Worcestershire Capital and Asset

Partnership

APPENDIX 1

Joint Property Initiative

An investigation into development of a single Estate function across public sector organisations in the Worcestershire Region

1

Executive Summary

Executive Summary

Strategic Context

This project builds upon the foundations of the successful Worcestershire Capital Asset Pathfinder (WCAP), which has been recognised nationally. It is a development of the principles established in the Strategic Outline Case (SOC) delivered in September 2013.

The 6 core partners who have reviewed these options are:-

- Hereford and Worcestershire Fire and Rescue Service
- Redditch Borough Council
- Warwickshire Police and West Mercia Police
- Worcester shire County Council
- Worcestershire Health and Care NHS Trust
- Worcester City Council

Significant constraints to releasing benefits are that property is largely managed separately by each individual organisation. The multiple management structures are creating ever increasing complexity.

The proposal to form a public sector owned vehicle to jointly manage the portfolio has the potential to drive transformational change in the way property is utilised.

The opportunity is recognised by the Government Property Unit and Cabinet Office in selecting this project as a national pilot.

Case for Change

This was analysed in the Strategic Outline Case, exploring the consequences of no change against alternative options. In total six options were reviewed and two preferred option were recommended to be explored further in this OBC Report:-

Option 2 – Pursue current CAP`s position

Option 5 – Joint Property Vehicle (JPV) model

The benefits and requirements to change exist at Stakeholder, Property Team and Customer Level. The key objectives of the JPV model would be to;

- deliver revenue savings,
- improve customer service delivery,
- maintain and protect front line services,
- facilitate service integration,
- drive operational efficiency,
- drive capital receipts, and,
- enhance the quality of the property portfolio.

The timing and strength of case to explore further is evident, and, if not pursued by these partners, to their design, will certainly be developed by others. This will then set a model to be inherited by other public sector bodies.

Executive Summary

Economic Case

The Economic Case considers the following options in terms of their comparative costs and benefits:

- ► Further consideration of **Option 2** – Continuing the current CAP`s collaborative arrangements as the most reasonable benchmark for comparative purposes.
- ► Further consideration of **Option 5** – Publicly owned Joint Property Vehicle as the preferred option, (in addition sub options are explored bringing in more private sector involvement)

The financial savings benefits over a 10 year period are identified below.

Assumptions	Option 2 (Do minimum)	Option 5 (the JPV)
Organisation resource streamlining	£4m	£20m
Procurement savings	Na	£43m
Floor space rationalisation	£29m	£48m
Capital receipts	£71m	£113m
Implementation/redundancy costs	Na	(£2.6m)

Option 2 (Current CAP's method of working) assessment:

- This option continues with the status quo which can deliver some savings in the medium-term, primarily through streamlining and rationalisation of the property portfolio.
- There is a continuing and growing budgetary pressure that poses a significant risk to the sustainability of the services, and partnership work.
- There is also limited ability of partners to maximise benefits as they operate as individual organisations working at a smaller scale, with limited standardisation, limited simplification and sharing of leading practice, and processes. There is a missed opportunity to take away constraints to singularly match demand with supply across the collective estate.

Option 5 (‘JPV’) assessments:

- This option provides significant cost savings to the partners through operational efficiencies and through rationalisation of the property portfolio.
- The ability of the partners to maximise benefits is enhanced through operation as a single combined entity.
- There is greater scope for financial and non-financial benefits to be achieved, with net benefits demonstrating a compelling case for the ranking of this option.
- This also reduces the risk of service failure, (as has been identified through the current CAP’s working), with greater resilience.
- Implementation costs, excluding redundancy, are in the region of £1.5m until the end of year 1 of operation (15/16); however these are fully recovered through year one savings for each Partner, and offset by current government funding awards.
- The JPV also provides more opportunity to deliver the wider, qualitative benefits, such as an improved customer-centricity, scope to include innovative processes and new technology, and a greater impact on growth and regeneration through a collective approach to the local estate.

The conclusion of the Economic Case is that the JPV is the preferred option.

Executive Summary

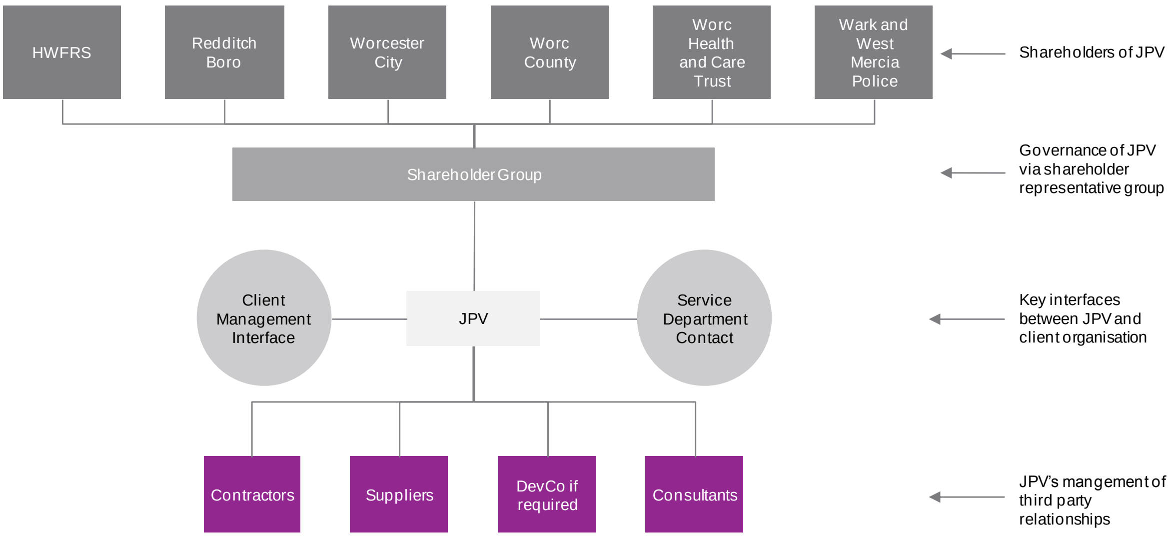
Commercial Case

There will be a number of mechanisms in place to ensure that the JPV is robustly managed, accountabilities and responsibilities are clear and the shareholders are able to exercise their interest:-

- A Shareholder Group will be established to act on behalf of the Partners in scrutinising performance against the Agreement and Business Plan, review investment plans and review risks. It will provide financial oversight and scrutiny on the financial health of the JPV, ensuring that the service provides value for money.

- Each member will have one vote each, which will ensure equality between the partners.

- It is recommended that the Shareholder Group has an independent Chair preferably from the property industry.



- The JPV will require a Management Team which oversees the business and will meet formally as a Board. The Board structure will reflect the commercial nature of the JPV. This leadership team should consist of the right degree of experience and expertise from both the public and private sectors.

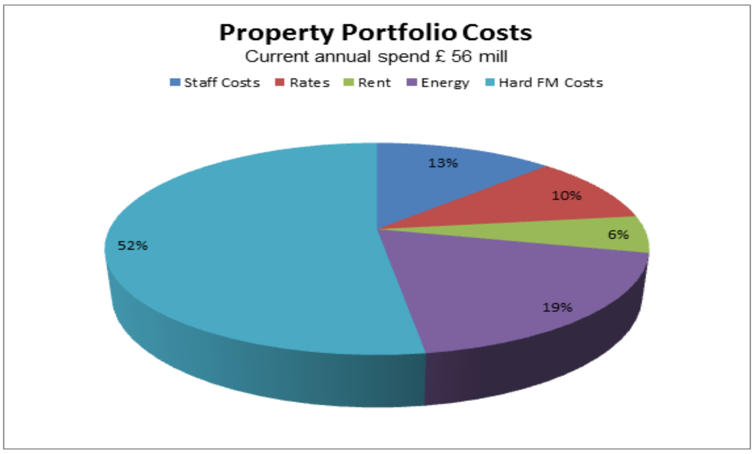
- Charging mechanisms need to be fair, transparent and incentivise partners to meet rationalisation targets. In the medium term (by year 3 post-incorporation) it is proposed that the JPV moves towards a payment mechanism that varies according to volume and usage.

- It is proposed that capital receipts generated through disposals flow back to the asset owners. More efficiently utilised buildings and less floor space translates into lower charges for all occupiers through the charging mechanism.

- Based on the staff rationalisation options available to the partners, we have assumed, for the purpose of this exercise that TUPE regulations apply to this transfer. During the FBC stage this will be reviewed and challenged and prior to the point of transfer any alternative will be agreed with the Shareholder Group / Unions.

Executive Summary

Financial Case



- Gross Revenue savings generated total £14.2m p.a. (27% of base budget) by 2025.
- The JPV will generate year 1 revenue savings of approx. £ 4mill, and a further £3 mill in Year 2. Based on combined base budget of £54 million
- Release of £118 mill of capital receipts, 18% of portfolio value over a ten year period
- Charges to each partner will be based upon existing base budgets for an initial 2 year period. Any surpluses generated will be distributed in the same proportion.
- This will subsequently move to a commercially based charging mechanism which will be developed by the JPV Board and agreed by the Shareholder Group.

Implementation costs will be £1.5m and potential redundancy costs in the region of £1.1m. These costs will be shared amongst the partners to an agreed formula. These costs are recoverable in Year 1 savings, and are partially addressed by funding from the Transformational Challenge Award.

Benefits

The Strategic Benefits to be derived from the creation of a JPV are;

- deliver revenue savings,
- improve customer service delivery,
- maintain and protect front line services,
- facilitate service integration,
- drive operational efficiency,
- drive capital receipts, and,
- enhance the quality of the property portfolio
- drive cross organisational working
- drive regeneration and growth
- increase revenue generation

The proposal will achieve a 20% reduction in workforce by end of Year 1 operation

This is the partnership vision for a Joint Property Services Vehicle. The application of each of these" benefits" may not always be apparent to each individual partner, nor, will they apply with equal priority.

Executive Summary

Project Implementation

The Project Implementation stage is the development of the Full Business Case (FBC), and can only be pursued when we have an "in principle" approval to the preferred option. This will require a specific resource team to enable delivery of all detail and final approval by partners to enable the JPV to go live a s a working model in April 2015.

It is not possible to resolve every detail in this OBC without having the full commitment from partners to engage with consultee`s and more specific detailed analysis. Therefore a series of subsequent Gateway Approval stages are mapped out for the Shareholder Group to approve.

The Project Team will be a mix of in house staff dedicated full time to the project, short term secondee`s and specialist external consultants. It is recommended that the Shareholder Group is established early in this stage of work.

During the last two quarters of 14/15 it will be necessary to appoint the JPV Management Team

The two year implementation costs for the project are in the region of £1.5 million. However 610k of funding has already been secured to support this work, and further bids against Government funding stream are to be pursued. However all investment cost are recovered in Year 1 savings.

Conclusion

The analysis undertaken by Ernst Young through the Economic, Commercial and Finance Cases identifies there are significant benefits to the 6 core partners from taking a single approach to property portfolio management.

The studies above have compared two options;

Option 2 – Pursue current CAP`s position

Option 5 – JPV model

This work has clearly demonstrated that the JPV Option offers greater advantages to the partners. Whilst there are some risks identified with a new venture, proposals are made which will mitigate these risks through the governance structure suggested and service agreements and performance management.

The JPV model is innovative and sustainable in the current climate delivering efficiency savings from Year 1 and growing over a ten year period.

If we can achieve £100 mill saving in ten years, what would be the financial saving if this model where being replicated across the national picture in a series of regional models?

Recommendation

Each Partner is asked to consider the content of this report and assess the benefits.

The recommendation is to support the further development of the JPV Option, through the FBC, with the intention of progressing towards a "Go Live" for April 2015. All subject to the Gateway Approvals identified.

2 Benefits Analysis – Redditch

Benefits Analysis

The Strategic Objectives of the JPV are;

- To place the provision of strategic property management and support functions on to a sustainable footing and to accelerate the delivery of revenue savings from the combined property portfolio,
- improve customer service delivery,
- maintain and protect front line services, by reducing overheads,
- facilitate service integration, by removing building related limitations,
- drive operational efficiency,
- drive capital receipts,
- enhance the quality of the property portfolio,
- drive cross organisational working,
- drive regeneration and growth,
- increase revenue generation.

This is the partnership vision for a Joint Property Services Vehicle. The application of each of these" benefits" may not always be apparent to each individual partner, nor, will they apply with equal priority.

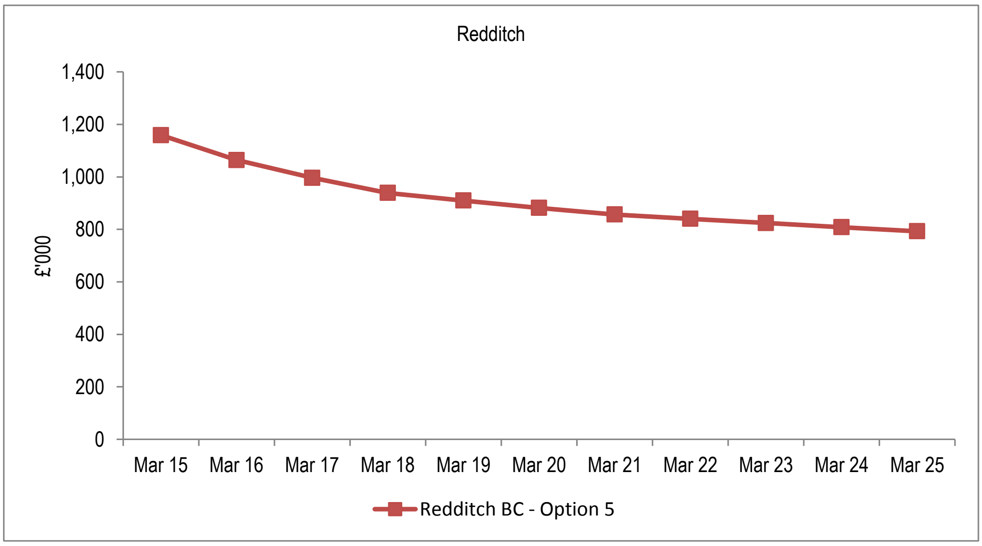
However, it is imperative that the true importance of this venture is to read as a whole, a partnership project, for the wider and greater benefits to be achieved.

Benefits Analysis

Redditch Borough Council

Organisation Specific Issues Benefits

The graph below shows forecast revenue costs for the JPV model, with a reduction in spend of £ 400,000 over ten years



Equal shareholding:

- Redditch will have an equal shareholding in the JPV despite having a low number of assets and a low running cost. It will also have access to a wider scope of professional services than through the current WETT arrangements for a reduced overall cost. Through equality of voting rights it will have influence over decision-making, providing it with a unique opportunity to shape the future of the joint estate.

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

- Redditch already has a substantial investment portfolio, which the JPV would seek to enhance, and maximise returns on the asset, together working with LEP`s etc to attract new inward investment.
- Redditch 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.

Drive revenue savings.

- The ability to deliver a 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 assist in protecting investment in supporting roles in localities, maintaining service to the community.

Drive operational efficiency.

- The One Town approach to strategic estate management will also be adopted and applied to operational management of the joint portfolio, ie single FM to take responsibility for all properties in Redditch being locally based and more responsive to requirements.

Drive capital receipts

- Through the development of a combined strategic estate strategy and marriage values, being able to release asset's for disposal

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 cross organisational working and improve service integration.

- The JPV will improve and enhance the authorities' ability to work more closely with stakeholders in its area, providing innovative and strategic solutions on co-location possibilities.

Drive regeneration and growth.

- The JPV will develop closer working relationships with LEP's and Economic Growth teams to ensure regeneration is planned and actioned, with public sector asset's being used as catalysts to development (see Bromsgrove).
-

More sustainable service

- Access to a larger property team, co-owned by Redditch Borough Council with greater resources available and flexibility to respond to urgent issues
- This would include access to an energy management team to control Redditch Borough's Carbon Footprint and ensure it meets its reduction targets.

Strategic Estate Management

- Delivered through an innovative proposal maintaining services within public sector control, whilst maximising efficiencies and embracing a more commercial ethos to property management