

DERBYSHIRE COUNTY COUNCIL

CABINET

28 February 2019

Report of the Strategic Director for Commissioning, Communities & Policy

**Review of the Corporate Property Division
(Council Services)**

1. Purpose of the report

To seek Cabinet approval on proposals to redesign the service delivery operating model of the Corporate Property division within the Commissioning, Communities & Policy department. The rationale for the change is to:

- Create a property function that is fit for purpose to deliver the Council's asset management requirements;
- Ensure Corporate Property has capacity and expertise to support the Enterprising Council strategy;
- Deliver the Council's Asset Management Framework (Property Strategy); and
- Deliver financial savings required by the 5 year Medium Term Financial Plan.

2. Information and Analysis

2.1. Background

The Council has a large and diverse property portfolio; approximately 1100 property assets with a book value of approximately £1.8bn and an annual budget of £12.6m. Accordingly, the Council requires a property services function that can both manage the land and buildings to support service delivery and secure efficiencies from the portfolio to deliver revenue and capital savings.

The Council is currently undertaking a review of its services using its 'Enterprising Council' approach. This report is a proposal to transform

the Corporate Property division in accordance with the Enterprising Council strategy.

2.2. Ernst Young Review of Corporate Property

The Council instructed Ernst Young (EY) to undertake a review of Corporate Property. This review was undertaken using a mix of quantitative data, financial analysis, and benchmarking; and qualitative data from interviews with Members, officers and Trade Unions. The key findings are detailed in the report attached at Appendix 1 and summarised as follows:

- a. Corporate Property should develop a long-term Service Strategy that addresses issues including; the vision for the service, governance, service delivery and markets.
- b. An Asset Management Framework (AMF) should be prepared to protect, enhance, and develop the asset base of the Council. This should also address alternative ways of securing income from the large asset base. This could be in the form of leasing assets for sustainable income, entering partnerships to extract value from assets, or through the disposal of surplus assets, alongside a disposal strategy.
- c. The Facilities Delivery service does not compete in the market, largely based on price, and with mixed perceptions of quality. As such, there are likely to be efficiencies through the externalisation of this service. Streamlining the responsibilities of the service away from those areas where a market exists will allow the Council to more effectively focus on the core areas where it has a responsibility, or can provide the service more effectively than the market.
- d. There are potential benefits to the service from a form of externalisation of the current Design & Build service, including the ability to drive value for money, and for Corporate Property to focus on the core operations of the service.
- e. Although the Repairs & Maintenance is not a core function and could be externalised there is a benefit of control of the service within the Council for 'toolbox' style maintenance – small repair work. The balance of repair and maintenance, including cyclical and planned maintenance lend themselves to be delivered by a supply chain.
- f. Currently the Asset and Facilities Management function retains ownership and control of much of the Council's estate, however, a substantial amount of property is retained by the individual departments throughout the Council. It is recommended that Corporate Property is the sole provider of property related services within the Council and as such all property being transferred over to it. This full roll out of Corporate Landlord,

which is recommended best practice would also require the creation of a Client Engagement Function. This is where named individuals within Corporate Property provide a direct point of contact for internal departments to access services, provide feedback, and prioritise projects.

- g. A core activity for Corporate Property is to undertake a data validation process to ensure that a sufficient asset register is maintained for the Council. This will then enable the service to develop a long term plan to address backlog maintenance and take actions to manage the risks arising from backlog maintenance.

2.3. Current Operating Model

The current Corporate Property operating model has evolved over a number of years and today operates as an internal Client and Contractor model as illustrated in Appendix 2 and detailed further below.

Corporate Landlord which is referred to as the 'client', now includes asset management, cost and value management, estates, capital programme management and project management. The Corporate Landlord function is intended to establish a programme of activity for the Property Services part of the division, (also referred to as the 'contractor' or 'DSO'), to deliver. Property Services now includes design and build, repair and maintenance, health & safety, facilities delivery (cleaning, caretaking and grounds maintenance) and disability design.

Since being established Corporate Property has experienced significant financial change. In particular, as schools, through Academisation, have changed provider, there has been a decline in sales for certain facilities delivery services. As corporate budgets and delegated school maintenance budgets have reduced, there has been a reduction in both property revenue and capital programmes. Corporate Property has also had its own financial savings targets to achieve as part of the corporate revenue savings agenda.

With a focus on the delivery of property services, the Corporate Landlord section has only been able to make modest progress on asset management, i.e. managing the estate, and reviewing and rationalising, to align it to the requirements of the Council. This however, is increasingly important as front line service delivery requirements of the Council change with services being delivered by, or with others through initiatives such as Joined Up Care Derbyshire and One Public Estate.

2.4. Proposal

Given the context and environment in which the Council operates and the findings of the EY review a fundamental redesign of the operating model for Corporate Property is required. An operating model based on the property lifecycle and the core property activities required to deliver this is recommended. This is illustrated in Appendix 3.

The new operating model has seven component parts to it as briefly detailed below:

- **Asset Management** – This covers the preparation of a corporate property strategy (Asset Management Framework), which is a plan to develop, maintain and where necessary dispose of surplus assets. The strategy requires accurate property data for evidence based decision making and a continuous programme of property review to challenge asset use, investment and retention. Departments would also have access to a 'dedicated' business partner to support and challenge their property usage following a full roll out of the best practice Corporate Landlord principles.
- **Estate Management** – Local authorities have a responsibility to facilitate regeneration and development. Development and investment expertise is therefore required to increase the number of property disposals, deliver financial benefits to the Council, add value to surplus assets to maximise capital receipts and use Council land to support regeneration. This is achieved by working with third party public and private sector organisations.
- **Facilities Management** – Defined by the RICS, as the total management of all services and built environment infrastructure that support the core business of an organisation. Accordingly, the requirement following full implementation of Corporate Landlord across the Council, is one of contract management with facilities delivery undertaken by a supply chain that can respond to increasingly cost conscious customers, school Academisation and the reducing property portfolio of the County Council.
- **Repairs & Maintenance** – As backlog maintenance continues to be an issue the Council will wish to control repair and maintenance spend, moving where possible to more efficient planned rather than reactive maintenance. Thus reducing the cost of Council delivered repair and maintenance orders, through increased productivity and a supply chain to deliver planned preventative maintenance, including statutory health and safety compliance.
- **Minor Works** – The approach currently adopted by the Council to deliver small scale capital Disabled Facilities Grant (DFG) projects is through a diverse supply chain of local Derbyshire

contractors, this would be the preferred method of delivery for all minor works projects.

- Major Projects – Larger projects require more dedicated project and programme management expertise to control the ‘triple constraint’ of time-cost-quality. Project teams may require pre-delivery feasibility, cost consultants and during the construction phase clerk of works and access to some technical expertise. However, the presumption is that construction delivery and detailed design will be undertaken through a supply chain of appropriately selected contractors, where possible from pre-approved frameworks to increase speed of delivery.
- Business Support – Currently business support is dispersed throughout Corporate Property. However, recognising this as a key component of the future operating model and working with other Council officers such as procurement, finance and legal will ensure Corporate Property operates good corporate governance and quality management practices throughout the division.

The benefits of the proposal are:

- A Corporate Property division that is focused on delivering the changing requirements of the Council, rather than delivering non-core property activities;
- An operating model that recognises the property lifecycle and the functional activities to deliver it and the recommendations from the EY review;
- A strengthened Corporate Property function to better meet the service delivery requirements of the operational departments;
- Greater opportunity to engage with third party public and private sector providers who have developed expertise and learning from tried and trusted models of delivery;
- A basis to secure revenue and capital savings from future realignment of the property portfolio; and
- A Corporate Property division that reflects the Enterprising Council approach.

2.5. Timescales

A high level programme has been prepared to deliver the majority of the transformation of the Corporate Property division by April 2020. This will be achieved in phases.

2.6. Programme Delivery

The transformation of Corporate Property is a significant issue for the Council and to enable it to be completed expeditiously whilst continuing

to operate, it is recommend that two Programme Managers are recruited, on a fixed term twelve month basis, to support the delivery of the transformation programme.

3. Financial Considerations

In order to facilitate the transformation and resource the implementation of the revised delivery model and Programme Managers within the agreed timeframes, Funding of £100,000 is required and this will be met from the CCP Departmental Reserve. The Director of Finance will be consulted and provide financial advice at the various delivery stages of this programme.

4. Human Resources Considerations

The Programme Manager roles (Grade 12) have been subject to job evaluation and grading levels have been confirmed in line with the HAY job evaluation scheme and the Council's Organisational Design Principles.

Recruitment to these temporary posts will be undertaken in accordance with the Council's recruitment and selection procedure and will be advertised internally in the first instance.

Any future staffing changes associated with the revised delivery model of Corporate Property will be subject to further reports to Cabinet as necessary.

5. Legal Considerations

It is noted that this report seeks the necessary in principle approvals only to commence the recommendations as detailed within this report. Further detailed reports will be presented to future Cabinet meetings and it is likely that these will include key decisions. The Director of Legal Services will be consulted and provide legal advice at the various delivery stages of this programme.

6. Other considerations

In preparing this report the relevance of the following factors has been considered: human rights, health, environmental, transport, property, social value and crime and disorder considerations.

7. Key decision

No.

8. Is it required that the Call-in period be waived in respect of the decisions being proposed within this report?

No.

9. Officer's Recommendations

Cabinet approves the implementation of the recommendations from the EY review and the proposals set out in the report to transform the Corporate Property division, as follows:

- i. To develop a long term Service Strategy for Corporate Property;
- ii. The production of an Asset Management Framework;
- iii. The creation of a new operating model for Corporate Property, to be operational by April 2020;
- iv. To approve in principle the externalisation of the Facilities Delivery service and to receive further reports on the detail and its implementation;
- v. To approve in principle the externalisation of the Design & Build service and to receive further reports on the detail and its implementation;
- vi. The redesign of the Repairs & Maintenance service and the externalisation of the balance of the service and to receive further reports on the detail and its implementation;
- vii. The full roll out of the Corporate Landlord policy;
- viii. Corporate Property to undertake a data validation exercise and develop a long term plan to address backlog maintenance;
- ix. A budget of £100,000 to support the implementation of the transformation programme of Corporate Property met from CCP Reserves;
- x. The appointment of two temporary Programme Managers to support the transformation programme.
- xi. Cabinet to receive future reports in respect of the implementation of this in principle decision.

Emma Alexander
Strategic Director – Commissioning, Communities & Policy

Appendix 1 – Corporate Property Review – Ernst Young

Derbyshire County Council

Corporate Property Review Report

February 2019

Issued to: Emma Alexander, Strategic Director
Version: 3.1



Approvals

Name	Title	Organisation	Version Approval
Emma Alexander	Strategic Director	Derbyshire County Council	

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Introduction

Our Role

Derbyshire County Council (“DCC” or “the Council”) is focused on providing a better service and achieving value for money for the taxpayer. As such, EY has been asked to provide analysis regarding the Council's Corporate Property division to look at the scope for an improved level of service and demonstrate value for money, in-line with the Council's Enterprising Council Strategy.

Background

The Council has identified several issues concerning the Corporate Property offering, and as such requires analysis to understand the potential of increasing value for money in the services provided by the division.

In 2012, the Council performed a review of Corporate Property with the aim of improving the response time and, in turn, reduce cost. The review was supported by EY and included a series of recommendations.

The Council is currently undertaking a refreshed review of its services using its 'Enterprising Council' approach. As part of this approach, the Council has stated their guiding principles as follows:

- ▶ Value for money is at the heart of everything we do;
- ▶ We are efficient and effective;
- ▶ We focus on getting the best results for our residents whether that's by delivering a service ourselves or by using an external organisation – there is no one size fits all;
- ▶ We have a bold, innovative and commercial mind-set and we think and act as if our residents can choose who delivers their services;
- ▶ We do things 'with' local people rather than 'to' them and we value fairness, openness and partnership; and
- ▶ We are proud of Derbyshire and ambitious for our public services.”¹

EY have adopted these principles in the writing of this report.

In addition, the following objectives were set out for this review, based on the aspirations of the Enterprising Council:

1. **Service Quality** – Deliver the best results for our residents with the end user as the focus.
2. **Financial Sustainability** – Deliver improved value for money with greater efficiency in our delivery.
3. **Ways of Working** – Establish a bold, innovative and commercial mind-set in our staff to improve our working habits and culture.
4. **Stakeholder Alignment** – Supports the vision and agenda of key stakeholders, both internal and external.

¹ Enterprising Property Report for CMT and Cabinet V10 – CMT format, provided by DCC

Our approach

The report will aim to answer the following 5 questions, each with its own dedicated section:

1) What do we have today?

Understand the current position, in terms of services provided, financial position and asset base. Considering the perspective of internal customers and individuals within the Corporate Property division as to how service is delivered today.

2) How do we modernise?

Given the desire to improve and modernise the service, it is important to identify areas of improvement and actions that can be implemented to achieve 'quick wins' and prepare the Council to adopt long term changes. This section looks to draw from comparison with other councils through benchmarking, outputs from the stakeholder engagement sessions and experience from other councils.

3) What services require modernisation?

This section looks to identify areas within the service offering that require investment or disinvestment to align with the Council's Plan. This draws on the views and opinions from stakeholder engagement sessions.

4) What services can be delivered differently?

Following the identification of services that could be improved as part of Question 3, this section looks at alternative ways of delivering these services in the future.

5) When can we modernise?

This section presents a proposed timescale to achieve the anticipated outcomes.

1. What do we have today?

1.1 Current Services

Corporate Property as a function manages £2.16bn worth of assets, with an annual budget of £12.6m, as well as providing services to external clients. These services include:

- Asset Management Services;
- Facilities Management (Facilities Delivery);
- Valuation services;
- Cost & Value Management (including quantity surveying, business support, and project management);
- Health & Safety;
- Design & Build;
- Repairs & Maintenance;
- Disability Design; and
- Business Support.

The service faces a number of problems, including decreasing budgets – problems that are not uncommon within Councils, and similar organisations, up and down England.

1.2 Financial Position

Trading Accounts

Figure 1 shows the trend in sales for Corporate Property between 2010/11 and 2017/18.

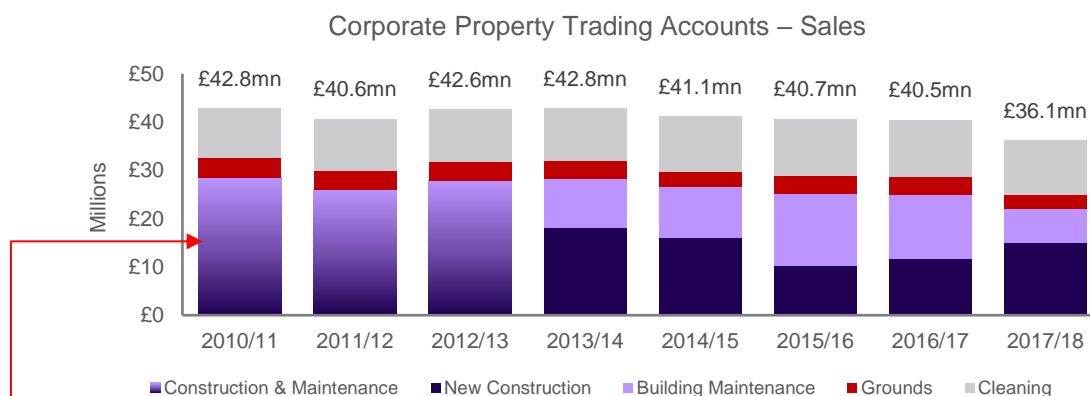


Figure 1: Corporate Property Trading Accounts - Sales

Source: '2018 10 31 EY Request C M G C Split Over 5 Yrs v2.xlsx'

Note: Prior to 2013/14, New Construction and Building Maintenance were treated as one grouping, hence the faded colouring in the early periods covered by this chart.

There was a decrease in revenue of 11% in 2017/18. Initial assessment shows that this drop in turnover is due to various issues, including: the introduction of the SAP IT system and subsequent issues resulting from its implementation²; an increase in year-end work in progress; charging directly at cost; increase vacancies in M&E and Construction; and the academisation of schools leading to a decrease in income to cleaning.

² "2018 10 31 EY Request C M G C Split Over 5 yrs v2.xlsx" provided by Derbyshire County Council

Financial Targets

Since the previous EY report in 2012 cost saving has been a strong initiative within Corporate Property. Several significant projects having been delivered to help achieve this³:

- ▶ Corporate Property went through a restructuring in 2015.
- ▶ The TASK system was replaced by the corporate SAP system in 2017 to help generate efficiencies in services – the savings achieved by this are yet to be assessed fully as the implementation is still approaching its conclusion.
- ▶ A Work Programming Team was set up within the division with the aim of monitoring workloads in a systematic way and better predict future fee income. This has since led to a number of further projects which are currently ongoing.

In addition, Corporate Property has put a plan in place to help achieve sustainable savings in the coming years.

Financial targets, as set by the council, for the next four financial periods are presented below:

Financial Year	2018/19	2019/20	2020/21	2021/22
Savings Target	£548,000	£500,000	£563,000	£454,000

Source: '2018 10 31 Current Forecast Position.docx'

Budgets

Base budgets for Corporate Property have seen a steady decline in recent years, as presented in the table below:

	2015/16	2016/17	2017/18
Client Salary Budget	£4,300,000	£3,672,000	£3,437,000
Property Maintenance Budget	£7,718,000	£8,087,000 ²	£7,138,000
County Buildings	£2,776,000	£2,929,000	£3,825,000
Industrial Development ¹	(£1,878,000)	(£1,876,000)	(£1,876,000)
Travellers	£67,000	£67,000	£67,000
Total	£12,983,000	£12,879,000	£12,591,000

Source: '2018 10 31 EY Request Summary Sheet.xlsx'

Note 1: Industrial Development is a negative value as this is income received from the portfolio of industrial units.

Note 2: The increase in Property Maintenance Budget during 2016-17 was due to pay awards: an element of pay was built into the budget to reflect the increase in costs from the Direct Services Organisation ('DSO'). Additionally, no cuts were allocated that year.

This corresponds to a decrease of approximately 2.8% per annum when accounting for inflation (based on retail price index from the Office of National Statistics). It is understood that this decrease is driven by savings targets and the incentive to reduce costs.

External Income

Corporate Property acquires significant income from external projects through repairs & maintenance, construction and ground works. In 2017/18, these additional income streams totalled £18.9mn, most of which came from the redevelopment of Glossopdale Community College (£13.3mn).

³ "2018 10 31 Current Forecast Position.docx" provided by Derbyshire County Council

These are crucial sources of income to support the Corporate Property function and, when combined with DSO income, the Disabled Facilities Grant Scheme and other professional fees, Corporate Property income reached £64.9mn in 2017/18.

Observations and recommendations

- **Data assurance:** Sales for Corporate Property have been relatively consistent although data shows a slight decline from 2013/14 to 2016/17. This appears minor at first but corresponds to a real decrease in 6.2% per annum over four years when accounting for inflation (based on retail price index from the Office of National Statistics). Further analysis will need to be undertaken to assess how the continuation of this trend will impact corporate property budgets and delivery of services over the next 5 years. The Council should also look to develop a long-term financial forecast for the service to inform strategic decisions and support budgeting, financial planning, and target setting.
- **Service Strategy:** The Corporate Property division should begin the development of a long-term Service Strategy that can be presented to the Cabinet for discussion and approval. A detailed strategy for the direction of property in the Council would benefit decision making around the future of assets. It would also raise the profile of Corporate Property and knowledge of the services it provides within the Council. A robust Services Strategy document should consider, but not be limited to, the vision for the service offering, governance, services and market. This should also take into account the sustainability of budget reductions.
- **Work Programming Team:** The Work Programming Team that has been established will be a core aspect of Corporate Property. They should report directly to Corporate Property, providing significant input to the development of the Service Strategy document.
- **Commercialisation:** With decreases in DSO Income and budgets, Corporate Property may become more dependent on external and alternative income opportunities in the future, should the cost base remain the same. The Council operates a large number of significant assets which have limited potential for sale due to their size in relation to the local market. This needs to be considered as part of the wider strategy. Once assets have been identified as surplus but are identified as not suitable for disposal, it is recommended that individual plans are brought forward to commercialise these assets. If approved, these have the potential to bring sustainable revenue streams into the Council, given the size of the existing property portfolio.

1.3 Current Asset Base

Buildings and Property

As shown in the table below, the Council's land and property portfolio includes 1,124 separately listed property assets with a current aggregate book value of £2.15bn, as provided by the Council.

Asset Group	No. of Assets	Approx. Book Value (31/03/2017)
Adult Care	73	£83.2m
Children's Services	578	£1,799.1m
Commissioning, Community & Policy	312	£243.2m
Economy, Transport & Environment	161	£29.8m
Total	1,124	£2,155.4m

Source: '2018 Table 1 for 17_18 report.xlsx'.

Note: These values exclude non-adopted highways land which is a series of over 3,000 small plots of land with a book value of just over £70,000. These have been excluded as the combination of extremely large quantity and relatively low value would result in skewed trends when looking at the entire portfolio.

The Book Value reflects the asset value as reported within the Council's financial accounts and not market value; market value of the portfolio could potentially be significantly different (particularly for operational assets).

Corporate Maintenance Budget and Backlog Maintenance

The Corporate Maintenance Budget (CMB) is used to fund most the Council's non-school property portfolio maintenance activities, including servicing and grounds maintenance – this also includes cleaning and caretaking on some of these premises. This budget has reduced nominally by 28% since 2012/13 from £10mn to £7mn, and over the same period a significant increase to the Council's backlog maintenance has occurred, as demonstrated in Figure 2.

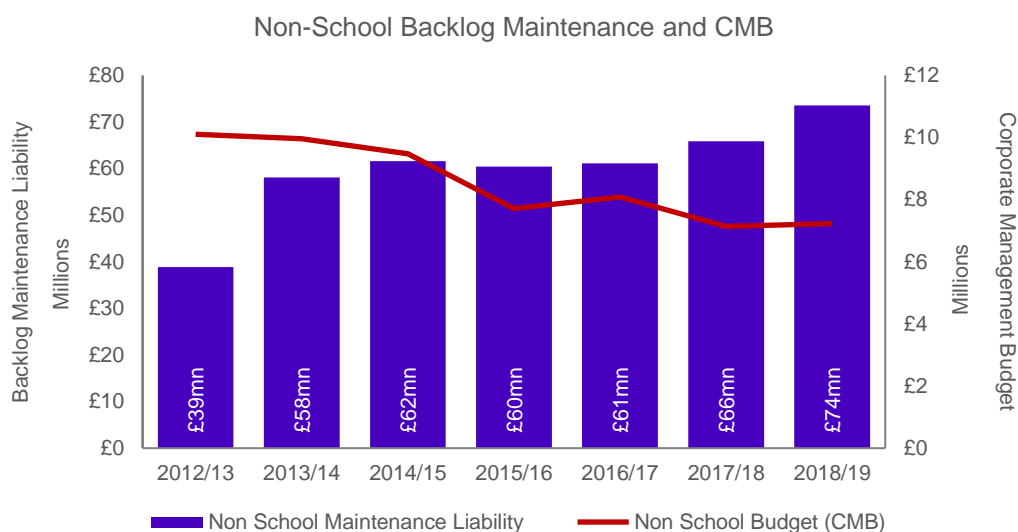


Figure 2: Backlog Maintenance and Non-school Corporate Management Budget

Source: 'Draft Asset Management Framework 2018 V3 October 2018.docx'

Over the space of six years, the reduction in the CMB totals a cumulative reduction in spend of £11.0mn, and over the same period a backlog maintenance increase of £34.7mn. This is the equivalent of more than a full year's budget based on 2012/13, with the liability increasing by 89%, before taking into account any real impact as a result of inflation.

Furthermore, there has been an increased focus on reactive maintenance. This has resulted from pressures on the remaining maintenance budget and a lack of funds to support larger planned and preventive maintenance projects. In 2012/13, planned and reactive maintenance constituted 60% and 40% of the maintenance budget, respectively. However, reactive maintenance now accounts for 59% of the same budget. This increase in reactive

maintenance is directly related to the increase in the backlog maintenance liability that has accumulated over the past five years.

Schools and Support Centres

There are many influences which make the same level of information more difficult to obtain for schools and support centres. For example, the programme for conversions to Academy status has moved responsibility for maintenance away from the authority. This has an impact on the overall condition of data recorded, making it more difficult to compare global trends.

Delegating budgets to schools has influenced the way Corporate Property address the maintenance backlog on the school estate. The last round of delegation led to schools being held responsible for building maintenance works up to £100,000 in value which has removed some schools from the co-ordinated, condition-led prioritisation that Corporate Property applied to planned maintenance.

However, the majority of council-controlled schools do buy-back maintenance and repair packages from Corporate Property and these projects are managed on a priority, condition-related basis, leading to more accurate capturing of condition improvements and updating of the asset management system. This level of information is more difficult to capture for schools choosing not to trade with DCC.

Observations and recommendations

- **Client Engagement Function:** Children's Services represent a core aspect of the Council's Property Function and should be considered a priority user. This requires a dedicated client interface to help manage the needs and services delivered to the internal department. This will form part of the Client Engagement Function, where named individuals are put in place in each of the largest internal client departments – in particular Children's Services. These individuals will be a direct report to the Corporate Property division but will provide a point of contact for internal departments to access services, provide feedback, and prioritise projects.
- **Asset Management Framework (AMF):** Development of an AMF to protect, enhance, and develop the asset base; providing guidance and process for categorisation and management of assets. This AMF will provide guidance on how newly identified projects should be prioritised. This will lead to more efficient management of maintenance projects and a more effective allocation of budgets. An AMF for Corporate Property is already in development.

2. How do we modernise?

2.1 Benchmarking

It is important to be able to compare the performance of the Council with similar organisations. In April 2018, CIPFA Property carried out a benchmarking exercise on behalf of twenty-six local authorities across England, Wales and Scotland, covering fees and hourly rates for design, project management and other related areas of Corporate Property. This study included DCC.

EY has not been asked to carry out a validation exercise of the data included within the CIPFA report and therefore cannot corroborate its findings. However, it should be noted that less than one third of the authorities that contributed to the study were County Councils, limiting the size of the dataset for comparison purposes and for some responses the sample size is smaller still.

Key Outputs from the Benchmarking Report

The CIPFA report indicates that DCC are relatively in line with other authorities with regards fees for Traditional and Design & Build Projects. However, DCC fees were found to be below average in more commercial and innovative projects, i.e. Partnered Projects, as shown in Figure 3. The definition for Partnered Projects, as stated within the CIPFA report, is as follows:

“Partnering is a broad term used to describe a collaborative management approach that encourages openness and trust between parties to a contract. The parties become dependent on one another for success and this requires a change in culture, attitude and procedures throughout the supply chain. Contracts are typically arranged on a cost-reimbursable, target-cost, open-book basis including both incentives, and penalties.”⁴

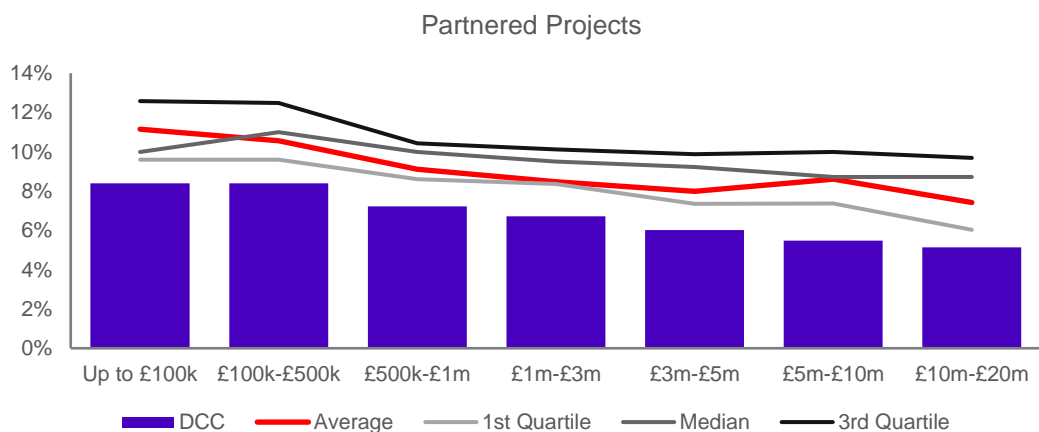


Figure 3: Benchmarking Data - Partnered Projects

Source: 'Property Related Professional Services: Project Fee Benchmarking 2018' CIPFA

The benchmarking report also looked at Project Management and Principal Designer projects where, similar to Partnered Projects, DCC were determined to be below average.

⁴ 'Property Related Professional Services: Project Fee Benchmarking 2018' CIPFA

The benchmarking exercise also compared the hourly rates at different grades across the services. The results for DCC are presented in Figure 4.

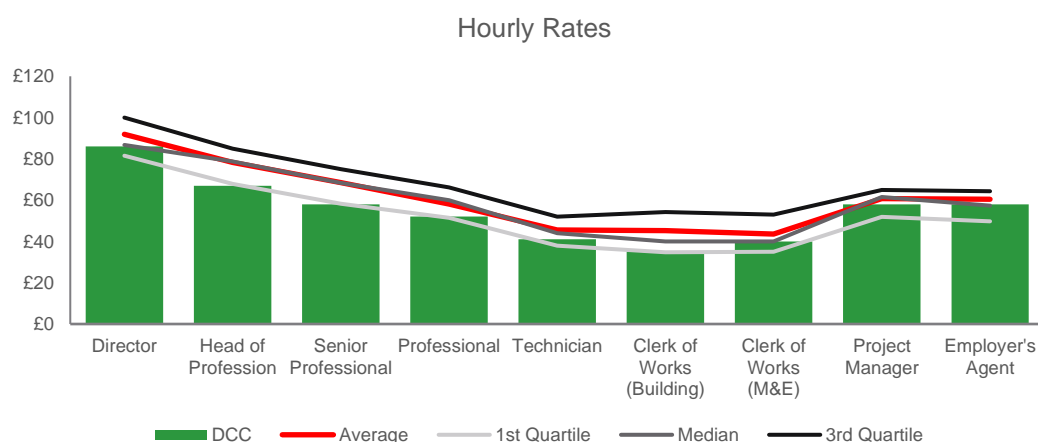


Figure 4: Benchmarking Data - Hourly Rates

Source: 'Property Related Professional Services: Project Fee Benchmarking 2018' CIPFA

As expected, DCC follows the same trend as other authorities when considering grades. However, the hourly rates consistently fall between the 1st quartile and the median, indicating that DCC are generally cheaper than other authorities in purely hourly rates. This could be influenced by many factors, such as geographic location, market trends, frameworks in place and the definitions of roles varying between authorities or simply inconsistencies between Councils in how data is collected. In addition, whilst DCC may demonstrate lower rates, this does not necessarily indicate lower project costs as this depends on number of hours undertaken and overall productivity.

Observations and recommendations

- It is strongly advised that the council explores further benchmarking as part of the next phase of this work, centred on the following principles:
 - i. Focus on the local region so outputs are comparable to the market DCC operates in.
 - ii. Incorporate both public and private sector organisations to get a view of competitors' position and assess the Council's competitiveness. The Council is not alone in not having benchmarked itself against private sector organisations, however this would provide extremely valuable information as to the efficiency of operations.
 - iii. Expand and tailor the scope of the benchmarks to incorporate other aspects of the services delivered by DCC, beyond just capital projects, giving a holistic view of the organisation to inform the overarching strategy.
- This more focused study will help to provide further insight into the market within which DCC operates and help to inform the wider Services Strategy.

2.2 Stakeholder engagement

Though quantitative assessment is fundamental to assessing the future of the service, qualitative assessment is also pivotal. As part of this, EY has undertaken a series of engagement sessions with the service managers, senior management of the council, political members of the current administration, and Trade Union representatives. These workshops have provided a greater insight into operations and perceptions of Corporate Property.

Observations and recommendations

- **Management and Staff Interface:** It has been identified by various parties during the qualitative assessment process that the interface between management of the service and the staff in the service is poor. This is most likely a reflection of the changes in leadership in the division that have taken place in recent times, and as such it is expected that this interface will improve in the medium-term. Steps can be taken to accelerate this improvement.
- In addition, the need for data assurance and the client engagement function was highlighted.

2.3 Experience from other Councils

Based on its work with other councils, public bodies, and private sector organisations EY has identified other areas of focus to help deliver increased effectiveness and efficiency of operations, and to provide a useful comparison for the Council service. These bring vital “lessons learned” to the service.

- ▶ **Asset Management:** For a property function of any significant scale to operate effectively it must have in place a plan to develop, maintain and, where necessary, dispose of its assets. A succinct and well thought out Asset Management Framework (“AMF”) (previously called an Asset Management Plan) will help to achieve this. This framework will:
 - ▶ Structure and support the review of property holdings – challenging retention of assets where they could be disposed of or utilised more effectively.
 - ▶ Improvement of basic management functions – improving the performance and demonstrating best value, including the acquisition and management of data.
 - ▶ Analyse the ability to provide services more innovatively – ownership is not necessarily a requirement, and property should be viewed as a means to getting a service to a resident.

To do this, the AMF should form part of the Council’s wider Corporate Planning Framework to drive ‘value-add’ from property assets to services. In addition, this will help to raise the corporate profile of Corporate Property and encourage the adoption of a more strategic approach to the management of property assets. As part of the AMF, the identification of assets as either Service Property, Administrative Property, or Non-Operational Property may help in ensuring the correct targeted next steps are employed for each property.

- ▶ **Customer engagement:** In the last decade a greater reliance on external income, similar to what has been seen at DCC, has meant a greater need to compete in the market. As a result, the customer experience is becoming increasingly more vital in winning contracts and in retaining business. The Council is not alone in that internal clients see the function as unresponsive to their needs and offering poor value for money – indeed previous work by the Audit Commission found this to be commonplace⁵.
- ▶ **Market for FM:** The Facilities Management (“FM”) market has evolved immensely over the last decade with outsourced firms now playing a pivotal role in how services are delivered whilst aligning to wider Real Estate objectives. These include areas such as designing workplaces for the future and meeting sustainability targets. What we have found is, no matter the core industry or sector, key stakeholders within Real Estate experience similar challenges associated with FM. These include:

⁵ Hot Property, getting the best from local authority assets. Report by the Audit Commission.

- ▶ **Cost** – continued pressure to deliver tangible cost savings and efficiencies without impacting on quality and service.
- ▶ **Performance** – a common occurrence throughout FM contracts is a lack of proactive contract management with a ‘set and forget’ mentality post the procurement stage.
- ▶ **Risk** – health & safety and compliance remains a top priority, occupiers are under pressure to ensure their buildings adhere to regulatory requirements.

Add to this the collapse of Carillion in January 2018 and more recently the news surrounding similar FM firms such as Interserve, the outsourced market is at a tipping point. With changes to immigration laws impacting labour availability, continued increases to the national living wage and technological advancements will continue to provide additional pressures to this fragile sector over the coming years. As a result, councils and other organisations will need to be more stringent when selecting future providers and ensure the right level of expertise are in place. Ensuring contracts are setup correctly from the outset will help to extract maximum value from the partnership.

- ▶ **Intelligent client function:** The above has led to an increasing requirement for organisations to develop ‘intelligent client functions’ – these are contract management functions that are effectively able to deal with the tendering, management, and exit from contracts. Where these have been implemented by other organisations, they are often an extension of existing contract management functions.
- ▶ **Commissioning function:** Analysis of the strategic direction of other Councils suggests that a number have begun the journey to becoming more of a commissioner of property assets, rather than a direct owner. This will lead to a greater value of contracts being tendered, which will in turn result in the ‘intelligent client function’ growing in importance. Reviews of other council corporate property divisions have highlighted the need to consider whether it is cost-effective to continue to provide all services in-house, and the consideration of benefits that could be realised through externalisation of some services. This includes increasing management focus on core areas of delivery.
- ▶ **Non-operational portfolio review:** Other Councils have had success in driving savings and improvements to service through a review of the non-operational portfolio – those assets not required to deliver a service but held for other stated aims. A review of the service will need to analyse the purpose of holding each property, as well as indicate whether property ownership is the most effective means by which to achieve the policy aim as well as analyse the financial metrics of the property (e.g. rate of return and cost-benefit analysis). This has the potential to realise cost reduction, service improvement, capital receipts, and to release management and workforce capacity for core areas of service.

Observations and recommendations

- **Intelligent Client Function:** The service must plan for the future – including the potential option of becoming a greater commissioning function. Therefore, the Council should look to establish a new Intelligent Client Function within Corporate Property. This function will act as a stronger, and more strategic contracts management function, incorporating the procurement, management, and co-ordination functions within Corporate Property to prevent a dis-jointed management of facilities management tasks. Consideration of this must be given when designing the Intelligent Client Function within Contract Management in order to ensure that any outsourcing is undertaken effectively and achieves value for money for the Council.
- **Disposals strategy:** Given the scale of the properties that the service manages, it is expected that the service would maintain a strategy for the disposal of surplus assets, identified as surplus through the application of the AMF, to release capital for the Council. In addition, this would reduce revenue costs from maintenance, security, and other aspects. It is proposed that the Disposals Strategy is developed alongside the AMF, as these two documents will support each other.

3. What services require modernisation?

In addition to the concerns raised in the stakeholder engagement sessions around the overall performance of Corporate Property, a number of concerns were raised regarding particular functions within the Service.

Observations and recommendations

- **Transfer of property:** At present the Asset and Facilities Management function retains ownership and control of much of the Council's estate, however, a substantial amount of property is retained by the individual departments throughout the Council. This is generally where a department is the sole user of a single property. The analysis suggests benefits from the Corporate Property division being the sole provider of property related services within the Council, and as such all property being transferred over to it. As such, whilst improvements are being made to the service, preparation should be undertaken to facilitate the transfer of the remaining property into the Corporate Property division, ahead of a point at which the service is deemed suitable to facilitate the transfer of the remaining property. The continued ownership of property assets by individual departments has been highlighted in local government property reviews as a major barrier to effective asset management.
- Identification of modernisation were identified in respect of Asset Management, Repairs & Maintenance, and Design & Build functions. These are discussed in more detail in the next section.

4. What services can be delivered differently?

A SWOT (Strength, Weaknesses, Opportunities, and Threats) analysis has been undertaken for each of the service areas to understand the potential benefits that could be realised through an alternative delivery model. Based on the analysis it has been identified that there is potential benefit from the alternative delivery models in the following areas:

- 1) Facilities Delivery
- 2) Design & Build
- 3) Repairs & Maintenance

The observations and recommendations for these, including the equivalent for Asset Management, Disability Design, and Health and Safety, are provided below.

4.1 Asset and Facilities Management

The core of this service is the undertaking of Asset Management, within Corporate Landlord. In addition, this service also encompasses the facilities co-ordination role – though as this role is more similar in function to those services within Cost & Value Management, it will be assessed as part of that function. Therefore, the below analysis relates only to the Asset Management role.

Strengths <ul style="list-style-type: none"> ▶ Direct control over the service by the Council and Cabinet. ▶ Large and diverse asset base. 	Opportunities <ul style="list-style-type: none"> ▶ Potential to inherit the remaining retained estate of the Council, those properties that currently sit within departments. ▶ Potential to become the 'go-to' provider of estate in Derbyshire, providing flexible and high-quality estate to users.
Weaknesses <ul style="list-style-type: none"> ▶ Particularly internally, the quality of the service is viewed as poor. ▶ General consensus that the service area does not engage in proactive asset management. 	Threats <ul style="list-style-type: none"> ▶ Perception of quality means that service areas may look for alternative provision. ▶ Any failures in compliance may result in the function being reduced or closed.

Observations and recommendations

- **Asset & Facilities Management:** Control is deemed to be one of the most significant considerations, and strength of the existing structure, allowing assets to be utilised to meet the requirement of service delivery. It is recognised that outsourcing will not provide this control and greater focus needs to be placed on Asset Management. Subject to future delivery of services, a redesign may be required to achieve this greater focus.

4.2 Facilities delivery

Strengths

- ▶ Full service delivery.
- ▶ Grounds maintenance has a strong position in the market, currently winning more contracts and growing the service.

Opportunities

- ▶ Either build a service that can compete in the market or realise savings.

Weaknesses

- ▶ Cleaning is generally a higher cost provider than the private sector.
- ▶ Levels of staff sickness rates.
- ▶ Mixed feedback on the quality of service offered.
- ▶ Concerns that there is insufficient management supervision for effective management of the service.

Threats

- ▶ Heavy market competition that is likely to target the larger clients leaving the Council to provide services only to smaller scale clients, likely at a greater loss.

Observations and recommendations

- **Facilities Delivery:** Qualitative evidence has indicated that this service does not compete in the market. In a highly price-elastic market, and a well-established market for the services, efficiencies and management focus could be achieved through a form of outsourcing. The analysis suggests Corporate Property should look to divest itself of Facilities Delivery to enable a greater focus on core operations. This is, however, subject to further consideration.

4.3 Design & Build

Strengths

- ▶ Benchmarking indicates that the service appears to be operating at a low charge to customers compared to other Councils.

Opportunities

- ▶ Build on the view that the service provides a highly skilled workforce to compete in the market for services as a differentiator.

Weaknesses

- ▶ Though benchmarking compared to Councils has identified the service as low cost, the picture is likely to be less clear when compared to the private sector.

Threats

- ▶ Profitability of the division is potentially an issue. Data not available to assess this in full.
- ▶ Engagement of the staff providing the service.

Observations and recommendations

- **Design & Build:** Analysis of the options for outsourcing as a potential future delivery model, based on a recommendation that an outsourced model of delivery could drive savings, and deliver management focus on core Asset Management.

4.4 Repairs & Maintenance

Strengths

- ▶ Some parties have indicated a belief in the high skill levels within the team

Opportunities

- ▶ Use the skills of the staff to expand the service.

Weaknesses

- ▶ Staffing profile is ageing.

Threats

- ▶ Competition in the market, particularly with the academisation programme.

Observations and recommendations

- **Repairs & Maintenance:** It is a 'non-core' function making outsourcing a possibility, but there is a spectrum to the service delivered. Further analysis should be carried out on the options for outsourcing or alternative delivery models. Despite an outsourced model of delivery potentially driving savings while allowing management to focus more on core Asset Management, it may be beneficial to keep some capacity in-house.

4.5 Disability Design

Strengths

- ▶ In-built social purpose to the work undertaken.

Opportunities

- ▶ Increase the knowledge of the work undertaken within the organisation to look for future opportunities

Weaknesses

- ▶ Some retain a view that this is not part of Corporate Property and should be transferred internally in the organisation.

Threats

- ▶ Benefits from the skills and staff within the Corporate Property division, and as such would be impacted by any changes.

Observations and recommendations

- **Disability Design:** It is noted that the service has a greater benefit in sharing the skill base within Corporate Property than it would have within another area of the Council. As such it is proposed to stay within Corporate Property.

4.6 Environmental Manager (Health and Safety)

Strengths

- ▶ Internal team to support the Corporate Property function.
- ▶ Control of the service by the Council.

Opportunities

- ▶ Potential to share resource and skills with the other Council H&S teams.

Weaknesses

- ▶ Separation from the other H&S teams in the Council.

Threats

- ▶ Questions over the compliance of properties.

Observations and recommendations

- **Health & Safety:** Stakeholder engagement has highlighted that Health & Safety would benefit from modernisation through the integration of the function with the central Corporate function. This would help to prevent confusion over responsibilities, and to ensure compliance.

5. When can we modernise?

A programme of ongoing works will allow for the delivery of benefits to the service along a phased approach. Whilst initial work has focussed on the development of opportunities for modernisation and the identification for potential change in the delivery model, future phases will allow for further analysis and for the implementation of the recommendations in order to maximise value for money from Corporate Property for the Council.

If the Council adopt the recommendations, it is estimated to take between 18 and 24 months to complete the modernisation programme.

Disclaimer

Information in the report has been drawn from multiple information sources, provided by Derbyshire County Council, to EY. EY has not undertaken any due diligence or audit of the information, and any responsibility for its accuracy and completeness rests with the Council. In addition, the Council provided relevant benchmarking data to support analysis in the report.

Data presented in this report has been drawn from:

- ▶ '2018 10 31 EY Request C M G C Split Over 5 Yrs v2.xlsx' – containing the historic financial performance of Corporate Property;
- ▶ '2018 10 31 Current Forecast Position.docx' – which outlined future financial savings targets for Corporate Property;
- ▶ '2018 10 31 EY Request Summary Sheet.xlsx' – summarising base budgets for the service;
- ▶ '2018 Table 1 for 17_18 report.xlsx' – which provided a full asset list including quantities, running costs, floor areas and book values;
- ▶ 'Draft Asset Management Framework 2018 V3 October 2018.docx' – outlining the historic trends for backlog maintenance and budgets; and,
- ▶ 'Property Related Professional Services: Project Fee Benchmarking 2018' – a benchmarking report on the professional fees for Corporate Property authored by CIPFA on behalf of the Council.

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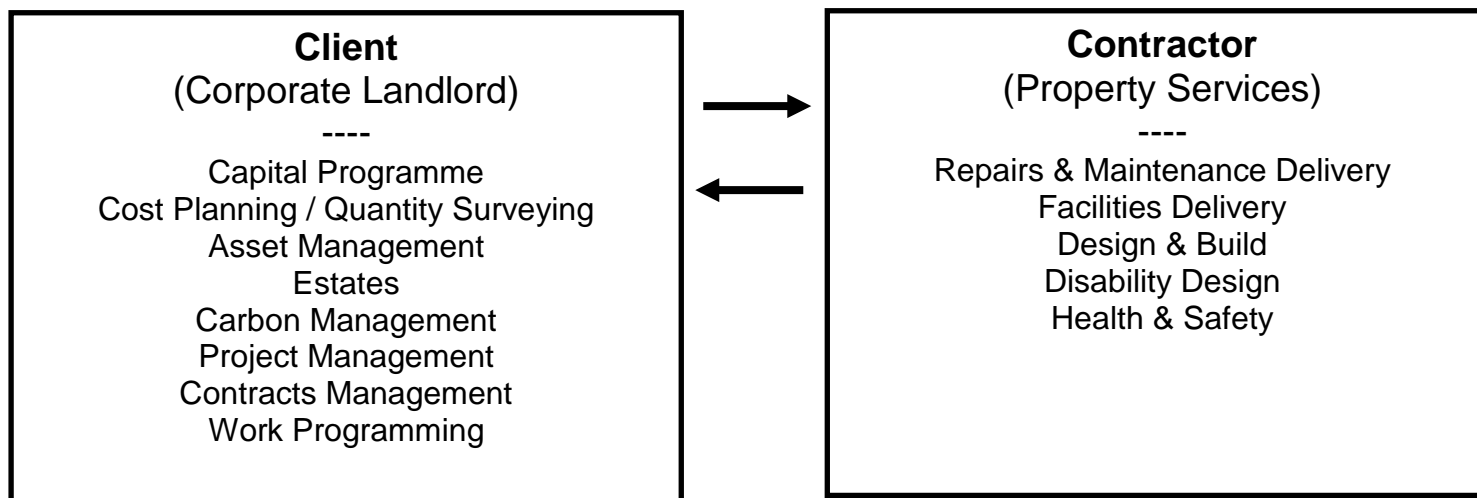
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Appendix 2 – Current Corporate Property Operating Model

Appendix 3 – Proposed Corporate Property Operating Model
(based on asset lifecycle and core property activities)

