

## Report of Head of Asset Management

### 6. Outline Business Case for a Joint Property Vehicle

#### Purpose of report

1. To advise the Policy and Resources Committee about the Outline Business Case (OBC) for a potential Joint Property Vehicle (JPV) between public sector partners.
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#### Recommendations

##### *It is recommended that:*

- i. the summary of the Outline Business Case (OBC) for a Joint Property Vehicle (JPV) be noted;*
- ii. the project continues to be supported towards the Final Business Case (FBC) where the Authority will decide whether to be a core partner in a proposed JPV; and*
- iii. no resources are committed to the creation of a JPV unless and until the decision to be a core partner in the JPV has been agreed by the Authority.*

#### Introduction and Background

2. In March 2013 the Policy and Resources Committee supported a recommendation that officers explore the potential of a property Special Purpose Vehicle (SPV) between Worcestershire Partners. The proposal would explore efficiencies through 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.
3. Following this recommendation, the partners established a working group consisting of the responsible officers for property in each respective organisation. Jim Stobie, the Head of Estates at West Mercia Police was seconded to the project as project manager and organised a series of workshops which were supported by an external consultant, Ernst and Young. A Strategic Outline Case (SOC) was completed in October 2013, which examined options for a model to deliver joint property services for the core partners. The SOC proposed further examination of two options to be considered by the

working group, the option of continuing with further collaboration and the option of a new organisation in the form of a Joint Property Vehicle (JPV).

4. This work resulted on an Outline Business Case (OBC) being developed early in 2014. The OBC suggests potentially significant savings for partners entering a Joint Property Vehicle (JPV). However, your officers have concerns about the reliability and deliverability of those projections and the potential impact upon this Authority. This paper explores the OBC and the implications for H&WFRS.
5. It is proposed by the JPV project group that supporting the OBC would enable the efficiencies suggested to be examined in greater detail and result in the Final Business Case (FBC), which would be the milestone date for final approval for a JPV to be formed.
6. Due to the size of the OBC report it has not been included as an appendix, but is available in electronic format from Committee Services.

### **Outline Business Case (OBC)**

7. The OBC explored the potential in combining the property function of 6 other partners in addition to the Fire Authority, namely:
  - Redditch Borough Council
  - Worcester City Council
  - Warwickshire Police
  - West Mercia Police (the two police forces have been working together as one on this project)
  - Worcestershire County Council, and
  - Worcestershire Health and Care NHS Trust.
8. It should be noted that Redditch Borough Council and Worcester City Council do not have a property function, but use a service provided by Worcestershire County Council. A number of options for formalising the partnership were explored in the OBC. The preferred option which emerged among the Heads of Property was for the formation of a public sector owned company, limited by shares, with each of the partners owning an equal share. It was agreed at an early stage that the ownership of property would remain with the existing owners. In this way the sovereignty of property ownership would be retained and that benefits from rationalisation or sales would flow back to the relevant owner.
9. On the face of it, the completed OBC has concluded that there are financial benefits to be achieved from creating the Joint Property Vehicle (JPV) and allowing it to manage public sector property owned by the partners in one place. Currently, the partners spend approximately £56 million per year on managing and maintaining their property. This is split into staff costs (13%), rates and rent (total of 16%), energy costs (19%) and 'hard' (building fabric) and 'soft' (security, cleaning and health and safety management etc.) Facilities Management (FM) costs (52%). For the Fire Authority as with some of the other partners, hard and soft FM are generally delivered through external contracts with a wide range of different contractors. Given this spend profile, there are a range of operational

changes which the OBC suggests may lead to financial savings for all partners. These include:

- Rationalisation of staff costs by bringing the partners together
  - Significant procurement savings by amalgamating contracts
  - Savings through lower unit rates for repairs and maintenance driven by the efficiency advantages for contractors of a 'One Town', single organisation approach to their work
  - Release of significant capital receipts
  - Driving down energy usage
  - The rationalisation of the worst performing buildings.
10. The OBC suggests that the revenue savings for this Authority could equate to £600,000 over ten years (a 31% reduction). In the first year of operation, it is anticipated that 20% of staff costs reduction could be delivered. A summary of the projected revenue savings is given as Appendix 1, and is reproduced directly from the OBC.
11. The OBC also suggests that capital receipts will be increased through better use of properties between the key partners. However, this Authority may have limited opportunities in this area but it has been suggested that income may be generated if other partners wish to rent our property under a formal arrangement.
12. It is proposed that the JPV would have a Shareholder Group as part of its governance arrangement, which would be established to represent the owners. This would scrutinise performance against the agreement/contract and the business plan as well as review investment plans and risks. It would provide oversight and scrutiny of the financial plans and monitor progress against the published asset management strategy.
13. Each partner would be a shareholder, each having one vote. However, given that the property assets would not transfer to the JPV, each body would retain overall sovereignty of their buildings. For this Authority, this means that we would retain the ultimate responsibility for agreeing key decisions in the same way that it currently does. It is suggested it would be the responsibility of the JPV, through the shareholder representative, to bring forward recommendations that required Fire Authority approval.
14. The formation of a JPV as a company would entail further expenditure and these are detailed in the OBC. It is anticipated that start-up costs (excluding redundancy costs) could be in the region of £1.5m. However, significant funding has been committed from outside of the partnership which includes:
- £400,000 from the Department for Communities and Local Government Transformation Challenge Award
  - £100,000 from the West Midlands Regional Improvement and Efficiency Partnership
  - £50,000 from the Cabinet Office as a wave 3 pilot, and

- £210,000 from the Worcestershire Partnership.
  - £25,000 from the Local Government Association
15. The partnership will continue to bid for further external funds should these be available. Any remaining funds, including redundancy costs, will have to be met by the partners.
  16. If partners proceeded with a JPV, the OBC assumes that TUPE (Transfer of Undertakings (Protection of Employment)) will apply with staff transferring from the separate property services groups. However, it is anticipated that a new and more commercial structure will be developed as part of the Final Business Case (FBC). This will indicate the likely levels of resources required to operate a combined structure and the new skill sets anticipated.
  17. Final approval to proceed with a JPV will be requested from the Fire Authority upon completion of the FBC. However, the the JPV project manager has requested that if approval at this (OBC) stage is given, the partners will open up more formal consultations with staff and Trade Unions on the process to be followed. It is suggested that an implementation team will be formed in April 2014, which will include representatives from Legal, Finance and HR as well as diverting dedicated resources from Property; with current commitments on a range of other projects, this will have an impact on productive capacity. It is anticipated that a shadow Shareholder Group could be formed in May 2014 and this will steer and guide the production of a FBC. A detailed programme forms part of the OBC. This contains a number of milestones as part of the work leading up to a 'Go Live' date of April 2015. It is anticipated that the Fire Authority will receive a further report on completion of the FBC towards the end of 2014.

## **Analysis**

18. It will be noted that the timescales are very stretching and that although approval to proceed with a JPV will be requested at the FBC stage, it is expected that work to proceed will commence now. This will require a significant commitment of resources and will assume that the Fire Authority will be one of the core partners in the long term.
19. Officers of the Service have a number of concerns about the business case, partly caused by key functions such as Finance, Legal and Human Resources not having an input into the formation of the OBC and the project working group to date, as follows:
  - The business case appears to be based on some significant assumptions with respect to the efficiencies which can be realised.
  - Whereas one would expect savings in the first year of operations where staff would be reduced, the continued savings over the long term appear very optimistic.

- It is not clear how the data given into the working group has been utilised and an opportunity to benchmark the partner organisations against each other, or with an 'industry standard' appears to have been missed.
- It has been suggested that the detail of this work will be examined as part of the process to complete the FBC.
- The OBC proposes that a JPV will promote better strategic use of assets between partners, however it is not explained how.
- Bearing in mind that the collaboration between property teams to date has been exemplary as identified by the recognition that the Worcestershire Capital and Asset Partnership has achieved, it is difficult to see how this will be improved with a JPV, unless partners assets are wholly owned by the JPV.
- Finally, there are concerns that the size of Worcestershire's team would marginalise the needs of the Fire Authority.

### **Conclusion/Summary**

20. The principles behind the creation of a JPV merit full investigation but it would be a major change in the way property services are delivered and once embarked upon, there may be no going back.
21. As was noted earlier all partners outsource a large portion of work to the private sector and there should be economies of scale in the joint procurement of these services. The opportunity for partners to have access to expertise should promote more efficient working and there would be more resilience in a larger team. Finally, a joint organisation could avoid duplication of tasks, especially for example in the provision of services at specific locations, such as cleaning, grounds maintenance and security services. However, it has been suggested that all of these opportunities could be met through greater collaboration between partners.
22. It is therefore recommended that the Authority continue to support the work towards the Final Business Case (FBC) and press for the clarity of data which officers of the Service have requested to enable the Fire Authority to make an informed decision at FBC stage. However, it is not recommended that any commitment of resources including formal consultation with staff or Trade Unions is undertaken unless and until the Authority approve the Full Business Case.

## Corporate Considerations

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	There are a number of issues which may need to be addressed at the Final Business Case approval stage.
<b>Strategic Policy Links</b> (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	N/A
<b>Risk Management / Health &amp; Safety</b> (identify any risks, the proposed control measures and risk evaluation scores).	N/A
<b>Consultation</b> (identify any public or other consultation that has been carried out on this matter)	Consultation with Representative Bodies will need to be undertaken at the Final Business Case approval stage.
<b>Equalities</b> (has an Equalities Impact Assessment been completed? If not, why not?)	An Equalities Impact Assessment may need to be undertaken at the Final Business Case approval stage.

## Supporting Information

Appendix 1 – Summary of suggested benefits, reproduced from Outline Business Case.

Background papers – Outline Business case

### Contact Officer

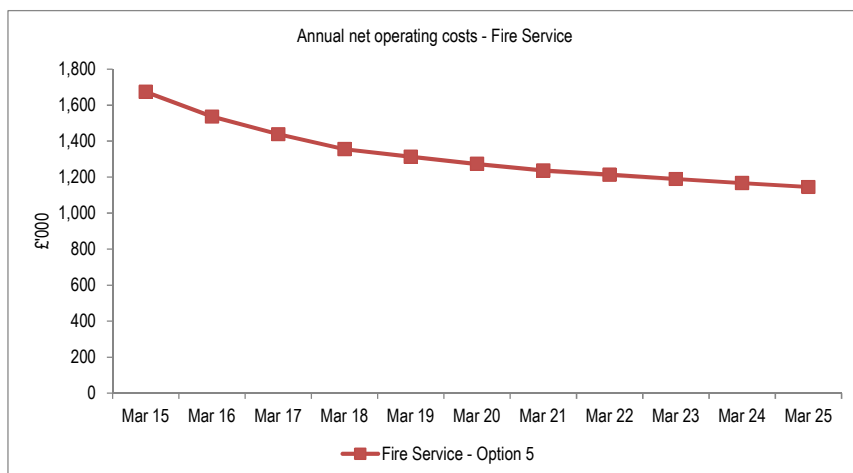
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## Appendix 1 – Summary of suggested benefits, reproduced from Outline Business Case.

### 8.02 Hereford and Worcester Fire and Rescue Service

#### Organisation Specific Issues Benefits

The graph below shows the reduced forecast revenue costs for the JPV model, with a reduction in spend of £600,000 over ten years.



#### Drive revenue savings.

- The ability to deliver an 8% reduction in revenue base budget (13/14) in Year 1, and a total of 31% reduction over 10 years. With a 20% reduction in workforce by end of Year 1 operation.

#### Maintain and protect front-line services.

- The scale of savings identified would protect a minimum of 12 fire officer posts (FTE) maintaining service to the community

#### More sustainable service

- Access to a larger property team, co-owned by HWFRS with greater resources available and flexibility to respond to urgent issues

#### Greater purchasing power

- Whilst the Fire Service has access to national procurement frameworks these are not always suitable or related to the building supply and construction chain. Being part of a larger regional group, everyone benefits from its increased purchasing ability due to scale

#### Legislative compliance

- The ability to ensure compliance with all property based legislation, including the reduction in carbon footprint agenda, through access to an energy management team.
- Improved systems of working and audit regimes to reduce risk

#### High degree of specialised assets:

- The profiles of the fire service's assets are dominated by specialised, operational assets, such as fire stations. The rationalisation of these assets is limited as they are vital to achieve service response times. Therefore the ability to maximise capital receipts will be limited.

Despite the limitations to the use of space with these assets, there are a number of opportunities available to the fire service through co-location, for example the Bromsgrove joint Police/Fire service building.

**Significant outsourcing:**

- A number of elements of the fire service's delivery are outsourced to the private sector. This demonstrates an appetite for mixed provision of delivery and by there may be some learning to be derived from around the effective management of contracts. The implication for the JPV is that depending on the break and termination clauses written into the contracts, there will be significant savings through the rationalisation of these contracts across the whole organisation.

**HWFRS gains significantly, in relation to its size, through availability of opportunities:**

- The fire service represents 4% of the total running cost across all organisations, the smallest proportion. As an equal partner in the shareholding structure, HWFRS's influence within the JPV will be disproportionate to the scale of its input. This is beneficial for the HWFRS as it disproportionately gains from the opportunities, in terms of co-location, new developments and wider growth that the JPV can provide.

**Enhanced scope for revenue generation/sharing in JPV revenue generated:**

- The HWFRS will benefit from the possibility of revenue generation through trading with external clients and through any profit generated, as a result of the scale of opportunity that the JPV will provide. It will have access to a share of benefits from activity that it would not have had access to on its own.

**Incentivisation mechanisms could be viewed as an additional cost:**

- Property rationalisation is not about disposal alone. Fire service properties are in fixed key locations due to response times which make them ideal as "hub" bases for other services. Thereby attracting rental income to offset revenue costs
- The incentivisation mechanisms, primarily the levy applied to all organisations to encourage asset rationalisation in line with the plan, will be applied to the HWFRS although it has a limited number of assets and less scope to rationalise. This levy could be viewed as an additional cost, although it is returned if rationalisation plans are met.

**Enhance quality of property portfolio.**

- The ability to share property with partners will allow greater investment to maintain the quality of the property portfolio.

**Drive regeneration and growth**

- Perhaps not seen as a key criteria for the Fire Service, but the JPV working with LEP's and Economic Growth teams would ensure regeneration reducing the number of vacant properties at risk of arson attack and new build properties with improved fire protective measures