

NPS: Options Report

Executive Summary

April 2022

Introduction

1. Cipfa were asked to support the Council in reviewing the background to, and the current operation of Norse Property Services (Peterborough) Ltd, a joint venture company between the City Council and Norfolk County Council.
2. The review has been commissioned as part of a range of reviews examining how council companies and key contracts operate and the oversight that the City Council has over them.
3. This is one of several reviews to look at how effective the current delivery models are in terms of delivering against core Council aims and objectives. This includes looking at opportunities to deliver further cost reductions for the Council.
4. The reviews will also consider the effectiveness of governance arrangements for these companies and how well the Council is able to manage significant risks associated with individual companies.
5. This company review was prioritised by the City Council due to concerns around the quality of service that the Council is receiving from NPS and because it links closely to the Strategic Review of Property that Cipfa has also been commissioned to undertake
6. The assessment will look at the following key questions to establish whether the company is operating efficiently and effectively and whether it is delivering what the council wants it to deliver.
 - Are they incurring unnecessary spend?
 - Are they operating efficiently and effectively to deliver the Business Plan?
 - Do they expose the Council to significant risk/ financial liabilities?
 - Do they meet the strategic aims of the Council?
 - Are they consistent with the emerging Target Operating Model?
 - Does the Council have sufficient oversight and effective Governance Arrangements?
 - Are the Board Reporting arrangements adequate?
 - Are the assumptions made in the Business Plan reasonable and deliverable?
 - Is there a clear understanding about the exposure to risk?
 - Are there sufficient internal controls in place?
 - Does the company have the skills, capabilities and expertise required for a company of this type?
 - Transparency of information between the Council Shareholder and Operational team.
7. As more company reviews are completed, we will be drawing out more general issues around the Council's approach to companies.
8. The Project Brief for our review focussed on the following.

- 1) Review of annual business plans and company objectives to assess whether they were likely to deliver what the Council needed.
 - 2) Detailed Budget Review to assess the cost of the service and whether it was likely to deliver value for money for the Council.
 - 3) Monitoring arrangements including minutes of monthly client meetings to assess the level of oversight that the Council maintained over the company.
 - 4) Review of the Scope of Services currently provided by NPS under the contract (core services) and other associated services provided by NPS (non-core services)
9. As the review progressed the following areas became the focus of the review.
- 1) Third party services – to assess the level of work that the company undertook for other organisations and how this impacted on the Teckal requirement for the company to deliver at least 80% of services to the City Council.
 - 2) Significant property Transactions and the extent to which NPS has provided advice to the City Council on some of the most significant property transactions for the City Council.
 - 3) Valuations – this considers the level of expertise that NPS has to advise the City Council on both annual asset valuations and disposals.
 - 4) Relationships with other Council Companies and Contractors – the review looked at the overlap between the work of NPS and other companies delivering property related services to the City Council (i.e., Aragon and Serco)
 - 5) Property Data – the review considered how data on City Council properties was kept up to date by NPS and the level of access that the City Council had to that data under the Tech Forge property terrier system
10. Finally, the review moved on to consider a range of options for NPS in the context of the Strategic Property Review.
- 1) NPS interface with a new Strategic Property Function and whether this delivers value for money for the Council
 - 2) Service delivery operations ranging from maintaining the existing arrangements, varying these arrangements or terminating the arrangements with NPS
 - 3) Transitional Arrangements for creating the Strategic Property Function and the smooth transition of NPS functions into these new arrangements.
11. We have carried out a number of interviews with the following NPS and Norse personnel: Alex Gee, Operations Director NPSP, the main senior point of contact for the Council; Marina Robertson, Norse Group Director; Felicity Paddick –NPS Surveyor, principally working on valuations.

Executive summary of findings and recommendations

12. Our review has not looked in detail at the functioning of the Aragon and Serco arrangements. We think that it is more urgent for the Council to consider our findings regarding its own organisation and its relationship with NPS as, in our view, the current arrangements are not effective primarily due to lack of overall property responsibility included in the JV and lack of a single strong client within the Council. Any change to its arrangements with Aragon and Serco will be the subject of other subsequent company reviews.
13. The report sets out three options and recommends that the Council gives the due 12 months notice to NPS to end the JV in its current form. The Council will need to establish its own coherent corporate property client team and will need to make decisions about whether the operational professional services are delivered in-house or by a third party, and whether any continued role for NPS could be considered.

Council organisation

14. The Council has a disparate management structure for property and the Corporate Director – Resources does not have oversight of all aspects of the Council's Assets. As a result, there is a lack of corporate control; a lack of co-ordination and a lack of any corporate approach to managing the Council's property assets that brings together the Council Directorates with responsibility for property functions.
15. Additionally, the Council does not have a clear understanding of, or single point of control for, the data that it holds on its property assets. Improved focus in this area would improve resolution, scrutiny, performance supporting the development of mutual trust and better understanding with the service providers.

NPS Joint Venture

NPS Operations

16. The NPS arrangement is a contractual arrangement with Norse, (itself a Norfolk County Council Teckal Company).
17. The business plan budget for NPS in 2022/23 is £1.335m and was £1.678m in 2021/22. The core fee has been largely static since 2016/17 and is currently £1.058m. The core fee has not reduced although the Council's asset value has reduced by c18% over this period from £450m to £370m.
18. The joint venture has two KPIs, which is considered limited. These are rent review and commercial lettings. The first has not been met and the second is not a useful measure of performance. The financial performance of the portfolio is only with NPS as far as lettings and rent reviews are concerned as NPS is not responsible for income and driving payment.

19. The staffing number in the structure allows for 21 posts, seven of which are surveyors, two relate to asset management and some relate to the management of St Peters Court on behalf of the Council (was previously with Opportunity Peterborough) and FM/Building Management related posts. There are a number of vacancies on the surveying and asset management side and this has affected performance in particular in relation to the asset management plan which is very weak, and the surveying side where the core workload appears to be greater than the number of staff available to cover.
20. NPS has at times been reactive rather than pro-active and primarily based on instructions that they receive from a disparate range of clients across the City Council's directorates. There is some evidence of challenge by NPS at times, but not always as the pressure to follow instruction has taken precedence over firm professional advice.
21. NPS has been involved in a number of property transactions where its sole role has been to commission an external valuation, or where it received an instruction from senior Council officers about how particular transactions should be handled. The Council should expect and be able to rely on NPS as its only professional property advisor providing independent advice to the Council to ensure it receives best consideration. Either through exclusion, or because advice was provided by NPS but set aside, or NPS has chosen to follow an instruction without advising, the Council has completed on a number of transactions in the past where the professional property advice is not as strong or formal as it might be.
22. In relation to valuations, we are aware that EY flagged a number of valuation errors in relation to the asset valuations included in the Council's accounts. Whilst most of these are minor and resolved or resolvable, the Council needs confidence that its accounts will not be held up for minor property anomalies in future.
23. Our review confirmed from the NPS monthly meeting minutes that the Tech Forge system is not used proactively to give the Council a clear understanding of the system or the opportunity to use it to support informed decision making as a competent information management tool, nor is it being used to its full potential. The Council's understanding and use of property data for decision making is weakened if the system is not widely understood and used in a co-ordinated way.
24. NPS carries out work for other clients and under the Teckel arrangement this can be up to 20%. This can take resource away from Council business and may not add anything to the Council. It may be that the Council would receive a better service by concentrating on its own needs than chasing existing business of limited value to the Council.
25. Given the lack of a strong client with a full understanding of property and asset management, and lack of full oversight and understanding of the activities, staff deployment and costs by anyone in the Council, the joint venture arrangement has not been the strong strategic partnership that might have been expected.

26. The core service fee year has remained stable over the past 6/7 years and that annual profit has exceeded the value of any external work in each year of the contract. It is not clear whether the joint venture represents value for money if the Council is fully funding its own service, with staff also covering third party business, but the council then sharing any savings / profit with its joint venture partner.
27. In relation to the board, we are aware that the Council is reviewing board governance elsewhere. With this JV the board arrangements do not provide the Council with a right to veto or power to approve additional income arrangements. Board minutes show the Council is always supportive of third-party income generation, notwithstanding they have limited understanding about the impact of this on the quality of the core service provision, and if the additional service is provided elsewhere in the Council the Council gets 50% of the profit but is paying 100% of the costs. The Board should receive annually a notification as to whether the JV is compliant with Teckal regulations. That has not been clearly set out in the board reports although external work is clearly below 20% in the business plan.
28. In relation to asset management planning, the Council may have expected added value from the JV being part of the wider Norse group. The asset management planning part of the JV has not been strong and at present there is no resource within NPS Peterborough to cover it.

Recommendations

29. We have considered that the Council has a number of options available to it. These are:
 - Option 1: Do Nothing;
 - Option 2: Improve the existing arrangements;
 - Option 3: Serve notice to end the NPS Joint Venture and make alternative arrangements for the services currently provided by NPS;
30. For the reasons set out in the report, we do not consider Option 1 as a viable option open to the Council.
31. In our view the critical factor for improvement is the investment in a proper corporate property function. We have not currently estimated those costs and there would have to be a full analysis. In principle however we consider this is critical in order to maximise the Councils oversight, taking on the functions of Asset Management; Acquisitions and Disposals; Commercial Valuations; Management of the Commercial and Farms Estate and management of third-party property service providers. However, for the reasons outlined in our report we do not think this is a viable option as in our view this option does not overcome the issues we have identified with the Joint Venture, which does not provide the council with the oversight or transparency on cost and profits.

32. We recommend adoption of option 3 with the Council needing to invest in new resources to take on what we consider to be proper corporate property functions and serving notice to end the Joint Venture with NPS. This would give the Council the opportunity to reorganise its property services delivery through a range of third party providers. We recognise NPS's strengths are in providing purely property related surveying services and therefore professional property services limited to building surveying and property transactional work could remain with NPS. All other work currently undertaken by NPS could continue to be provided by NPS, Aragon or another third-party provider. This would include the Council making arrangements for data management of Tech Forge.
33. It would be necessary also to work through these consequences with NPS whilst at the same time dealing with the staffing consequences but we recommend Option 3 as this provides the most simple and rational arrangement for the Council going forward consistent with its strategic needs.
34. This would give the Council the opportunity to reorganise its property services delivery through third party providers or internally. NPS strengths are in providing purely property related surveying services and therefore professional property services limited to building surveying and property transactional work could remain with NPS. All other work currently undertaken by NPS could continue to be provided by NPS, Aragon or another third-party provider. This would include making arrangements for data management of Tech Forge.
35. It would be necessary also to work through these consequences with NPS whilst at the same time dealing with the staff consequences.
36. At this stage we recommend Option 3 as this provides the most simple and rational arrangement for the Council going forward consistent with its strategic needs.

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