

Cabinet

Report Title:	Transfer of Property Management the “delivery function” of Corporate Property to Vertas Group Ltd.
Meeting Date:	22 March 2016
Lead Councillor(s):	Councillor Richard Smith MVO, Cabinet Member for Finance. Councillor Robert Whiting, Member with Special Responsibility for Property
Local Councillor(s):	All Councillors
Director:	Geoff Dobson, Director of Resource Management
Assistant Director or Head of Service:	Duncan Johnson, Assistant Director of Corporate Property
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Brief summary of report

1. This paper sets out the proposal to transfer the Property Management function which currently sits within Corporate Property to Vertas Group Ltd, a Suffolk County Council wholly owned company. The Council would retain a small strategic team to act as Client and Landlord within Corporate Property.

What is Cabinet being asked to decide?

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| <ol style="list-style-type: none"> 2. To agree in principle to the transfer of the Property Management function of Corporate Property to Vertas Group Ltd. (Vertas), a Suffolk County Council wholly owned company. 3. To authorise the Director of Resource Management in consultation with the Cabinet Member for Finance to: <ol style="list-style-type: none"> a) Oversee full due diligence to ensure the proposals represent best value to the Council; and b) Negotiate and approve the detailed terms of the agreement with Vertas, including the terms of the Service Level Agreement. |
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Reason for recommendation

4. Improved property services through greater efficiency and effectiveness, improved returns for the Council through Vertas.
5. Reposition of Property Management services to respond to market changes, particularly the conversion of the Council’s maintained schools to academies.

What are the key issues to consider?

6. TUPE transfer, at this stage, of 38 full time equivalent (FTE) staff from the Council to Vertas.
7. An Equality Impact Assessment (EIA) has been completed (review 23/02/16) (Appendix 1).

What are the resource and risk implications?

8. Risk: The Council's property portfolio is not efficiently and effectively managed within the resources budgeted and the councils statutory duties as landlord are not met following the transfer. This will be mitigated by effective commissioning of services by Corporate Property Strategy.

What are the timescales associated with this decision?

9. Should Cabinet decide to support the recommendations in this paper, it is proposed that the Property Management function would transfer to Vertas in June 2016, subject to due diligence being completed.
10. Formal staff consultation will be undertaken following the decision by Cabinet.

Alternative options

11. Four other options were considered:
 - 1) Do nothing; continue to deliver services as present
 - 2) Managed decline; reduce the service offer in line with financial constraints
 - 3) Disperse to existing markets; where available procure services from existing external market
 - 4) Set up a separate wholly owned company; mirror the models of Concertus and Vertas under a new brand
12. These options were discounted as a result of a high level risk appraisal as outlined in the main body of this report [section 39-42].

Who will be affected by this decision?

13. Employees of the Property Management function within Corporate Property will transfer to Vertas under transfer of undertakings of employment (TUPE). A small strategic team would remain within the Council to act as Client and Landlord for Corporate Property
14. The Council's Procurement function would continue to act as the contract manager for Vertas.
15. The Council Directorate teams with responsibilities for property have been consulted over the proposed change.
16. Schools, Academies and clients who currently buy back Property Management services.

Main body of report

17. The Council is committed to be a smaller and ever more effective Council, with a much greater emphasis on commissioning and lower levels of direct service provision. With this commitment in mind, the restructure of Corporate Property in 2011 defined its service areas into Strategy, Property Management and Service Delivery Group. The Service Delivery Group was successfully launched as Concertus Property and Design Consultancy in 2013.
18. Corporate Property currently operates in two teams; Strategy and Property Management.
19. The Strategy team act as the Client and Landlord to provide overall assurance that the Council's property and property services align with the Council's strategies and priorities. The Strategy team plan and oversee major changes in the property estate and identify how future council property needs will be met.
20. Corporate Property Property Management function is comprised of 38FTE staff based across the County. Its principal responsibility is to:
 - a) Ensure the Council's landlord responsibilities are compliant across its estate.
 - b) Make day to day decisions to keep premises healthy, safe and open.
 - c) Manage Corporate Property budgets for the costs of running and maintaining the Council's buildings.
 - d) Maintain property data, including property conditions, asbestos management and premises compliance.
 - e) Develop proposals for capital and revenue improvement work programmes based on condition data.
 - f) Procure property management and maintenance contracts.
 - g) Encourage energy efficiency across the estate.
 - h) Develop and deliver premises management training including e-learning modules for staff and School Governors with property management responsibilities within their role.
 - i) Design and market property management services to schools, academies and others.
 - j) The cost of the Property Management function for carrying out the above activities is £2m. In addition they oversee a property running costs budget of £6.2m, works budgets of £3.9m for maintenance and £4m for capital improvements of corporate properties and schools.
21. The Property Management team oversee the day-to-day running of the Council's portfolio, ensuring the Council's landlord and employer responsibility in relation to premises management are compliant to keep buildings healthy, safe and open.
22. The Council in its role as employer are ultimately responsible for the compliance and health and safety of maintained schools.

23. Since 2014 Property Management has been trading its services to schools and academies through Schools Choice.
24. Schools and academies hold their own budgets for property management and opt to purchase Property Management Services. The current optional buy back take up is 97% of maintained schools and 53% of academies. The percentage of buyback has continued to increase in line with the conversion rate, with 8 of the 9 most recent academy conversions buying back.
25. Property Management procures and manages external mechanical, electrical and building fabric contractors on behalf of the Council. These contracts perform better with consolidated volumes of work and are more effective for the Council when its buying power is harnessed with others. Resources required to deliver planned programmes of work are then available for the delivery of an effective response service and achieve best value.
26. This paper proposes that the Property Management function and the services it delivers for the Council transfers to Vertas, the Council's wholly owned company.

Proposed Option

27. The proposed option to transfer the Property Management function to Vertas is based on a high level risk appraisal conducted to determine the most appropriate means by which the key objectives, identified by Corporate Property, can be met see Table 1.
 - a) The Council is committed to be a smaller and ever more effective Council, with a much greater emphasis on commissioning and lower levels of direct service.
 - b) There is greater opportunity for collaborative work with other public sector organisations.
 - c) Academies have their own funding and are looking to the market for high quality and best value services.
 - d) Opportunity to create new market presence and service development.
 - e) The Council, schools and academies require continuity of the Property Management services they already receive.
 - f) Efficiency and economy of scale are to be realised.

Table 1: Options V Objectives	SCC Objectives	Collaboration ready	Attractive for Academies	Market Opportunities	Continuity of service	Economies of scale
Do nothing	X					
Managed decline	X	X	X			
Outsource to market	X	X	X	X		
Set up separate company	X	X	X	X	X	
Transfer to wholly owned company	X	X	X	X	X	X

28. The appraisal identifies the favoured option to be the Property Management function transferring to the Council's wholly owned company Vertas.
29. Vertas is the established wholly owned provider of "Soft" Facilities Management (FM) services and the company's turnover has grown from £33m in 2014/15 to £37m in 2015/16 and profitability has significantly increased year on year.
30. The Council receives an annual return from Vertas of £0.7m and it is expected that this will increase annually. The Vertas 5 year Business Plan projects further growth in both turnover and profitability and has been shared with the Council's cross party Shareholder Advisory Group.
31. Transfer of the Property Management function will create Vertas as a "Total" FM provider and a new market presence. The commercial expertise that exists within Vertas will present new service development opportunities and allow greater trading and collaboration with the wider public sector, including district / borough councils, police, health, voluntary sector organisations and academies.
32. The opportunity to build upon an already successful in-house trading unit by incorporation as a wholly owned limited company will help retain existing fee income, expand the client base, retain property expertise and knowledge and maintain continuity of service.
33. Property Management procure and commission maintenance, statutory test and inspections and repair works from external contractors on behalf of the Council. The transfer of the Property Management function will retain buying power of contracts to achieve full cost benefits and reliable service levels. This will ensure continued value for money for the Council, Vertas, clients, and the Council as shareholder.
34. The Council retains landlord and employer responsibilities for its corporate estate and in order to meet these duties robust contracts are required. It is essential that academies and other organisations are attracted to purchase Property Management services to deliver economies of scale and harness buying power.
35. Property Management design and sell bespoke packages for schools and academies to keep them compliant and healthy, safe and open. The current high levels of optional buy back by maintained schools and academies, provides a robust client base from which to further develop the range of services and enable development of a brand with a more attractive business profile to a broader client base.
36. New maintenance contracts have been procured to allow the provision of services to other organisations within the counties adjacent to Suffolk, which will present new market opportunities for Property Management as part of Vertas and higher returns for the Council.
37. The transfer of the Property Management function will not deliver immediate savings. The transfer will deliver direct financial returns to the Council through the dividend via Vertas from a more economic and effective professional property service that will be able to broaden its offer to customers.
38. The transfer to Vertas will retain the critical mass of knowledge and expertise, offering a joined up approach and continuity of established services and relationships for the Council, whilst producing higher returns from efficiency and economies of scale.

Other Alternatives explored were:

39. 'Do nothing' and carry on delivering the service as it is. Although service would continue in the short term, without service development and financial investment, it is likely the service would deteriorate over time and not meet the standards of the Council and the expectations of commercial tenants, schools and academies forcing a managed decline.
40. 'Managed decline'. The Council could be open to risk of penalties for non-compliance to statutory requirements (H&SAW Act). Maintained schools would be more vulnerable to risk. Reduced buying power is likely to lead to ineffective contracts and a decline of service levels. Decline of service levels is likely to be unattractive for services and commercial tenants. There will be no service offer for academies and unable to provide effective services via Schools Choice.
41. 'Disperse to existing markets'. Transfer of undertakings is complicated and may lead to prolonged or multiple procurement exercises. Some services may not be readily provided falling back to the Council to provide. May also lead to similar risks as a "managed decline".
42. 'Set up a separate company'. This option would take significant time to establish. May lack creditability for external bids in the market place. Duplication of some services, infrastructure and overheads already in Vertas likely to have a negative impact on returns to the Council.

Conclusion

43. On balance the favoured option is to add the Property Management function to the Vertas portfolio where it will add value to their business activities and help generate further returns back to the Council. However, this is subject to due diligence, reaching an agreement on the transfer with Vertas and resolving any residual service issues that the Council will retain.

Sources of further information

- a) County Council, December 2015 - Agenda Item 10 - Annual Property 2015
http://committeeminutes.suffolkcc.gov.uk/searchResult.aspx?qry=c_committee~~County%20Council
- b) Audit Committee, January 2016 - Agenda Item 9 – Corporate Property
<http://committeeminutes.suffolkcc.gov.uk/meeting.aspx?d=28/Jan/2016&c=Audit%20Committee>