



**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**DERBYSHIRE COUNTY COUNCIL TRADING COMMITTEE**

**THURSDAY, 14 JULY 2022**

**Report of the Assistant Director (Asset Management)**

**Corporate Property's Annual Review of its Joint Ventures**

**1. Purpose**

- 1.1 The report is the annual review for the financial year 2021/22 in respect of the three joint ventures, Concertus Derbyshire Limited, Vertas Derbyshire Limited and Develop Renew. Members will also receive a detailed presentation at the meeting on the activities of Concertus and Vertas with further information on Develop Renew following at a future meeting.

**2. Information and Analysis**

- 2.1 The Derbyshire County Council Trading Committee (**'Trading Committee'**) was established by Council in March 2021, to oversee on behalf of the Council, the performance of Concertus (Derbyshire) Limited (**'CDL'**), Vertas (Derbyshire) Limited (**'VDL'**) and PSP (Derbyshire) LLP and provide approval on reserved matters as set out in the shareholder/members agreements for these organisations. PSP (Derbyshire) Limited operates under the trading name of Develop Renew.
- 2.2 The rationale for establishing the three joint ventures as strategic partners to the Council is to allow the Council to concentrate on its core activity of asset management rather than service delivery, and, for CDL and VDL who also provide services to increasingly cost-conscious customers, the ability to trade competitively to the benefit of the Council.

## 2.3 Strategic Partners – Concertus Derbyshire Limited and Vertas Derbyshire Limited.

Separate reports are to be presented by CDL and VDL to the Trading Committee on the performance of the companies during 2021/22. This report therefore considers the Council's position as shareholder and customer to the joint ventures and is complementary to the specific reports from each joint venture company.

By way of background, both CDL and VDL are Limited Companies. The Council has a 49% shareholding in each company, it has four executive directors, two from each shareholder, which means decision making is 50/50, notwithstanding the 51/49 ownership split. The four executive directors and non-executive chairman are the same in each company.

- Duncan Johnson – Non-Executive Chairman
- Dave Massingham – Director of Corporate Property, DCC
- Paul Stone – Interim Director of Finance & ICT, DCC
- Keith Buet – Chief Operating Officer, Vertas Group Limited
- Matthew Self – Managing Director, Concertus Design & Property Consultants Limited

This is the first full year of trading for both companies, having been established in September 2020. For the period prior to April 2021, the focus was primarily on transitioning the staff and services into the new companies. From April 2021 the focus has been on business improvement.

For the financial year 2021/22 both joint ventures will need to determine whether to declare a dividend if they are able to. This is a decision for the directors of the companies. Whilst the directors are not minded to declare a dividend, they have asked the shareholders for their view. As this is in effect the first full year of operation, it is often normal for a company not to declare a dividend, but rather to retain the earnings to aid cashflow, for subsequent reinvestment or mitigate the need for future borrowings. In April 2022, Cabinet approved as normal business practice making available a loan as shareholder to both companies. To date no loan has been granted. Accordingly, the recommendation is that both the Council and its shareholder partners do not take a dividend for this financial year to allow both businesses to develop further and potentially avoid the need for a shareholder loan.

From 1 April 2022, the joint venture partners have changed the organisation structure. Vertas Group Limited and Concertus Design

and Property Consultants Limited will now work under one leadership structure, whilst keeping their individual brands and identity. Although this has no direct implication for the joint ventures with the Council, it has been implemented to encourage group working and identify combined group growth opportunities. These improvements will benefit the joint ventures with the Council, for example as the Vertas Group pursues its group objectives such as Carbon Net-Zero and Social Value Creation.

## 2.4 Concertus Derbyshire Limited

Although the focus this year has been improving how capital projects are managed and designed since the service was transferred in September 2020, there are number of other performance measures that are of interest to the Council.

| <b>Performance Measures</b> |  |
|-----------------------------|--|
| Governance                  | The joint venture board receive reports every month on the performance of the joint venture company and meets quarterly to review progress against the Business Plan.  |
| Financial                   | The company is required to submit its financial accounts to Companies House by December 2022. The unaudited financial position for 2021/22 is a Turnover of £3.25m and Margin £260k. Both above budget and considered reasonable for the business.   |
| Staff                       | <ul style="list-style-type: none"> <li>• 41 staff transferred from the Council. Current establishment 54 including 15 vacancies.</li> <li>• Investors in People Gold Accreditation.</li> <li>• Investors in People Wellbeing Silver Accreditation.</li> </ul>  |
| Business Development        | New clients, include councils and academies across the East Midlands. Appointed to 6 national frameworks.  |
| Business Improvement        | <ul style="list-style-type: none"> <li>• Adoption of Concertus Group standardised design i.e., Education Building – aligning with the DfE Processes.</li> <li>• Adoption of PRINCE2 / RICS Programme Management/ Project Management Best Practice.</li> <li>• Institute of Customer Service (ICS) client and employee satisfaction surveys. CDL scored above the UK average.</li> <li>• Certification for ISO 14001 Environmental Management Systems, ISO 45001 Occupational Health and Safety Management Systems and ISO 9001 Quality Management Systems.</li> <li>• Certification for ISO 19650 Building Information Modelling (BIM).</li> </ul> |

| Performance Measures |  |
|----------------------|--|
| Sustainability       | Certified with Carbon Charter - Bronze certification. "Ten Steps to Net Zero". |

For any capital project the challenge is to manage the relationship between the triple constraint of 'time-cost-scope'. In February 2022, the Council transferred 'project management' responsibility to CDL. This has allowed the company to forge closer relationships with departmental clients, and in time this will speed up project delivery and secure improved project briefs. The reason for this is that the 'client' department can shape the project brief without relying on Corporate Property as simply a 'postbox'. This translates into reduced project costs. In 2022/23, the Council will wish to see further development of this collaborative working.

One of the reasons for establishing CDL was to improve the quality of the design services. For example, Concertus has invested in BIM (Building Information Modelling), which is the creation and use of digital models to support collaborative design in the construction of buildings. Although BIM is a requirement for Government funded projects, it was not available to the Council prior to transfer. BIM is now used on all relevant Council projects through CDL.

The level of staff turnover in the first year of the business is higher than industry comparators, however understandable having regard to the age and profile of the TUPE transferees. The Council would expect to see this reduce in future years.

In 2022/23, the Council working with CDL will seek to introduce further changes to improve project delivery and reduce project costs. For example, a greater use of Frameworks to appoint contractors to speed up the procurement process is proposed.

## 2.5 Vertas Derbyshire Limited

A significant difference between CDL and VDL is the volume of third-party contracts to schools, academies and district councils. Accordingly, the focus this financial year has been in transitioning the organisation to be more customer focused, thus safeguarding jobs which were under threat prior to VDL being established. There are however, a number of number of other performance measures that are of interest to the Council.

| Performance Measures             |  |
|----------------------------------|--|
| Governance                       | The joint venture board receive reports every month on the performance of the joint venture company and meets quarterly to review progress against the Business Plans  |
| Financial                        | The company is required to submit its financial accounts to Companies House by December 2022. The unaudited financial position is a Turnover of £13.50m and Profit £400k. Both above target, and considered reasonable for the business.   |
| Staff                            | <ul style="list-style-type: none"> <li>• 945 staff transferred from the Council. Current establishment 815 (more staff are undertaking more hours by choice).</li> <li>• Staff training &amp; compliance, consistently above target.</li> <li>• VDL staff successful in national Vertas Group 'Making the Difference Awards 2021',</li> </ul>                            |
| Business Retention & Development | <ul style="list-style-type: none"> <li>• 96% of cleaning contracts and 98% of grounds maintenance contracts renewing.</li> <li>• Significant new business from multi-academy trusts.</li> <li>• Quality of staff and quality of service are the positives from the customer survey.</li> <li>• Challenge is recruitment which is a national issue, see below.</li> </ul> |
| Business Improvement             | <ul style="list-style-type: none"> <li>• Increase in the number of area managers and supervisor roles, to support customers and staff.</li> <li>• New systems to support staff – On-line training, absence management, time &amp; attendance, and HSQE.</li> <li>• New customer surveys introduced.</li> <li>• Investment in new plant and equipment.</li> </ul>         |
| Sustainability                   | <ul style="list-style-type: none"> <li>• Environmental Strategy to achieve net Zero by 2030.</li> <li>• Sustainable Procurement Policy launched.</li> </ul>  |

When VDL was established over 900 staff transferred to the new company. Prior to transfer there was considerable uncertainty as to the future employment of these individuals. This was because many schools who convert to academy status were terminating their contracts with the Council, which adversely affected the central overhead and staffing for the cleaning service. In addition, the Council was also reviewing its own portfolio and reducing the number of buildings that required a cleaning, caretaking or grounds maintenance service. VDL has managed this risk. It has targeted initiatives to increase the retention of contracts, offering greater flexibility in service provision. It has also successfully secured new contracts with multi-academy trusts.

Nationally, the Covid pandemic has adversely affected the recruitment of in particular, caretaking and cleaning staff. The age profile of the staff who transferred impacting this further in Derbyshire. In 2022/23 the Council would wish to see further improvement in staff recruitment to enable service provision to continue for the Council and schools.

Prior to transfer the level of engagement between the service and customers, including schools was weak. VDL has introduced new customer engagement initiatives, and this has resulted in some schools reviewing a service that had largely been 'forgotten' prompting some adverse comment on the quality of the service. In 2022/23, the Council is keen to see an improvement in customer feedback, commensurate with the positive level of contract retention.

A further reason for establishing the joint venture was to allow Corporate Property to concentrate on Asset Management. This includes Asset Optimisation, which is centralising responsibility for all property assets, decision making and budgets. This will enable Corporate Property to tailor the services that are provided to individual properties. In 2021/22, VDL and Corporate Property have begun to review the grounds maintenance service for every property. This will enable further site by site revision to reduce cost. In 2022/23, this forensic analysis will be extended to cover caretaking and cleaning.

## 2.6 Develop Renew

Develop Renew is the trading name of PSP (Derbyshire) LLP. A joint venture established as a limited liability partnership between the Council and PSP Facilitating Limited. The Council has a 50% share in the joint venture and equal decision-making authority. The reason this joint venture has a trading name, is that it is a public facing commercial entirety and seeks to engage with the wider developer, investor and landowner markets.

The pipeline of potential development projects arises primarily out of the asset review and challenge process undertaken by Corporate Property. This generates sites which are no longer essential for service delivery, and which could be potentially redeveloped to deliver other corporate strategies.

This pipeline of projects is expected to increase as the review process progresses and more sites are identified. Develop Renew, reports separately to the Council on its work programme which includes:

- The rationalisation and improved management of the Council's Industrial Portfolio.

- Bringing forward development sites for housing.
- Reviewing the Council's corporate depot portfolio in order to generate revenue savings and operational efficiencies.

### **3. Consultation**

- 3.1 The Council's strategic partners CDL, VDL and Develop Renew have been consulted with in preparing this report. No additional public consultation is required.

### **4. Alternative Options Considered**

- 4.1 Alternative Option 1: Do Nothing and not report progress to the Trading Committee. It would be possible to rely on existing arrangements as set out in the Council's Constitution which ensure efficiency, transparency and accountability in how the Council operates, as well as corporate law that regulates companies and LLPs. However, this is not recommended. In a 2019 report by law firm, Trowers & Hamblins, identified the importance of good governance in local government, noting that the desire to get a company up and running could mean that in some instances, good governance could take second place, resulting in unmanaged risk and lower than expected returns.
- 4.2 Alternative Option 2: Do something different. The arrangement the Council has put in place with the Trading Committee provides a governance framework and it would be possible for officers of the Council to report the progress of the joint ventures. However, this is not recommended. The Trading Committee represents the Council as shareholder and the Financial Reporting Council (FRC) which is the body responsible for promoting high quality corporate governance in companies recommends a dialogue between the company and the shareholders.

### **5. Implications**

- 5.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

### **6. Background Papers**

- 6.1 None

### **7. Appendices**

- 7.1 Appendix 1 – Implications

7.2 Appendix 2 - Presentation slides from Concertus and Vertas Derbyshire Limited

## **8. Recommendation(s)**

8.1 That the Trading Committee:

- a) Notes and comments on, as appropriate, presentations on the activities of Concertus Derbyshire Limited and Vertas Derbyshire Limited
- b) Recommends to the Directors of Concertus Derbyshire Limited and Vertas Derbyshire Limited that the companies do not pay a dividend to the shareholders in respect of the financial year 2021/22, but rather retain the earnings to invest in the businesses.

## **9. Reasons for Recommendation(s)**

9.1 Good governance provides that there is a dialogue between a company and LLP and its shareholders/members.

9.2 Whilst the Trading Committee recognises that the decision whether to declare a dividend or not is for the directors of the companies, as CDL and VDL are still in their infancy, it is recommended that any retained earnings are kept within the companies to aid cashflow, for subsequent reinvestment or mitigate the need for future borrowings.

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## **Implications**

### **Financial**

- 1.1 Regular dialogue between the finance teams of both VDL and CDL takes place with finance officers of the Council. This includes monitoring the cashflow position of each JV to act as an early warning sign of any potential issues. The current expectation is that neither JV will require financial assistance from the shareholders going forwards.
- 1.2 Future decisions on dividend payments will be taken by the Directors of the Companies, with input from the Shareholders.

### **Legal**

- 2.1 Legal services works closely with the client property department to consider any legal implications arising from each of the JVs; Any future legal advice on each JV will be provided as required, with external legal support engaged where appropriate.

### **Human Resources**

- 3.1 None

### **Information Technology**

- 4.1 None

### **Equalities Impact**

- 5.1 None

### **Corporate objectives and priorities for change**

- 6.1 The joint ventures support the Council's Enterprising Council strategy and with market-based charges the key priority relating to value for money.

### **Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

- 7.1 CDL and VDL are private limited companies and required to comply with company law in particular the Companies Act 2006. Develop Renew is a limited liability partnership formed under the Limited Liability

Partnerships Act 2000 and many provisions of the Companies Act 2006 also apply. As corporate bodies they have responsibilities and obligations under Health & Safety, Risk Management, Sustainability, etc.

- 7.2 The joint ventures support Corporate Property in the delivery of the Council's Asset Management Framework.