

# Report

## Cabinet

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### Part 1

Date: 14 December 2022

**Subject** Norse Joint Venture partnership

**Purpose** To consider arrangements for the Norse Joint Venture (JV) contract

**Author** Strategic Director – Corporate and Transformation

**Ward** All

**Summary** In July 2014 Newport City Council and Norse Commercial Services created a Joint Venture agreement to form Newport Norse, and entered into a Service Agreement for the provision of property services by the JV Company to the Council. This partnership provides an integrated Property and Facilities Management service and includes ‘white collar’ professional services such as estates management and design; building maintenance, premises management and cleaning supported by a direct labour work force. The Services Agreement between the Council and the JV Company was for an initial 10 year period and terminates on 30<sup>th</sup> June 2024, unless both parties agree to extend the contract not less than 18 months before the termination date (i.e. before the end of December 2022). This provides an opportunity to review the arrangement and consider future requirements.

Taking into account the significant work being delivered by Newport Norse, the risks and potential benefits of the end of the partnership, the Report proposes a short term extension of the current contract with improved financial benefits, to allow time to review the delivery model with our partners. This will also provide support for a programme of asset rationalisation as set out in our Corporate Plan and consider how we maximise community benefit from any future arrangement.

**Proposal** To extend the Service Agreement with the Norse JV Company until 31 Dec 2025 subject to agreeing improved financial benefits pending a review of the delivery the model and future requirements.

**Action by** Head of People, Policy and Transformation

**Timetable** By 30 December 2022

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

**Signed**

## Background

The Newport Norse partnership was created in 2014 as a joint venture between Newport City Council and Norse group, a public services company wholly owned by Norfolk County Council. The initial contract term was ten years, expiring on 30 June 2024, with the opportunity to extend by a period of up to 10 years. Any decision to extend must be taken not less than 18 months before the end of the operating period (30 December 2022).

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 received their head office overheads and a 2.5% internal share. The Council's value share is taken as a discount or rebate against the fees paid to the JV Company for the core services, rather than as a dividend, to avoid any tax implications. The JV Company is a local authority controlled company and must carry out up to 80% of its work for the Council.

The company's turnover at its inception in 2014/2015 was £4.1m, with turnover rising from 2021/2022 to £17.9m. The Council receives 50% of the surplus annually, with the first £156k being received by the parent company.

Over the eight years nearly £3.3m has been rebated back to the Council, much of which would effectively have been paid to private sector companies previously. This has been achieved in partnership, whilst maintaining good quality jobs, offering the local government pension, and paying as a minimum the 'Real Living Wage'. As part of the establishment of the arrangement, circa 200 staff were initially transferred into the Joint Venture, with protected terms and conditions and pension rights

There is an annual budget for the core funded property work and 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, and over 75% of spend within the NP postcode area. In the 12 months from September 2021 to 2022, this amounted to £7.9m, with 25% (£2.4m) being spent with across South Wales and beyond.

Newport Norse currently manages approximately 330 built assets for the City Council with a total asset value of some £320m. The Norse JV provides a 'one stop shop' for all property services, which include:

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

Norse acts as the Council's Corporate Landlord, ensuring Council policy is followed by delegated budget holders, and that the Council fully optimises the use of its property assets.

The review of the partnership in 2019 by CIPFA (Chartered Institute of Public Finance and Accountancy) provided a detailed examination of the joint venture arrangements. In summary, it stated that the arrangement was beneficial to the Council with a number of areas that need to be improved in order to further realise and accelerate the potential for the arrangement. These improvements continue to progress.

The Norse JV is also reviewed by Partnership Scrutiny Committee, most recently at its meeting in November 2022 where the positive progress made was noted, although matters raised included the costing model and an emphasis on wider social and community value reflecting changes in policy over

the last ten years. This aligns with the aspirations of the Council’s new Corporate Plan to place social value at the core of our activity.

## Current position and proposal

The current delivery model established in 2014 provides an integrated Property and Facilities Management service for and on behalf of the Council. This includes ‘white collar’ professional services such as estates management and design; building maintenance, premises management and cleaning supported by a direct labour work force. Newport Norse employs circa 320 staff including apprentices and trainees and has maintained terms and conditions such as the National Living Wage and Local Government pensions.

We value the successful track record and collaborative relationship between the Council and the Norse Group and the collective achievements the partnership has delivered to date. The 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 to review and rationalise our assets.

Although the JV partnership has delivered a range of successful outcomes for NCC, contract pricing, the financial rebate arrangement established in the contract, and the level of community benefit or social value built into the partnership requires review. However, the pending cessation of the current JV term also presents a range of risks to ongoing work and projects for the Council and potentially to staff within Newport Norse.

The Council is facing significant financial pressure and recognise Newport Norse’s key partnership role in reducing costs both for property management and the JV itself, through a proposed change to the rebate, but also more widely with our asset rationalisation programme in the next two years.

The Council is not in a position to extend the Norse contract in its current form for the full period, noting our clear direction of supporting communities through social value. However, the JV partnership has many advantages and jointly we would propose to work together to determine how an alternate model can be created that satisfies the community benefit and social value requirement, and builds on the progress made over the last ten years.

The proposal is to extend the arrangement to 31 Dec 2025 and use the time between now and the expiration of the extension period to work towards exploring options for an alternate service delivery model which benefits of the community of Newport. The areas of focus for an extended contract are proposed as:

- Improving financial value for NCC
- Improving quality, transparency, and communication
- Enhancing ‘social value’ through a transition to 2026 and beyond

Newport Norse will also support ongoing major projects, and asset rationalisation as set out in our Corporate Plan.

Should Cabinet agree to progress the extension proposal, the next steps would be to agree a variation to the current contract to allow an extension to commence from 1 July 2024 and agree terms.

## Financial Summary (Capital and Revenue)

	Year 1 (Current) £	Year 2 £	Year 3 £	Ongoing £	Notes including budgets heads affected
<b>Income – change to rebate arrangements:</b>	(156k)				Proposed increase in rebate
<b>Increased estimated rebate due to turnover:</b>	(82k)				
	(238k)				

## Risks

As outlined in the report the proposal to extend the current partnership in the medium term mitigates against a number of risks. The Corporate Risk Register reflects the risk of the Council's property estate and the role of the partnership in managing this.

<b>Risk Title / Description</b>	<b>Risk Impact score of Risk if it occurs* (H/M/L)</b>	<b>Risk Probability of risk occurring (H/M/L)</b>	<b>Risk Mitigation Action(s)</b> What is the Council doing or what has it done to avoid the risk or reduce its effect?	<b>Risk Owner</b> 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 a transitional arrangement with an extension and jointly agreed way forward	Strategic Director – Corporate and Transformation
Impact on partnership working, and Norse staff of not having an agreed way forward	M	L	This report proposes a transitional arrangement.	Strategic Director – Corporate and Transformation
Financial risk if agreement if not reached and contract not extended.	M	L	This report proposes a transitional arrangement including financial arrangement.	Head of People Policy and Transformation
Disruption to management of the property estate (Corporate Risk) and major projects.	M	L	This report proposes a transitional arrangement with an extension and jointly agreed way forward which would support the ongoing work programme and asset rationalisation.	Head of People Policy and Transformation
Increased income target in the budget (MTFP) may present a future risk /overhead in the development of any new model	M	H	Work to create the new model will need to consider this.	Strategic Director – Corporate and Transformation

\* 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 extend the contract on revised terms:

- reducing costs to NCC for the remaining period to 31 Dec 2025;
- working together to improving quality, transparency, and communication; and
- enhancing social value through a transition in 2025/26.

2) Not to extend the contract and continue with the same terms and conditions to 30 Jun 2024.

### **Preferred Option and Why**

To extend the contract on revised terms, reducing NCC costs for the remaining period to 31 Dec 2025 to enable a review of the delivery model and support and effective transition.

### **Comments of Chief Financial Officer**

The contract with Norse is fully funded through a core budget which is reviewed annually and any anticipated uplifts highlighted in the Medium Term Financial Plan. The contract allows for a rebate which is budgeted for and has been reviewed and uplifted periodically to reflect continued over achievements against the income budget target since the inception of the Joint Venture.

The proposal to increase the budgeted rebate by a potential £238k carries with it a now higher risk in any given year of under achievement which would leave an in-year pressure against the budget. There also follows the risk that by increasing the budgeted income to £728k overall, this might prove challenging for whichever organisation delivers the service once a new contract is eventually in place. In that sense, it may be a prohibitive / limiting factor for some options, from a financial viewpoint and this needs to be considered.

Any review of the current model will need to be delivered using existing budgets and will need to be assured that the financial model for future arrangements delivers the key outcomes required. Therefore, the lead in times to review options in going forward will need to be reasonably long to ensure a robust and comprehensive recommendation.

### **Comments of Monitoring Officer**

The proposed extension is in accordance with the Council's general powers to enter into contracts for the provision of services. Because the Council has a 20% interest in the Norse JV Company and at least 80% of its work is carried out for the Council, then the work can be awarded directly without the requirement for any competition. The current Services Agreement between the Council and the JC Company was for a period of 10 years and will terminate automatically on 30th June 2024 unless the parties agree to extend the contract for another 10 years before the end of December 2022. Therefore, the proposal to extend the current services agreement for a shorter period, pending a review of other service delivery models which could deliver greater community benefits, would require the agreement of the Norse shareholder and a deed of variation to the current contract. The Council receives a 50% share of any net operating profit, after Norse have received their head office overheads and a 2.5% internal profit share. The Council's profit share is taken as a discount or rebate against the fees paid to the JV Company for the core services, rather than as a dividend, to avoid any tax implications. Any change to the existing profit-share and rebate arrangements, during the contract extension, would also require agreement with the JV Company and a variation to the services contract and possibly the shareholder agreement, depending on the nature of the changes. The contract extension will enable a more detailed review to be undertaken of alternative service delivery models and will assist with any transitional arrangements.

### **Comments of Head of People, Policy and Transformation**

This report has been completed with comments from the Head of People, Policy and Transformation throughout. The Council has a responsibility for ensuring that services are provided to a satisfactory level to its users and that we ensure continuous improvement and value for money.

This report provides an overview of the benefits of the Joint Venture to the Council and the residents of Newport along with some of the challenges. The recommendation of an extension enables a considered review of the delivery model and provides time for an effective transition.

There are no HR implications relating directly to this report, although this will form part of future discussion during and post review period.

## **Scrutiny Committees**

The Norse JV partnership was reported to Partnership Scrutiny Committee 9<sup>th</sup> November 2022 and recommendations are considered in this report.

## **Fairness and Equality Impact Assessment:**

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

The council has a number of legislative responsibilities to assess the impact of any strategic decision, proposal or policy on people that may experience disadvantage or inequality. This proposal considers how to develop and achieve further social value from the partnership arrangement.

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 supports a review of the partnership arrangement and 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.
- **Collaboration:** The proposal is a partnership approach.
- **Involvement:** Discussions have been held at Scrutiny Committee and the objectives set out in the Corporate Plan were subject to public consultation.

No positive or negative impact on people that share protected characteristics and no positive or negative impact on economic, social, cultural and environmental well-being have been identified and therefore a full FEIA is not required.

## **Consultation**

None.

## **Background Papers**

Partnership Scrutiny Committee 9<sup>th</sup> November 2022

**Dated: 7 December 2022**