

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Buildings, Land and Procurement Panel
Date:	08 October 2019
Title:	Property Services Business Review 2018/19
Report From:	Director of Culture, Communities and Business Services

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Purpose of this Report

1. The purpose of this paper is to provide an overview of Property Services' performance and financial outturn position for 2018/19, update on the implementation of Property Services new operating model and reflect on business strategy priorities for 2019/20 and beyond.

Recommendations

2. That the Panel notes the successful outturn for Property Services in 2018/19 and the implementation of its new operating model as part of the Property Futures transformation programme. This ensures that the service continues its strong performance and has the ability to:
 - respond to ongoing and emerging County Council priorities;
 - deliver effective services to schools, Police and Fire under the respective shared services arrangements;
 - generate external income to maintain capacity and skills and make a substantial contribution to overheads.

Executive Summary

3. Property Services had another successful year in 2018/19 achieving a balanced budget position across more than £40m of expenditure within the Property and Facilities function. The Service also delivered in excess of £50m of repairs and maintenance expenditure across schools and the HCC corporate estate through funding held within the Policy & Resources capital and revenue budgets. Significant progress was also made on the County Council's strategic land programme.
4. In addition, Property Services delivered key programmes of work on behalf of other HCC departments, including Children's Services and Adult Health and Care, and provided professional services to a range of external clients including schools, Police, Fire and other local authorities generating additional fee income and making a significant contribution to overheads.

5. The restructure of Property Service's teams was completed at the end of the 2018/19 financial year, fully integrating previously separate services into a new operating model, reducing resource levels in line with future income forecasts and funding levels and ensuring that the service is in a strong position to continue to respond to challenges and capitalise on new opportunities that align with the County Council's strategic priorities.

Contextual information

4. The 'Business Review 2017/18' report presented to the Panel in June 2018 set out Property Services' financial outturn position for 2017/18 and identified a slight reduction in workload following the significant growth in workload and services between 2011/12 and 2014/15. This was driven primarily by the need to provide additional school places both within Hampshire and across neighbouring authorities.
5. In January 2016 the Panel was provided with an overview of the Property Services' Business Plan 2015 to 2020 which includes financial forecasts for the 5 year period from 2015 to 2020. The Business Plan recognised that there was considerable uncertainty about workload, particularly beyond 2018 with an anticipated reduction in the County Council's capital programme driven mostly by a slower pace of demand for new school places.
6. Subsequent reviews of the forward capital programme confirmed a reduction in the Children's Services capital programme. This, coupled with the further revenue reductions required under the County Council's Transformation programmes, informed the objectives and scope of the Property Futures review and transformation programme. There are clearly risks in responding to the fluctuations of workload. The service sets targets for future income based on the knowledge of the Councils and external clients published capital programmes, intelligence directly from service departments and involvement in the early feasibility of new work programmes. Resources can also be tailored to meet future demand by varying the input from the private sector partners. The service has balanced income and costs over many years which gives confidence of future business management.

Key achievements 2018/19

7. In 2018/19 Property Services continued to deliver significant programmes of work and professional services to both internal and external customers and clients. Key achievements include:
 - Significant progress on the strategic land programme, bringing forward County Council land for development in a range of key locations across the County. These include Botley, Whitehill & Bordon, Eastleigh and, most significantly, Manydown in Basingstoke, where the procurement of a private sector partner to work with HCC and Basingstoke and Deane Borough Council was undertaken during 2018/19 alongside the submission of an outline planning application for the development.
 - Delivery of major programmes of capital investment for the County Council. These include new housing for adults with disabilities in support of the ongoing Adult Health and Care transformation strategy, provision of

additional school places through new and expanded schools and new and major building projects at Lepe and Royal Victoria Country Parks in support of the Country Parks transformation programme.

- Engagement with and support to Adult Health and Care on their priorities for 2019 and beyond.
 - Delivery of significant facilities management and maintenance programmes for schools, HCC corporate buildings, The Office of the Police and Crime Commissioner (OPCC) and Hampshire Fire and Rescue Service (HFRS).
 - Continued improvements to the management of fire and legionella risks within both the schools and corporate built estates.
 - Management and delivery of an ongoing programme of change within the corporate office portfolio to increase utilisation, deliver savings and accommodate growth and operational changes within service areas. This includes delivery of reinstatement and improvement works following the 2017 fire in Three Minsters House.
 - Continued delivery of a programme of carbon reduction and energy saving measures across the estate including investment in electric vehicle charging infrastructure and major programmes of LED lighting replacement.
 - Continued custodianship of the corporate estate, ensuring the effective management and delivery of key services such as County Farms and Gypsy and Traveller Service.
 - Ensuring compliant occupation of buildings by HCC and its tenants supported by the acquisition, re-use and disposal of assets in line with operational service needs and good financial management.
 - The ongoing management and re-procurement of key supplier arrangements, including the Southern Construction Framework for major construction projects for public sector bodies across the south of England working in partnership with Devon County Council. Also contract management of significant corporate and partner contract arrangements such as waste collection services.
 - A number of national and regional awards and commendations including awards for the Lookout at Lepe Country Park and Whitchurch Silk Mill.
8. In addition, Property Services undertook a major restructure of its teams following a significant review and redesign of its operating model under the Property Futures transformation programme initiated in 2017 as detailed below.

Property Futures Transformation

9. Property and Facilities Services now comprises in excess of 450 staff covering a broad range of property and construction related professions including architecture, building surveying, cost management, engineering, estates surveying, planning and urban design, development, interior design, landscape architecture and facilities management and programme and project management. This broad skill base is complemented by staff with key business skills that ensure that we can manage the business effectively and work closely with the central corporate teams on issues such as finance and budget management, IT and systems, transformation and procurement.

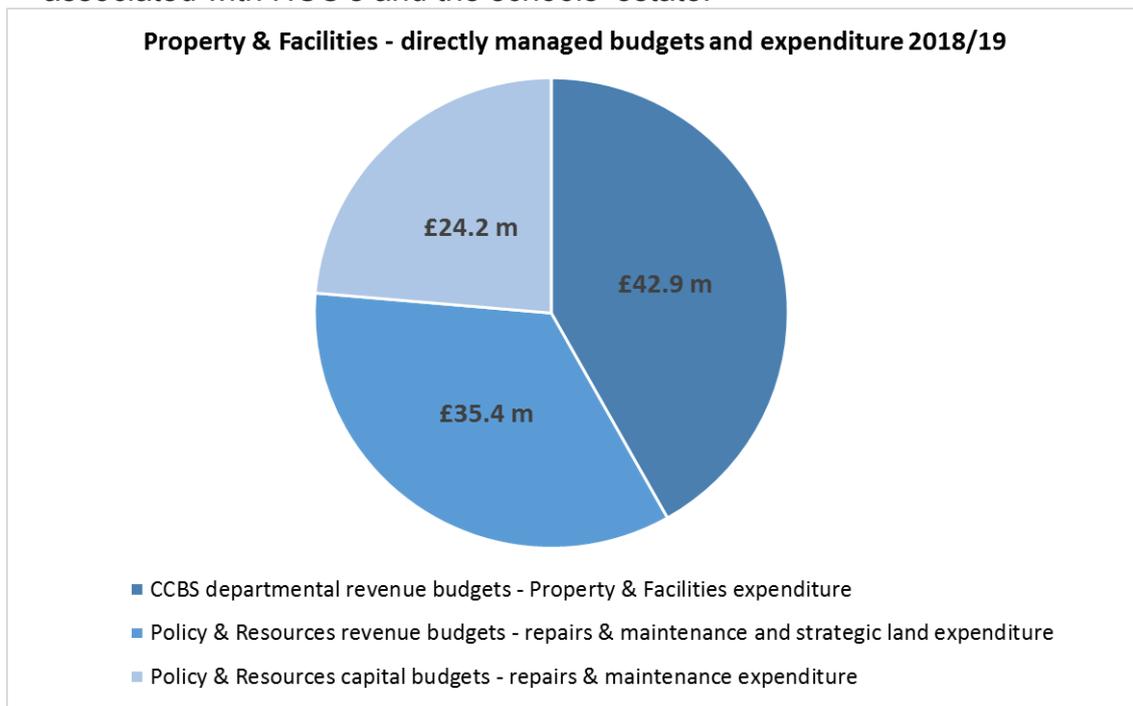
10. Early in 2017 a review of the challenges and opportunities for Property Services identified the convergence of a number of key internal and external drivers that would, or had the potential to, impact on the scope and scale of services we deliver. These included:
 - The integration of the office accommodation (previously Workstyle) and Facilities Management (FM) functions with Property Services as part of the Transformation to 2017 programme;
 - A forecast reduction in both capital fee income and revenue funding levels beyond 2019 due to a reduction in the Children's Services' capital programme and the revenue savings for 2019 and beyond;
 - The impact of the Government's academy and free school policy approach and the DfE's lower cost school model on the current delivery model for new school places;
 - The pressure in schools' revenue budgets;
 - Changes in our client base and workload with an increased focus on joint and partnership working and enabling service transformation and revenue savings through innovative asset solutions;
 - Capacity, performance and cost challenges in the wider construction industry.
11. From this review, a new operating model was designed for Property Services' under the Property Futures transformation programme. The aim was to ensure that we were in a strong position to continue to respond to challenges and capitalise on new opportunities that align with the County Council's strategic priorities. The restructure of the teams was completed in Spring 2019 to bring together all the functions of Property Services into a single integrated service built around the asset life cycle.
12. By designing and implementing a new operating model for Property Futures, we have sought to:
 - Gain agility and flexibility to prepare for the future and enhance our resilience;
 - Use our strong reputation and capability to enable and deliver change that meets the County Council's strategic priorities;
 - Fully integrate the additional services added to the portfolio;
 - Maximise on opportunities for income generation and efficiency to contribute to transformation savings for 2019 and beyond;
 - Gain financial security for the future;
 - Provide challenging and rewarding careers in order to recruit and retain staff.
13. Throughout the Property Futures programme we have given particular focus to the culture and values of the service. This reflects the approach required to support the continued retention and development of our staff and achieve the right outcomes for our internal and external customers and partners.
14. In parallel with the implementation phase of the Property Futures project, Property Services has continued to work closely with County Council

colleagues, joint working partners and other public sector organisations to ensure the most effective use of the County Council's built estate. We continue to aim to shape and deliver innovative, financially advantageous and sustainable property and asset solutions.

15. We have also continued to seek new business opportunities with external clients where these support the delivery of public value within the Hampshire geographic area or generate additional income that is beneficial to the County Council. This ensures that we maintain the breadth and depth of skills and capacity within the service and continue to make a significant contribution to overheads. This reduces the overall cost of the service to the County Council and the cost of managing its built estate.

Financial Analysis – Property & Facilities

16. Property Services is directly responsible for the management of a number of budgets within the CCBS departmental revenue budget and the Policy & Resources revenue and capital budgets totalling in excess of £100m of expenditure in 2018/19. Some of these budgets fund resources within Property Services while others fund works, services and asset management costs associated with HCC's and the schools' estate.



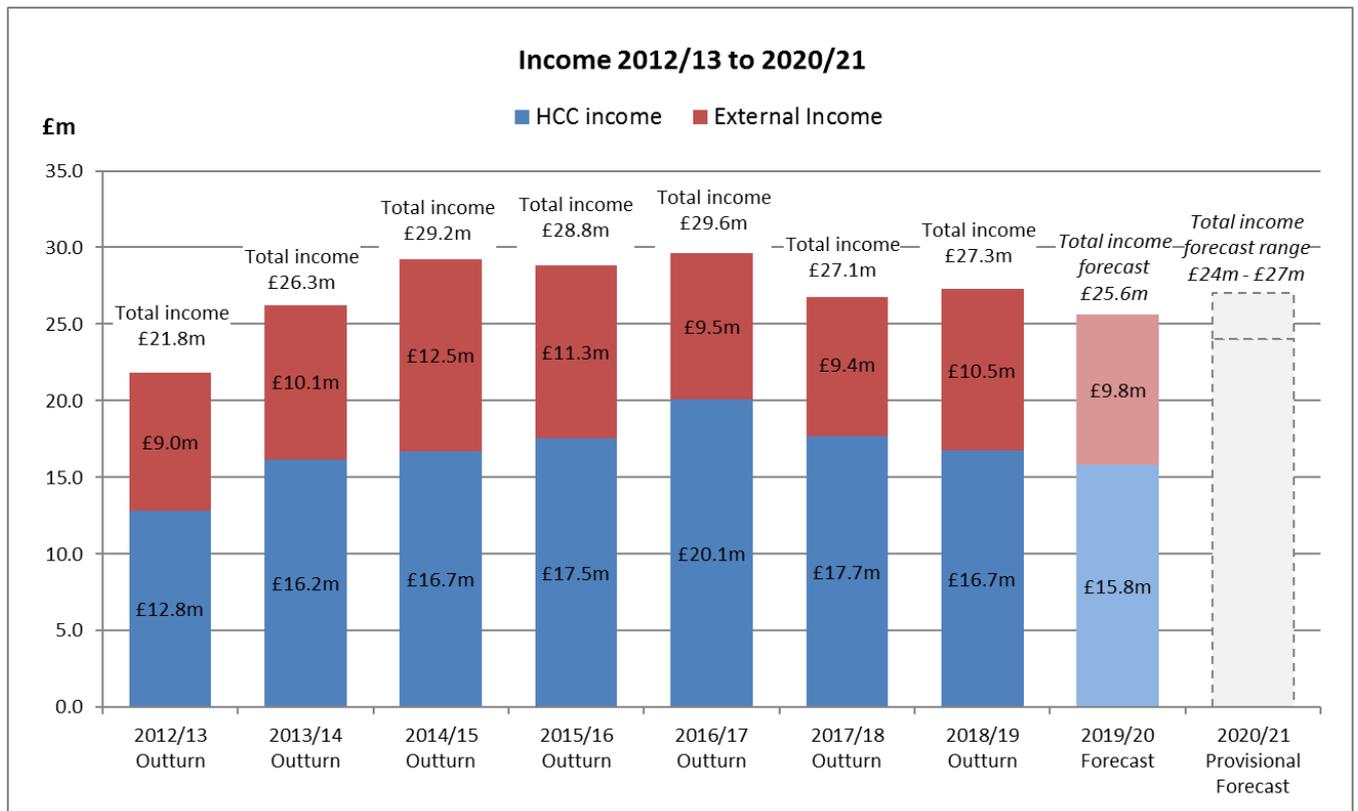
17. Within the Property and Facilities branch of the CCBS departmental budget, total expenditure in 2018/19 was £42.9m. Just under £11.5m (26.8%) was met through direct revenue funding for the service with the remaining £31.4m (73.2%) met from income associated with the delivery of HCC's capital and revenue programmes and income for professional services delivered to partners and external clients including schools, academies and Police and Fire.
18. £28m of this expenditure related to resource costs, which includes both HCC staff and private sector partner resources. This includes staff and resource within the previously separate services such as FM and Workstyle and teams that operated as standalone business units, such as Print & Document Service and Caretaking Support Service.

19. A further £8.7m of expenditure within the CCBS departmental budget relates to rent, rates and utilities costs for assets managed within the corporate office and 'direct services' budgets, which includes the County Farms, Development Account (including Segensworth industrial estate) and Gypsy and Traveller Service asset portfolios. Significant income is generated from lease arrangements across these portfolios to cover costs and provide a net income back to the County Council in excess of £1million per annum.
20. Within the wider Policy & Resources budgets, Property Services was responsible for the management, prioritisation and delivery of £35.4m of revenue expenditure. This included £29.4m of revenue repairs and maintenance across maintained schools, academies and HCC's non schools estate. £16m of this was funded through schools' revenue contributions to the pooled resources arrangement and academies' joint working agreement. A further £6m of expenditure relates to the delivery of the County Council's strategic land programme, securing of capital receipts and completion of feasibility work associated with the wider capital programme.
21. A further £24.2m of Policy & Resources capital funding, including £22.2m of Schools Condition Allocation (SCA) grant funding, was spent on delivery of capital repairs and maintenance work and energy saving programmes.

Property Services main budget

Income

22. Total income within the main Property Services budget was £27.3 million in 2018/19. This is similar to 2017/18 on a like for like basis to figures presented in previous years (which exclude the Workstyle and Facilities Management functions). This is lower than the previous 3 years, 2014/15 to 2016/17, when income peaked due to the increased level of the schools' capital programme delivered on behalf of both HCC and a number of external clients.
23. Income from internal clients and programmes of work accounted for £16.7m of income, £1million less than in 2017/18. A further £10.5m of income was secured from external clients including SLA and joint working arrangements with maintained schools, academies, Police, Fire and Reading BC. This is a higher level of external income than in 2017/18.

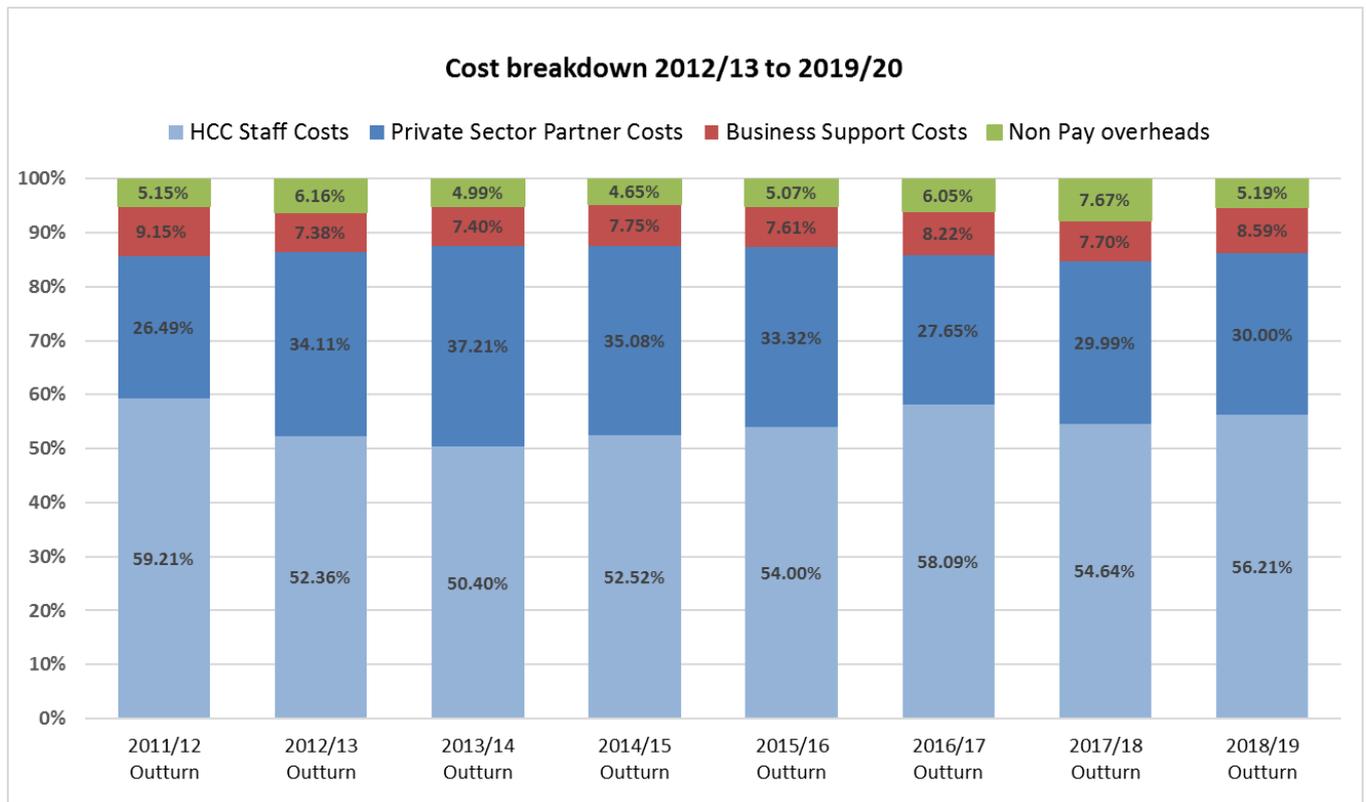


24. The income from HCC clients and programmes of work was lower than the income in 2017/18. This was due to a continued reduction in the Children's Services capital programme, following an increased programme during the three years from 2014/15 to 2016/17, and a reduction in the income from delivery of capital projects for Adult Health and Care following completion of Phase 1 of the new housing for adults with disabilities in 2017/18.
25. There was further growth in the strategic land programme. This was primarily due to the level of activity associated with the Manydown development but also linked to key development sites at Botley, Whitehill and Bordon, Ringwood and Eastleigh.
26. Income from external clients increased by £1m compared with 2017/18. This reflects the increased fee income from the PSPB2 programme on the Isle of Wight, strategic advice and support provided to West Sussex County Council and a slight increase in income from the OPCC relating to the implementation of their Estates Change Programme. The shared service arrangements with the OPCC and HFRS continue to be a key area of business for Property Services along with the Service Level Agreement (SLA) arrangement with schools. Property Services maintains a number of formal partnership and joint working arrangements with local authorities which give confidence about the future flow of work. Any external business has an element of risk if there is a downturn in workload but visibility of programmes of work in external clients is strong and future variations are factored into forward projections. The chart in paragraph 23 indicates the level of expected income for 2019/20 and a range for 2020/21.
27. During 2017/18 Property Services continued to work closely with the Department for Education (DfE) on the development of proposals for new free schools in Hampshire to meet the demand for school places and on the PSPB2 schemes on the Isle of Wight.

28. Developing and managing a range of local and regional construction frameworks continues to provide a steady income stream through levy arrangements as well as ensuring delivery capacity for the County Council and other public sector organisations across the south of England, generating income through levy arrangements. Re-procurement of the Southern Construction Framework, which is developed and managed in partnership with Devon County Council, was completed during 2018/19. Together, the regional framework arrangements generated in excess of £1.2m of income and made a significant contribution to Property Services' overheads.
29. Property Services continues to seek new traded services opportunities where these fit with the skills and capacity available within the service. This includes working closely to support existing clients such as Reading Borough Council and developing new opportunities such as providing strategic advice to West Sussex County Council. A Joint Working Agreement is being concluded with Southampton City Council and senior officers are meeting to explore ways of collaboration and resource sharing.
30. In line with our 2015-2020 business plan Property Services remains committed to maintaining external business in order to retain skills and capacity, deliver value in the wider public sector and make a financial contribution to overheads for the Council. Our key customers are Reading Borough Council, Isle of White Council, Hampshire Fire Services, Police and Crime Commissioner, Hampshire Schools and Academies including Diocesan Schools, West Sussex County Council, Poole Borough Council and a number of smaller commissions.

Costs

31. Property Services continued to exercise strong financial management throughout 2018/19. This ensured that costs were in line with income while we completed the re-structure of the service to align with a reduction in the forecast income and to achieve the T19 savings.
32. Resource costs account for around 83% of total expenditure within the main Property Services budget. Costs for directly employed staff were lower than in 2017/18 due to vacancies held during the Property Futures restructure which had a target reduction between 25 and 35 FTEs in line with reducing income forecasts and T19 savings.



33. Property Services operates strategic partner arrangements with two private sector organisations under long term arrangements. Staff are co-located in our offices to work as integrated members of Property Services' teams as well as undertaking selected work on a commissioned basis. Property Services also employs agency and temporary staff where required to meet peaks in demand, provide short term cover for roles during recruitment and where specialist skills are required that are not covered under the strategic partner arrangement.
34. Partner and agency costs accounted for approximately 35% of the total spend on staffing within the main Property Services budget during 2018/19. This included an increased expenditure on partner resource compared with 2017/18 principally due to an increase in support provided by ETE's engineering consultancy team in support of the strategic land programme.
35. Non pay overheads and business support costs continued to be tightly managed to ensure these remain at an appropriate level for the overall scale of the service. There was ongoing investment in new processes and technology in line with the corporate digital transformation programme and ongoing modernisation of the service.

Priorities for 2019/20 and beyond

36. During 2019/20 and beyond, Property Services will continue to focus on delivering services and programmes of work in support of the County Council's priorities alongside a continued portfolio of shared service and external business opportunities. These include:
- Continuing to support the operational requirements of HCC through asset transformation and enhancement. This includes developing and implementing asset strategies to support service transformation for the Adult

Health and Care bed-based programme, new school places and school improvements, Country Parks and the Library Service.

- Effective management and transformation of the corporate office portfolio to meet evolving operational strategies and new working practices. Continuing to seek opportunities to achieve revenue savings through consolidation and leasing of surplus accommodation.
- Continued delivery of the carbon reduction and energy saving programmes in support of the County Council's climate change and sustainability agendas.
- Effective custodianship and proactive management of the corporate estate, with a focus on asset optimisation, the management of risks and liabilities and a review of key asset portfolios including County Farms.
- Further improvements in the health and safety risks management processes for the built estate.
- Bringing forward County Council landholdings for development through the strategic land programme to secure capital receipts and additional revenue streams.
- A continued focus on the shared service arrangements with Police and Fire and the service level agreement with schools with further integration of hard and soft FM services.
- Modernising service delivery through the planned replacement of the asset management system and exploitation of new digital tools.
- The procurement and management of a range of regional and national construction and consultancy frameworks. These provide streamlined procurement arrangements to meet the County Council's needs and secure a contribution to overheads through framework levies.

Conclusion

37. 2018/19 was a significant year for Property Services with the completion of the restructure and integration of a range of property and facilities functions into a new operating model under the Property Futures transformation programme. This ensures that the whole service is "fit for the future" and that costs are aligned to future income forecasts and funding levels.
38. A balanced budget position was achieved under the CCBS departmental revenue budget through a combination of robust income forecasting and proactive resource management. The service made effective use of the flexibility afforded through the strategic partner arrangement. There was a further decrease in the value of services provided on HCC programmes of work, but income from external sources increased and there are positive indications of maintaining this through proactive business development. It is recognised that that the climate of budget pressures in the public sector together with some volatility in Local Authority leadership that the services has to stay responsive and agile for the foreseeable future. Evidence from past strong management and customer relationships gives confidence that the services can respond to change and continue to do well. Risks cannot be eliminated but robust financial and business management together with a commercial approach has placed Property in a position of strength and stability to continue to support the County Councils strategic aims.

39. Major programmes of work were delivered on behalf of other HCC departments and in excess of £50m of repairs and maintenance work was delivered across the schools and corporate estate. This addressed health and safety and condition priorities and enhanced the quality of the environment for building occupants.
40. Significant progress was also made on the County Council's strategic land programme with the procurement of a private sector partner for the Manydown development and progress with the promotion of additional sites for development.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1 Equality Duty

1.1 The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2 Equalities Impact Assessment:

An equalities impact assessment is not considered necessary for the content of this report.

2. Impact on Crime and Disorder:

2.1 The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all decisions it makes on the prevention of crime. The proposals in this report have no impact on the prevention of crime.

3. Climate Change:

3.1 This is an update report which has no impact upon climate change.