other issues that need to be considered in reaching a decision.
 - (i) There has been little analysis of the impact of any of the current partners deciding not to participate in the final JPV. The Finance Group has been informed that if this were to happen then there would be a full revision of the FBC and as a consequence a new approval process would be required.
 - (ii) The project team propose that JPV staff costs are shared on the basis of current staff costs. The Treasurer believes that this is not the best approach, and the project team acknowledge that this will need to be reviewed in the medium term.
 - The current basis for cost sharing does not fully reflect the relative services that may be delivered to individual partners in the future.
 - As an example of the impact, if costs were to be shared on the basis of expenditure throughput then savings for the FRA would increase by £0.050m. Savings for most partners will also increase although Worcestershire CC savings would reduce by £1.1m.
 - Whilst there is an acknowledgment that the basis will need to be renegotiated at some time in the future, the relative impact outlined above suggest that this will be very difficult in the future.
 - (iii) Although the FRA will retain ownership of its property, repairs and maintenance would no longer be under the direct control of the FRA.
 - (iv) The Authority's property team is currently highly regarded within the Service and is staffed by people who work in Property so that they can work for the Fire Service, rather than working for the Fire Service to work in property. This relationship may not be available under the JPV.
 - (v) The Authority currently has a major building programme underway and the recently announced Transformational Grant funded projects add to this workload and importance of property work. With any re-organisation, such as setting up the JPV, there will be a period of disruption which may detrimentally effect these projects.
 - (vi) As yet there has been no clear definition of "Property Services" for the JPV. Partners have provided data on services provided by their current functions but this has included some services for some partners and not for others. This definition will be required for staff transfer (TUPE) purposes and may include parts of other FRA services.

Summary

12. The FBC suggests a financial case for change, but Members should be aware of the potential risks which balance the benefits of entering into the initiative proposed.

These can be summarised as follows:

Risks	Benefits
<ul style="list-style-type: none"> ▪ Savings not delivered to the levels as stated in the FBC nor the revised savings indicated by the Treasurer ▪ Property and maintenance services not delivered to our current standard ▪ Not all partners signing up which may detrimentally affect the performance of the JPV ▪ A partner withdrawing from JPV at a later stage ▪ Demotivated property staff until transfer to JPV takes place, leading to a reduction in property management performance ▪ Loss of key staff during transfer stage, due to change in role ▪ Impact upon current projects due to draw on resources through transition stage ▪ Potential redundancy of existing fire service property staff meaning loss of FRS property knowledge ▪ Lack of consistent relationship with future points of contact for property matters 	<ul style="list-style-type: none"> ▪ Potential savings estimated at £233,000 by year 10 ▪ Potential income from other partners including in short term from HQ space rental ▪ Opportunity to foster regeneration through 'locality' reviews ▪ Additional resilience to our property function through expansion of staff base available to manage property ▪ Improved coordination of collaborative projects with partners ▪ Potential career and development opportunities for current fire service property staff ▪ Additional resources to strengthen currently weak areas ▪ Potential improved management of property liabilities

Conclusions

13. The concept of the JPV suggested in the FBC should bring increased resilience in estate management for the Service. In addition, the proposal should provide improved opportunity to provide better use of public property through shared occupation of buildings – for the fire service this could increase the potential for income generation from other partners.
14. The JPV can potentially deliver significant financial savings, although not as big as the headline in the FBC would suggest but there is also downside risk. It will take until Year 4 (best case) or Year 5 before there is a cumulative net saving. If this position is replicated for other partners this may be the point that they choose to exit, potentially hampering the JPV's ability to achieve the Year 6 – 10 savings.
15. The Chief Fire Officer's recommendation to enter the JPV cannot be entirely based on evidenced data or analysis as there remains uncertainty around many issues in relation to the formation and implementation of the JPV; this is to be expected when there is a completely new and untested way of delivering a service of any sort. There is no doubt that a 'leap of faith' will be required to enter the JPV as without this positive approach it would be difficult to make a firm recommendation to be a partner.
16. The Chief Fire Officer's recommendation is based on the balance of probabilities and Members should consider all risks and benefits carefully and whether this test is of sufficient robustness when coming to their decision.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	The proposal will encompass further work around financial arrangements and legal issues. The ownership of Authority property will not transfer into the JPV, but management of the estate will be undertaken by the organisation. All property related staff will transfer into the JPV, with the associated HR resource requirement.
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	The provision and maintenance of appropriate buildings and infrastructure is one of the key foundations of 'Our Strategy'. The creation of the JPV may potentially cause disruption to the delivery of the Authority's on-going capital programme and Transformation Bid schemes.

Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	N/A
Consultation (identify any public or other consultation that has been carried out on this matter)	Targeted meetings have been arranged with the representative bodies, in conjunction with the potential partner organisations.
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	An equalities impact assessment will be completed if approval is gained, to inform the staff transfer process.

Supporting Information

Background papers –

Joint Property Vehicle – Full Business Case (electronic copy available from Committee Services)

Joint Property Vehicle – Outline Business Case (electronic copy available from Committee Services)

Policy and Resources Committee, 26/03/14 – Joint Property Vehicle – OBC

Policy and Resources Committee, 02/06/14 – Support for JPV Project

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Proposed Joint Property Vehicle

Final Business case - Summary

1. The FBC proposes that broadly the governance structure recommended in the OBC has been developed with defined roles and responsibilities for the different levels in the structure. In summary, this determines that the JPV as an organisation will:
 - Be a company limited by shares, wholly owned by the partner organisations as shareholders with an equal share in the company.
 - Have a board of directors consisting of partner representatives as directors, a JPV Managing Director and external Non-Executive Directors (NEDs).
 - Have a shareholder Annual General Meeting (AGM), consisting of other representatives of the partners.
 - Be underpinned by a shareholder Members' Agreement which details how the JPV company will be formed and includes details such as appointments, entry and termination arrangements and reserved matters etc.
 - Operate to a Service Agreement which details how the JPV company will provide the service to shareholders and includes details such as pricing, customer service and performance management, and indemnity arrangements etc.
 - Comply with EU procurement rules by remaining under the substantial control and management of the Partner organisations and undertaking no more than 20% of the JPV company's work for non-partners, thus avoiding the need for the company to tender for work from the Partners.
 - Transfer staff from Partner organisations to the JPV company in accordance with the Transfer of Undertaking (Protection of Employment) Regulations 2006 ("TUPE Regulations").
 - Receive a budget in the form of an annual service charge from partners, acting as a 'retaining fee' for services provided by the JPV.
 - Administer direct partner charges (such as energy use) as 'disbursements', which will be paid at cost and will 'pass-through' the JPV.
 - Manage special projects on behalf of partners, which will be paid separately as an individually agreed 'professional fee' to partners.

- Manage all partners' contracts to maximise efficiencies and create savings, within a procurement strategy which provides transparency and assurance for partners.

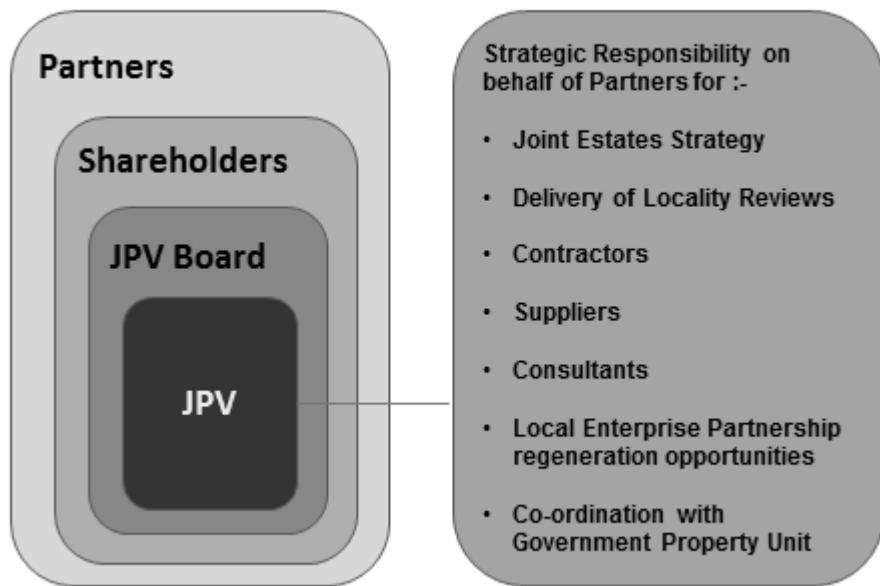
2. Partners will be represented through a Shareholder group, which will include key representatives from the partner organisations. It will be the responsibility of partners to manage their individual requirements relating to their estate and property requirements. It is recommended that individual shareholders would hold a meeting annually or as otherwise required (in accordance with their internal governance regimes) to consider any relevant matters. Shareholders would typically meet annually at an Annual General Meeting (AGM), although meetings could be held more frequently. Shareholder / AGM meetings would include determination of:

- Formal appointment of Non-Executive Directors to JPV Board
- Approval of annual budgets, savings targets and JPV business plan
- Review of Performance
- Approval of entry of Shareholder partners
- Approve annual accounts
- Any major decision on the future structure of the JPV
- Approval of the Annual Business Plan

3. Each Shareholder will have an individual Service Agreement with the JPV and reviews of this periodically would incorporate a range of items to ensure that the performance of the JPV is maintained. The nominated directors would form the JPV Board, typically meeting quarterly. It is anticipated that whilst JPV members would each appoint a director (which would normally be an officer with responsibility for property issues), it would encourage a 'strategic approach' to be taken by not only appointing 7 directors from the partner organisations, but to allow external influences to be brought on-board by the appointment of external Non- Executive Directors (NEDs). A Chief Operating Officer will be appointed and also sit as a 'Managing Director' of the JPV Ltd. One director from a partner organisation can be appointed as Chairperson, potentially by rotation. Under this structure, external directors will represent only a minority of the Board in order to ensure that the company remains controlled by its members.

4. The Managing Director will be responsible for leadership of the JPV staff, to manage the estates in accordance with the instructions of the core partners. The responsibilities and structure of the JPV and the relationship to the partner organisations is given below; it should be noted that in actuality, the JPV company ('JPV Limited') is encompassed from the outer Shareholder boundary inwards.

JPV Strategic Responsibilities



5. The legal work-group (which includes independent legal advice from Freeths LLP) has generated initial Heads of Terms as a basis for entering into a more detailed agreement should the FBC be approved. The final agreements will clearly define how the board will operate and will stipulate the procedure to determine a number of potential issues where, for example partners may wish to have an absolute veto on a topic or that full board agreement needs to be satisfied. Examples of the subject areas included are the entry of new partner members, fundamental change of the nature of the business and adoption of business plans etc. These agreements will also have provision for certain 'Reserved Matters', which may only be dealt with by the JPV if all Shareholders are in full agreement. These would include and are not limited to:
 - A change in the nature of JPV's business
 - Any financial commitment such as entering into Loan/Leasing Agreements
 - Any fundamental change to JPV's Business Model
 - Approval of entry of shareholder partners
 - Approval and adoption of Estates Strategy
6. By combining estates management functions, the JPV proposes that significant savings will be created for partners, through greater efficiency. The areas for savings are based upon a number of assumptions, and can be summarised into three areas of efficiency:

Reduction of overall staff numbers – the JPV will not require the number of staff currently employed by all partners as there will be duplication of role activity. The FBC demonstrates that rationalisation of the top three tiers of management required in the new organisation will provide a substantial combined saving and that overall, staff numbers should be able to be reduced by an estimated 20% (proposed 35 posts in year one).

Avoidance of duplication – the partners currently purchase the majority of services individually and so do not exploit opportunities for economies of scale, procurement efficiency or better use of in-house resources. Across the partner organisations, a minimum of 50% gross spend is to external suppliers so the potential for savings is significant.

Better use of the public estate – through the use of ‘locality reviews’, the JPV will encourage shared use of public buildings which will reduce the overall number of properties being maintained, with the subsequent reduction in related costs (such as maintenance, rates and utility expenditure) for partners. This reduction in property will provide capital receipts for partners where they can release property and rental income for partners who can provide space for other partners as tenants.

The overall savings for all partners are represented in the FBC as follows (£000's):

Year	West Mercia Police	Warwickshire Police	Hereford. Council	Worcester City Council	Redditch Borough Council	H&WFRA	Worcs County Council	Total
Year 1	861	246	183	39	33	47	356	1,765
Year 2	1,731	469	385	100	79	102	702	3,569
Year 3	2,558	635	535	156	128	154	1,024	5,190
Year 10	3,337	1,059	788	431	365	404	2,160	8,546
10 Year Savings	27,722	8,206	5,947	2,885	2,430	2,729	14,764	64,683

17. Significant work has been undertaken to inform the operating model of the new JPV organisation and the support services required to ensure its effective operation. The operating model will be established in greater detail following approval and the FBC proposes that support services are provided by a third party supplier. These will include the hosting of the JPV's Finance and HR management systems, Information Communications and Technology (ICT) and HR support functions. Hoopple Ltd. (a company wholly owned by Herefordshire Council) have provided extensive support to the delivery of the FBC and have informed the processes required to deliver these support functions, with comprehensive timescales.
18. Similarly, Legal support will be required to complete the Shareholder Agreements, draft the Articles of Association and formally register the JPV as a limited company, in addition to advising on a range of related issues coming from the transition of staff into the new organisation.