

Report

Cabinet

Part 1

Date: 6 March 2024

Subject **Property services arrangements**

Purpose To determine the future model for the provision of property services for Newport City Council

Author Strategic Director – Corporate and Transformation

Ward All

Summary The Norse joint venture partnership established in July 2014 comes to an end on 31st December 2025 (extended from the original end date of July 2024). This partnership provides an integrated property and facilities management service including professional services such as estates management and design, building maintenance, premises management and cleaning, supported by a direct labour work force. The partnership continues to provide a range of essential services to the Council, with considerably increased annual turnover since its inception.

Following an initial report to Cabinet in December 2022, a review of potential models for future service delivery has taken place supported by evidence and undertaken by Scrutiny.

Taking into account the review of the models, combined with the significant work being delivered by Newport Norse, the report considers the key risks and potential benefits, and recommends the establishment of an arms-length trading company wholly owned by Newport City Council to be established by the end of the current joint venture in December 2025. The details of the proposed model and mobilisation plan will be developed by relevant officers to establish arrangements to develop a detailed proposal and report to Cabinet on progress.

Proposal To agree, in principle, the future model for delivery of property services as a local authority trading company as outlined in the report, and direct the Strategic Director for Transformation and Corporate Services, in consultation with the Council's Statutory Officers:

1. to prepare a proposal document regarding the setting up of an arms-length company wholly owned by the Council for the purpose of delivering property services to the Council from January 2026;
2. to obtain such advice and information as is necessary in order to enable the preparation of that document;
3. to take such mobilisation steps as are necessary to enable the setting up of the new model, but not including the registration of the company at Companies House; and

4. to report back to the Cabinet at a later date regarding the proposal and progress of the above.

Action by Strategic Director; Head of People, Policy and Transformation, Head of Finance and Head of Law and Standards

Timetable Immediate

This report was prepared after consultation with:

- Cabinet Member – Infrastructure and Assets
- Newport Norse
- Head of People Policy and Transformation
- Head of Finance
- Head of Law and Standards
- Overview and Scrutiny Management Committee

Signed

Background

In July 2014, Newport City Council and Norse Commercial Services, owned by Norfolk County Council created a Joint Venture (JV) agreement to form Newport Norse and entered into a Service Agreement for the provision of property services to the Council. The JV is wholly owned by the public sector with surplus trading income shared between Newport City Council and the parent company, Norse Commercial Services. This partnership provides an integrated property and facilities management service and includes professional services such as estates management and design, building maintenance, premises management and cleaning. The Services Agreement for the JV was for an initial 10-year period terminating on 30th June 2024, extended to 31st December 2025 by Cabinet approval in December 2022. This extension provided an opportunity to review the arrangement and fully understand and establish future requirements.

The review considered opportunities and risks of changing the model, based on good practice and feedback on current arrangements, the requirements of the Council's Corporate Plan 2022-2027 and aspirations to ensure social value within any new model.

The Council's work with Norse has delivered a range of benefits to the Council, and the wider community. The partnership has generated significant local spend with suppliers, and Norse employs around 320 staff including front line, professional and technical staff and supporting talent development with apprentices and trainees.

Within the current JV Newport Norse manage a range of built assets for the City Council with a total asset value of some £320m. The Norse JV has provided a 'one stop shop' for all property services, and acted as the Council's Corporate Landlord, ensuring Council policy is followed and that the Council optimises the use of its property assets.

The Partnership has been the subject of annual Scrutiny reports, most recently in November 2023. At these meetings, the positive progress made has been noted, although matters have been raised that include the current service agreement (the setup of the current model) and a broader desire for an emphasis on wider social and community value, aligning with the aspirations of the Council's Corporate Plan to place social value at the core of our activity.

Current model

Newport Norse is a Joint Venture partnership between Newport City Council and Norse Commercial Services Ltd ('NCS'). NCS is wholly owned by Norfolk County Council. The model was created in 2014 under a 10-year Joint Venture Agreement.

The Council has a 20% interest in the JV Company, and under the shareholder's agreement, receives a 50% rebate of any net operating surplus, after Norse have taken into account their head office overheads and taxes. The Council's value share is taken as a discount or rebate against the fees paid to the JV Company. Newport Norse is Teckal exempt, meaning the Council can award directly to it without the need for market procurement. As Newport Norse is a local authority-controlled company it must carry out up to 80% of its work for the Council, but also has the ability to trade externally.

The Norse JV provides a 'one stop shop' for all property services, which includes:

- building maintenance, including direct labour
- statutory testing and inspection
- cleaning and catering
- estates and valuation
- design and construction procurement
- project management
- corporate premises management

The company's turnover at its inception in 2014/2015 was £4.1m, with turnover rising in 2022/2023 to £24.9m. The Council receives 50% of the surplus annually (Scrutiny Report: November 2023).

Over the last nine years circa. £4m has been rebated back to the Council, much of which would effectively have been paid to private sector companies previously. This rebate received by the Council annually has been re-invested into delivering services to residents. As part of the establishment of the Norse JV circa 200 staff were initially TUPE transferred into the Joint Venture, with protected terms, conditions, and pension rights. This partnership has ensured the longevity of good quality jobs and opportunities, maintained local government pension provision for those eligible, and continued with positive employment practices such as paying, as a minimum, the 'Real Living Wage' rate.

The Council commits an annual budget for the core funded property work within the agreement and has agreed rates for additional professional consultancy services.

The Council's work with Norse has been the subject of a number of external and internal reviews and the partnership has delivered on major projects, with a range of benefits to the city of Newport. Newport Norse has also generated significant local spend with suppliers.

Review

As part of the review process officers have worked with members through a Scrutiny Policy Review Group (PRG), and with a range of key stakeholders. A cross organisational team has been established working with external support to add important experience of similar work programmes. As key stakeholders, Newport Norse have also been engaged in the review through workforce and manager engagement which is ongoing and is critical to the successful transition to any new model.

Through the Scrutiny PRG a range of options were considered based on external property services practice including other local authorities, ensuring alignment with the Council's strategic priorities, views of key stakeholders and external advice. The options in the review work included: insourcing of services to NCC; renewal or update of the Norse Joint Venture; commissioning some/all services externally to the Council; a community interest company; an 'arms-length' organisation such as local authority trading company; shared service model and a 'hybrid' models offering mixed delivery depending on the function/ service being delivered.

The PRG's role was to appraise options for future models of service delivery and make comments and recommendations to Cabinet on the options which align best with the Council's strategies and values to take forward based on their findings. The recommendations of the Review Group were also presented to and agreed by Overview and Scrutiny Management Committee on 30th January 2024. The Group's recommendations are intended to inform the Cabinet decision, through their detailed and extensive evaluation of the requirements and proposal.

Findings

It is important to note that the Council values the successful track record and collaborative relationship between the Council and Norse and the collective achievements the partnership has delivered to date. The workforce knowledge and expertise that allows informed decision making by the Council about its property portfolio has grown over the life of the partnership to a robust position and considering our financial challenges we will need to use this expertise to review and rationalise our assets.

Although the JV partnership has delivered a range of successful outcomes for NCC, the financial rebate arrangement established in the contract, contract pricing, and the level of community benefit or social value built into the partnership requires review. It is noted that, the end of the current JV presents a level of risk to ongoing work and projects for the Council and potentially to the workforce.

The review was considerate of this, and key recommendations are that: the transition is adequately resourced both internally and with the necessary external specialist resource; whilst also ensuring that as far as possible, the knowledge, skills and experience of the Norse workforce is maintained, and attrition is minimised. Ensuring a seamless transition to the new model is also key. The requirement to improve and strengthen the client-side arrangements in any new model was also noted.

The review identified and considered a range of service delivery models which could support the delivery of property services for the Council. These were:

- Shared Service/Collaborative working with public sector partners,
- Creating a wholly owned Local Authority Trading Company (LATCo),
- Creating a Social Enterprise/Community Interest Company (CIC) or
- A “hybrid” solution, utilising any of the above or other options, where beneficial.

In considering the evidence the review considered options which had potential to:

1. Align with strategic priorities (Strategic case);
2. Be financially advantageous and operationally deliverable (Economic & Financial case);
3. Have viable procurement processes and ensure the delivery of value for money services (Commercial case).
4. Be successfully mobilised and established as an operational entity (Management case)

Following this assessment, the review considered best fit using the following criteria:

- Strategic Alignment
- Service delivery quality
- Financial advantage
- Degree of NCC control
- Social value potential
- Ease of deliverability
- Transition risk

Scrutiny recommended the most viable option to take forward was a local authority trading company (LATCo) for the majority of services within the current model, on a hybrid basis – that is using other options where beneficial for service delivery.

Recommendations

The Group recommended that officers be delegated the authority to decide whether areas should be placed into the LATCo model, commercial or in-house provision after careful consideration on where it would be most beneficial to Newport City Council.

Scrutiny made the following additional recommendations:

1. Advice received, experience of other local authorities, and the view of members is that the transition and new model should be resourced appropriately;
2. That the model should be sufficiently flexible to allow for future expansion such as shared service, or additional service provision;
3. The Scrutiny Review Group proposed monitoring through OMSC through the programme of work, and the outcomes of this monitoring should also be reported to Cabinet.

Social value

The Council's Corporate Plan and Well-being Objectives demonstrate the Council's commitment to prioritising social, economic, cultural, and environmental wellbeing for the city and our partners. This recognises the way in which we manage our spend with suppliers, service providers and contractors, can make a significant contribution to this priority.

In March 2023, Cabinet approved the NCC core list of Themes, Outcomes and Measures (TOMs) for social value measurement reporting on outcomes at six monthly intervals. Progress on these was reported to Cabinet in February 2024. The TOMs for social value is a measurement framework that allows for an unlocking of social value through its integration into procurement and project management. Following adoption of the overarching framework in early 2022, officers have developed a core suite of measures for use within NCC that aligns with corporate priorities and objectives and supports the delivery of the Corporate Plan.

It is proposed that the new model will be required to report through the established TOMs framework ensuring that social benefit is integrated within the model. The use of the core TOMs will support the delivery of social value, alongside climate change work, and will assist in the reporting of compliance with the Wellbeing of Future Generations (Wales) Act (2015) and the forthcoming Social Partnership & Public Procurement Act.

The new delivery model will also adopt an integrated framework and any other existing policies/good practice that combines financial, environmental, social and governance performance. This reporting has started through the JV annual reports to Scrutiny and will be further developed when the new model has been agreed and set up.

Stakeholder engagement

Stakeholder engagement and feedback has been considered in the review, and will be increasingly important as arrangements progress, particularly for clients, Norse management, and workforce, who are critical for a successful transition to any new arrangement.

Responses from the Norse workforce to a recent questionnaire highlight the importance of effective communication and collaboration in the transition over the next two years. The feedback (outlined below) provides helpful insight into managing the change and will be considered in the development and implementation of the new delivery model.

Summary and Conclusions

Taking into account the significant work being delivered by Newport Norse, the risks and potential benefits of the end of the current partnership, and the aspirations of the Council as set out in the Corporate Plan and subsequent development of the TOMs framework, the report recommends the establishment, in principle, of an arms-length trading company. This to be wholly owned by Newport City Council and set up by the end of the current joint venture, subject to the development of a proposal which will be reported to Cabinet. The developing model should be sufficiently flexible to allow for future expansion such as shared service, or additional service provision.

The development of the proposed model and mobilisation plan is requested to be delegated to relevant officers to establish arrangements and report to Cabinet on progress.

Financial Summary

It is recognised that significant work is required to remodel budgets, including the current annual rebate arrangements in the new model, and this will follow the in-principle decision, with the development of the detailed proposal. It will be important to ensure that the future model is established in a way that minimises risk and maximises value for money for the Council.

The current arrangements for annual rebate returned to the parent company; and charging for back-office costs could provide some flexibility to fund certain cost increases, including the increase in client-side arrangements, and work has commenced to review this through a segmental analysis of the business. However, this cannot be known with certainty at this point as work is on-going on the company finances and will therefore need to be assessed and included in the work to develop the more detailed proposal. Work to date suggests that the workload associated with the Council's significant capital programme is key to the financial profitability and rebate of the current JV arrangement, and the potential impacts arising from this needs to be assessed in the detailed proposal, in particular the ability to fund certain cost increases.

The development of a 'Local Authority Trading Company' will likely incur significant one-off costs to establish and will be identified as part of the detailed proposal development. This is in addition to the existing internal resources required to facilitate and complete this project, currently funded from the Invest to Transform reserve. The Council will need to ensure that the reserve has sufficient funding to fund the one-off costs of the new company set up costs.

Risks

As outlined in the original report, the proposal to extend the current partnership in the medium term mitigated against some risk. The Corporate Risk Register also reflects the risk of the Council's property estate and the role of the partnership in managing this.

Risk Title / Description	Risk Impact score of Risk if it occurs* (H/M/L)	Risk Probability of risk occurring (H/M/L)	Risk Mitigation Action(s) What is the Council doing or what has it done to avoid the risk or reduce its effect?	Risk Owner Officer(s) responsible for dealing with the risk?
Risk of contract ending before a new model is established resulting in disruption to services, loss of skills etc.	H	L	This report proposes the development of a new model, at pace.	Strategic Director - Corporate and Transformation
Impact on partnership working, and Norse staff of not having an agreed way forward.	M	L	This report proposes the development of a new model, at pace, and notes the consultation undertaken.	Head of People, Policy, and Transformation.
Operational risk if the transition is not effectively resourced.	H	M	Budget arrangements yet to be determined and will progress following this in principle decision.	Strategic Director – Corporate and Transformation
Financial risk if agreement if not reached and contract not extended.	M	L	Budget arrangements yet to be determined and will progress following this in principle decision.	Head of People Policy and Transformation
Disruption to management of the property estate (Corporate Risk) and major projects.	M	L	This report proposes the development of a new model, at pace. Officers will consider when external support is required.	Head of People Policy and Transformation
Increased income target in the budget (MTFP) may present a future risk /overhead in the	M	H	Work to create the new model and develop the financial model will need to consider this.	Strategic Director – Corporate and Transformation

development of any new model			However, this risk is present in the existing and all other models considered as major projects reduce, value return will also reduce.	
Risks of wholly owning the company	M	H	Cabinet will need to be assured that the risks of establishing a wholly owned LATCO are dealt with in the proposal, and this affords best value for money for NCC.	Head of Finance/ Strategic Director

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The Council's new Corporate Plan identifies the City Council as an inclusive organisation that places social value, fairness, and sustainability at its core, and this is one of our Well-Being objectives for 2022-27. Reviewing the service delivery model in the medium term is congruent with this aspiration.

The Corporate Plan also identifies actions to:

- Transform our neighbourhood and community services to enable communities to make best use of land and property through community asset transfer.
- Rationalise, protect, and enhance our buildings and assets, enabling co-productive working environments with our strategic partners, public sector bodies and other organisations.

Options Available and considered

The report proposes two options:

- 1) To agree, in principle, the future model for delivery of property services from January 2026, subject to a proposal which will be reported to the Cabinet and delegating authority to the Strategic Director of Transformation and Corporate Services to commence work on that proposal and mobilisation of the new model to deliver benefits as outlined within the Cabinet Report and supporting review.
- 2) To not agree to the development of the proposed model and to request officers carry out more work to assess potential alternative options for future service delivery, noting the risk of the contract end date.

Preferred Option and Why

Option 1, so as to enable work to commence on the development of the above-mentioned proposal document in order to progress this project and ensure that the Council remains on target to implement a new model in good time prior to the expiry of the existing arrangement.

Comments of Chief Financial Officer

The report is recommending that the current JV Agreement is replaced with a wholly owned Local Authority Trading Company. A number of considerations arise from this:

Work is currently on-going to understand the company finances and the risks and opportunities that may arise from that. Initial work suggests that the Council's relatively large capital programme which

the JV delivers is a key financial underpin for the JV's profitability and council rebate, and the potential impacts arising from this needs to be assessed in the detailed proposal. As noted in the risks section of this report, this transition may incur base budget cost pressures to bring about depending on the findings of the current financial analysis work being undertaken and the detailed proposal development.

The setting up of a company will incur significant one-off costs and the ability of the Councils Invest to Transform reserve will need to be assured to enable funds to be earmarked for that. Currently, the reserve is below its minimum level, but the forecast 2023/24 revenue budget underspend allows the opportunity to augment current levels.

Any new company will require setting up with an appropriate liquidity (i.e. cash) buffer and whilst there are options in how this is achieved, the realistic option is that the Council provides that (the JV is currently cash-flowed by Norfolk Council / NORSE Group finances) via a loan or similar arrangement and therefore this introduces a new risk which will need to be included in any business case development.

The combination of the cost of change and the future risks and opportunities which come about from the business case will together be key issues to understand and confirm the VFM issues arising from this change.

Comments of Monitoring Officer

The report indicates that the Scrutiny PRG has concluded, in principle, that the most appropriate model for the delivery of the Council's property services going forward would be through an arms-length company fully owned by the Council. Such a solution would be lawful and it is therefore open to the Council to proceed to explore this further. The report seeks Cabinet approval for the development by officers of a detailed proposal which would set out the details of the proposed model; such detailed proposal would then be brought back before Cabinet at a later date for approval. At the same time, the Cabinet is asked to grant authority to officers to take steps to begin to implement ("mobilise") the proposed solution.

It is anticipated that the Interim Head of Law and Standards will be working closely with the team of officers which will be carrying out this work in order to address any legal issues which arise during the process; a substantive legal commentary will be provided when the detailed proposal is finalised and brought before the Cabinet for consideration.

Comments of Head of People, Policy, and Transformation

This report seeks Cabinet agreement on the future model for delivery of property services for Newport City Council as a local authority trading company from January 2026.

There are clear links to the Council's Corporate Plan 2022-27 vision of 'an ambitious, fairer, greener Newport for everyone', and supports its Well-being Objectives including Objective 4 (An Inclusive, Fair and Sustainable Council – Newport City Council is an inclusive organisation that places social value, fairness, and sustainability at its core).

The principles of the Well-being of Future Generations (Wales) Act 2015 and its five ways of working have been considered including the decision over the medium-term to extend the existing partnership and look to a longer-term solution that provides social value and community benefit. This will aim to prevent future problems through property management and asset rationalisation; and has been developed in a collaborative way, involving Scrutiny and key stakeholders.

A FEIA has been completed and has been [published](#).

There are no HR implications relating directly to this report, although by agreeing to enter into a Local Authority Trading Company arrangement there will be HR implications, including TUPE procedures as work is progressed to a new delivery model. This will form part of future discussions during and post review period.

Scrutiny Committees

The Norse JV partnership has been reported to Partnership Scrutiny Committee annually, and previous recommendations are considered in the review.

Following a referral to Overview and Scrutiny Management Committee a Policy Review Group (PRG) was established and following its review reported back to the management committee. The findings and recommendations of the Committee are summarised below.

OSMC PRG

The PRG's role was to appraise options for future models of service delivery and make comments and recommendations to Cabinet on the options which align best with the Council's strategy and values to take forward based on their findings.

The Group had scope to request further information and witnesses to provide expert advice and the Group utilised this to aid their determinations.

The Group had scope to suggest options, but this was not necessary.

OSMC PRG - Conclusions and Summary of Recommendations to the Cabinet

The Group were asked to make comments and recommendations based on their review.

The following are the conclusions of the Group:

General Comments and Recommendations

1. The Group recommended that regardless of the option taken forward, it should be resourced appropriately and that a resourcing plan should be established from March 2024 – December 2025 and thereafter, and that Cabinet must be satisfied with the resources allocated.
2. The Group recommended that project progress, regardless of Cabinet's decision on the model taken forward, should be presented to the Overview and Scrutiny Management Committee for review on a 6-monthly basis until the new arrangement began, from which time it would fall to the Performance Scrutiny Committee – Partnerships to monitor performance.
3. The Group recommended that any new contract should be sufficiently flexible to allow for future development of the business; whether that is through a Shared Service opportunity or expansion of the services offered; without having to wait for the end of the existing contract.

Most Viable Option Comments and Recommendations

The Group recommended that based on all information and submissions they had considered, the most viable option to take forward was a LATCo - "hybrid" model. The Group recommended that Officers be delegated the authority to decide whether areas should be placed into the LATCo model, commercial or in-house provision after careful consideration and where it would be most beneficial to Newport City Council.

The Group felt that while not appropriate at this stage, the Shared Service model should not be discounted for future consideration.

Fairness and Equality Impact Assessment:

- Wellbeing of Future Generation (Wales) Act
- Equality Act 2010
- Socio-economic Duty
- Welsh Language (Wales) Measure 2011

The 5 main considerations in respect of the Wellbeing of Future Generations (Wales) Act 2015 are set out below with an explanation of how this decision meets these objectives:

- Long term: The medium-term extension of the existing partnership supported the review of the arrangements and gave us time to look at a longer-term approach which provides for social value and community benefit.
- Prevention: There is a range of work supported by the partnership which prevents future problems, through property management and asset rationalisation.
- Integration: The new proposal would support the Council's longer-term approach as established in our Corporate Plan and well-being objectives that meet the National Well-being Goals.
- Collaboration: The proposal is a partnership approach involving Scrutiny and key stakeholders.
- Involvement: Discussions have taken place at Scrutiny Committee alongside the gathering of views of the Norse workforce. While the well-being objectives set out in the Corporate Plan were subject to public consultation.

These considerations are also included in the FEIA.

Consultation

As outlined in the report, consultation with stakeholders has been considered in the review, and will be increasingly important as arrangements progress, particularly for clients and the Norse management and workforce, who are critical to a successful transition to any new arrangement.

A number of themes can be identified from the responses received, such as how Norse employees feel that the Newport Norse JV has transformed its service provision since inception in 2014, and has been able to upskill, and grow its workforce effectively. A number of respondents also highlighted the need for effective communication and collaboration in the transition over the next two years. Some of their concerns were centred around uncertainty which will be addressed through frequent engagement.

Feedback from Norse workforce

Following initial engagement through discussion and questionnaires, a number of themes can be identified from the responses received:

- Positive aspects of the joint venture: The respondents highlighted the effective collaboration and relationships, the operational autonomy and flexibility, the communication and knowledge sharing, the positive work culture and well-being, the financial and operational success, and the transformation and innovation that the joint venture enabled.
- Areas for improvement or change in a new model: The respondents suggested improving the operational efficiency and structure, the staff well-being and development, system and process improvement, the collaboration and communication, the financial and community impact, and also noted positive promotion of the new model.
- Concerns about the transition: The respondents expressed concerns about job security and employment conditions, the transition and communication, the decision process and the new model's viability and independence.
- Support or resources needed for a successful transition: The respondents indicated the need for IT and system support, updates, meetings, and communication, HR and legal support, resources and budget, and staff involvement and engagement during the transition.

- Support or guidance: The respondents asked for communication and updates, staff inclusion and consultation, support, and guidance for learning new systems and processes, clarity, and transparency, and addressing concerns about potential impacts on jobs, benefits, and work arrangements.

This feedback provides helpful insight into managing the change and will continuously be considered in the development and implementation of the new delivery model.

A Communication Plan has been developed which details the mechanisms that will be used to enable a structured engagement approach with the Newport Norse employees and other stakeholders that will be affected by the change. This is a continuous process that will continue throughout the duration of the review and transition to a new model. This will ensure that this important group are able to adapt to the new delivery model which is essential for the successful implementation and seamless transfer of services.

Background Papers

Partnership Scrutiny Committee November 2023

Cabinet Report March 2023, Newport City Council Core TOMs (Themes, Outcomes and Measures) for Measuring Social Value in Contracts (update Report Feb 2024)

Cabinet Report December 2022

Overview and Scrutiny Management Committee January 2024

Dated: 29 February 2024