



Epping Forest District Council

External Review of Estates and Valuation Section

May 2009

CIPFA

**PERFORMANCE IN PUBLIC
SERVICES**



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EXECUTIVE SUMMARY

1. EFDC benefits from income generation of about £4m from its property portfolio. The estates and valuation section of 4.4 full time equivalents (FTEs), was headed by a Principal Valuer who resigned and left at the end of 2008. The 2009/10 budget for the section is £300,570, including £71,540 for recharges and central support services. The Council wanted an **external and independent review** of the section and an appraisal of future service delivery options, see Brief at Appendix A.
2. IPF/CIPFA through its leading role in Property and Asset Management in Local Government, is able to investigate, compare and assess the objectives, organisation, grading of staff and service delivery models that will result in value for money and effective use of the Council's resources.
3. The **findings** of this review were that:
 - a. The scale of income generation activity is significantly more than other District Councils and best comparators were with City councils;
 - b. Other Councils have teams of between 5 and 8 FTEs for the level and range of EFDC service activity;
 - c. The business support activities within the team would remain a part of the Council's service requirement, if the service were outsourced/externalised;
 - d. The estates and valuation strategic functions require a core team of two senior professionals; and
 - e. The level of in-house staff presently augmenting the core activities is 2 FTEs with a maximum net incremental cost of £108,000 per annum.
4. The **options examined** how to meet the Council's significant needs for income generation and asset management through a core team of two augmented by:
 - a. further in-house resources; or
 - b. an external contracted partner; or
 - c. a number of contracted in arrangements to meet service requirements.
5. The net cost of the in-house option at £108,000 affords best value for money. The annual cost of a partnering arrangement given activity levels and the importance of the estates income stream, is estimated

at a cost of £150,000 and for separate contracted packages at £165,000. Associated with these externalisation options there are additional procurement costs of £50,000 to set up an external partnering arrangement or of £35,000 per annum to manage contract packages.

6. CIPFA **recommend to the Council** that it approves this report and:
 1. Appoints two permanent staff at Principal Valuer and Senior Valuer level to meet the core strategic service requirements, and
 2. Augments this core team with at least two further valuers and surveyors. They should be supplemented by a business support resource specifically designated to carry out corporate duties in relation to information and finance administration.
 3. Replaces the expense of agency appointments with permanent contracts.

Furthermore if this report's findings to continue in-house are not accepted, then this report recommends to the Council that it:

4. Agrees to the additional one-off expenditure of £50,000 for developing and entering into an external partnering arrangement; or
5. Agrees to additional annual contract management costs of £35,000 (0.5 FTE) per annum if separate external contracts, as required, are preferred for non-core service delivery; and
6. Recognises the expected increase in service budget provision necessary once the external contracts are negotiated.

1. Introduction and Context

The Objective

- 1.1 Epping Forest DC has maintained a lean and effective structure for delivery of Estates, Valuation, and Asset Management under the leadership of the Assistant Director Corporate Services, Facilities Management and Emergency Planning who is also designated as the Council's Corporate Property Officer. The Estates and Valuation section has been led by a Principal Valuer who has also acted as the lead professional adviser to the Council on Asset Management Planning. This officer has now left and the Council has asked CIPFA to provide an external review of the Estates and Valuation service. The terms of reference are attached at **Appendix A**.
- 1.2 CIPFA has advised and assisted the Council since 2004 in preparing and drafting the Corporate Asset Management plans. CIPFA is the leading organisation in developing Construction and Property, and Asset Management networks for Local Authorities. It is able to identify good practice, use benchmarking information and its experience to review and assess service operations and make recommendations for improvement.
- 1.3 In this instance the brief encourages an assessment of needs and performance to recommend with appraisal of options how best the Estates and Valuation services should be delivered in future. The review provides information to help the Council decide whether the service should continue in-house, if so whether the staffing needs are met, or whether to seek an outsourcing solution, in which case to assess the internal contract management requirements.

Corporate Asset Objectives

- 1.4 The Council seeks to optimise value from its assets and to ensure the property portfolio is able to support and meet the corporate objectives and aims as articulated in the Corporate Asset Management Plan.
- 1.5 The essential elements required of the Valuation and Estates section are to fulfil the strategic property management needs and to deliver efficiency savings and income through the valuation and estates services.

The Service Plan for Estates and Valuation

- 1.6 The principal activities of the section are:
 - a. Production, regular updating and implementation of a five year Asset Management Plan.
 - b. Landlord and tenant matters including property valuations, rent reviews, lease grant, renewal and assignment, repairing obligations.
 - c. Property acquisition, disposal and compulsory purchase.
 - d. Compiling and maintaining the Commercial and Industrial Property Database.
 - e. Annual revaluation of the Council's land and property assets.

- f. Valuation of the Council's Housing stock for Right to Buy, Resource Accounting and Social Rent Reform.
 - g. Continuous Property Review programme to identify surplus or under-used land and property assets.
 - h. Providing an in-house property advice service to Members and other Directorates.
 - i. Negotiation and agreement of terms for compensation.
 - j. Production of the Business Properties website.
 - k. Management of the Automatic Toilet lease agreements.
- 1.7 The portfolio of 297 properties includes both industrial and commercial properties. The rental income has risen to £4,035,750 in 2008/09. In addition there are 37 operational properties.
- 1.8 The service plan for 2009/10 expects similar levels of activity as in the 2008/09 work programme. The review plan is available and if anything suggests in some areas a more intense level of activity between now and the year end. The 2008/09 work programme for the section was measured as:

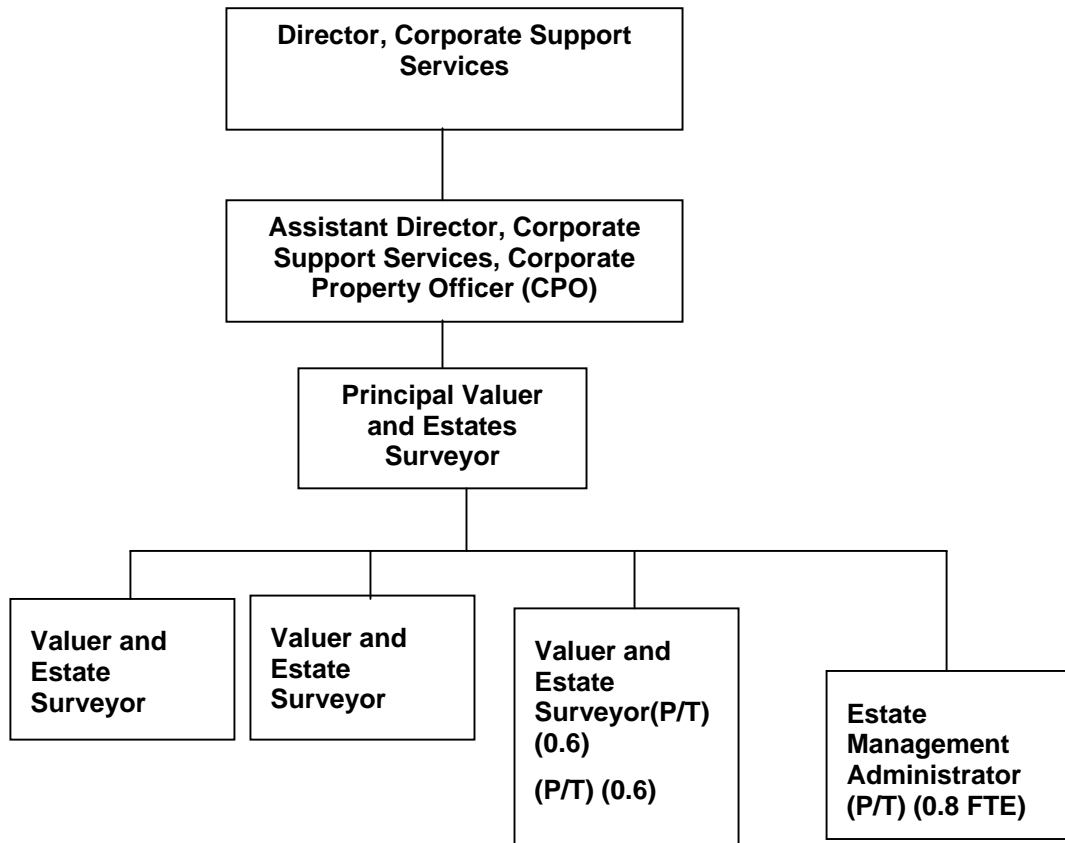
Description	2008/09 Number
Rent Reviews	35
Lease Renewals	14
New Lettings	1
Lease Assignments and sub lettings	17
Land Sales	0
Property Purchases	0
Council House Right to Buy Valuations	27

- 1.9 In 2008/09 the section's output was affected by the long term sick leave of one member of the section and the departure of the Principal Valuer and Estate Surveyor. This was compounded by two unsuccessful attempts to recruit into a part time Valuers post. To improve the throughput of property and rent reviews a report was prepared for consideration by the Cabinet recommending that an external surveyor be appointed to deliver up to 10 rent reviews and lease renewals, but for various reasons the report was not submitted.
- 1.10 The key aims for the section focus strongly on the capital receipt income from sales and to continue to improve the rental income. The recent changes in the economic situation and the property market will adversely impede the Council's ability to achieve its objectives.
- 1.11 The Asset Management Plan is annually reviewed and updated. An important current development is researching the purchase of newer and

more up to date information systems. The modern systems can manage all property, asset, valuation and condition information if the appropriate modules are procured.

The Section Structure

1.12 The structure in December 2008 was as follows:



1.13 The 2009/10 budget for the section is £300,570. This includes £71,540 for service area recharges and support services. The offices used are within the Civic Centre and no short term saving in overheads and recharges is likely were the service to be externally provided. The service direct costs amount therefore to £229,030 for 2009/10. This may be exceeded as the two vacant posts are currently being covered by agency placements, pending the outcome of this review.

1.14 An important part of the section’s activities are to support and provide input to the legal services team in “right to buy” transactions.

2. Findings and Comparators

Benchmarking

- 2.1 CIPFA has researched through its networks and contacts some comparison and assessment of the operations and practice of other Local Authority service organisations. Clearly each is unique in certain aspects and so the objective has been to find organisations that perform well, including at least one Beacon Council for asset management, and have similar income generation targets i.e about £4m.
- 2.2 To match the income generation levels of EFDC meant approaching City Councils and even inquiries into the activities of a London Borough. The City Councils have an interest in holding property to create wealth and aid area regeneration. In some cases there are schemes where they have worked with developers to invest in regeneration and then sharing the investment benefits. The authorities approached include among others Ashford, now sharing services with Swale, Canterbury, LB of Hackney, St. Edmundsbury, Exeter and several smaller Districts.
- 2.3 All councils approached expressed qualification of what they could offer as it depends on the composition, mix and variety of services needed, property portfolio buildings, and the lease and tenancy arrangements. Any judgement to be made is subjective in that interpretation has been applied to inform the assessment of relevance and what can be drawn from any given set of information provided.
- 2.4 Where there is an active portfolio of commercial property income generation similar to EFDC, all authorities employed a larger unit of staff to cover the duties and responsibilities. Canterbury at a similar level to EFDC has 9 staff, Exeter 6 and at a lower income level (£2.5m) Hackney has 5. Canterbury includes coastal towns, harbours and explained that staff numbers were high because of the complexities of the portfolio. A common approach to recruitment difficulties and longer term staff development has been to appoint a trainee to the team.
- 2.5 Where activity is much lower the principal estates surveyor is supported by a senior surveyor to manage the Council's Estates and Valuation services. Ashford and Swale share officers in response to recruitment difficulties and in order to deliver value for money. However their Estates portfolio and income generation is very much less than at EFDC.

Performance Management and External Provision

- 2.6 The purpose of discussion and exchange of information with other local authorities was to establish a minimum in-house level required for meeting strategic property management and asset management

- planning, and supervising or contracting out the valuation and estates services. The section numbers varied between 2 and 9 full time equivalent staff (FTEs), including some support function. The income generation varied from £300k to above £4m per annum.
- 2.7 A rule of thumb approach by some was that a surveyor working in rent reviews should be able to bring in 4-5 times their salary per annum as income. Thus an average annual rent review of £1m may be expected to cost £200k- £250k in direct staff salary costs for that activity alone. This is at the level of the total direct staff cost of the section at £207k. A typical section in other authorities working at the level of service defined by EFDC seemed to employ at least 5 FTEs for the wider workload outlined in the information provided.
 - 2.8 The inquiries included seeking information about the employment of external contractors to work on specific service requirements or on general service provision. In smaller scale sections there are needs to employ top-up and additional resources to deliver the annual programme. These external examples provide some basis for some of the outsourcing costs used later in this report. Almost all have an occasional need to engage external suppliers for particular needs. The suppliers are normally selected from a short list of established providers that are familiar with the Council and the area. Competitive bidding will depend on the situation and local procurement rules.
 - 2.9 There are two approaches used: first to address a particular need or specialist service requirement, and secondly where a package of work can be specified with payment by a schedule of rates. In either case the circumstantial detail and complexity will determine ultimately the cost of the service supplied. There is a consistent message in reviewing requirements with other Councils that affirms a need for in-house technical capacity to manage the contracts and process the decisions for authorisation within the Council.
 - 2.10 The finance and support part-time member of staff carries out functions directly related to the management and delivery of the section's work that will be required whether the technical work is in-house or provided by external suppliers. The role might be moved to the finance team in the event of externalisation of the section. No net savings on operational costs would be associated with this move.
 - 2.11 The focus and direction of the team is clearly set out in the Service Plans. This review did not identify any changes of working practice or organisation of the immediate team that might afford any better value for money in service delivery. Plans and programmes of work have been developed and implemented according to the resources available. Given the unusual staff absence circumstances and the recent change of team leader, the continuing ability to deliver the activities and service required is creditable.

3. Options for Service Delivery

Overview

- 3.1 The research and investigation has led us to a view that the minimum internal service required for delivery of the valuation and estates service is two. One of these should be at least at the level of the former Principal Valuer with a similar remit to be technically responsible for service quality, strategies and plans. The evidence we have found indicates that a second appointment in support of or working with the lead officer is necessary. This might be part-time and could depend on the main delivery provider.
- 3.2 This core of two staff is insufficient to deliver the required service and would need to be augmented by an additional resource. How that resource is provided will depend on which option for the provision of the service is eventually chosen.
- 3.2 The options developed from this base would be:
 - Continue with an in-house service;
 - Appoint an external provider or providers as partners;
 - Contract in services as required.
- 3.3 The parameters are fairly limited. The staff numbers are currently 4.4 FTEs. The services needed are:
 - Strategic / Corporate advice as discussed above;
 - Contract procurement and management if external inputs required;
 - Professional and technical capacity to deliver the wide range of outputs, summarised at paragraph 1.8 above;
- 3.4 The standard approach is similar to that applied by the Council. That is to appoint a unit of staff that need to be supplemented from time to time for capacity or capability reasons from the outside.
- 3.5 If the premise at 3.1 is accepted then the scope for internal staff variation in numbers appears from this research to be between 2 and 6. A recent survey by CIPFA's Asset Management Network of the strategic property function in 34 Districts resulted in a pure average staff level of 3 FTEs with an adjusted mean of 1.5 FTEs. Given the importance of the income generation activity to the council, it is impractical to reduce the core staffing requirement recommendation below 2 FTEs.
- 3.6 The core element that will be retained in-house under each option is therefore:

	Core Technical & Professional Advisory and	Business Support	TOTAL	Estimated overheads and recharges
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	Management Team			included
Staff Numbers	2 FTE	0.4 FTE	2.4 FTE	
Associated costs	£ 140k	£30k	£170k	<i>£40k</i>

- 3.7 The internal staff costs for 2009/10 is £206,590 for 4.4 FTEs within an overall budget of £306k. The potential cost saving of employing the two to three staff focused on service delivery is estimated as between £90k - £140k of direct costs. Clearly the exact amount also depends on the grade and level of staff retained in-house. Some of the associated support costs, say £30k-£35k, may not be avoided in the short term.
- 3.8 A detailed supporting analysis of current staff activities and estimated time allocations was possible based on an available snapshot of information. This helped show the balance of current activity and the proportion of demand by activity for the section's services. The snapshot may be partly distorted because of the temporary loss of the services of one staff member during last year. It is also true that in some of the Councils approached they had a backlog of rent reviews, suggesting they were under-resourced.

Options Appraisal

- 3.9 The **In- House delivery** option remains near to the present level where resources are stretched and there is probably a good case to increase the team to at least 5 or 6 FTEs. The employment of CIPFA to help with the Asset Management Plans and engage others to deliver packages of valuation and estates activity is a cost effective way to support and deliver the in-house option.
- 3.10 The advantages are continuity and maintenance of local knowledge of the estate and matching the service outputs to the council requirements and needs. The disadvantage is the inflexibility of Council employment and difficulties in always matching the skills of appointed staff to need. Another constraint may be the ability to always recruit and replace staff when necessary. Increasingly Councils find problems as staff reach retirement because there is now almost no capacity to recruit and train replacements. Temporary Appointments and use of agency staff is one way of managing this situation.
- 3.11 **Appointment of external contractors** is the second option referred to above. The most effective models employ a single larger multi-functional supplier or use a framework agreement where specialists can be selected for purpose. The districts that rely on this do so

largely because they have a significantly reduced portfolio and/or only have occasional need for these services. Another approach where the income level is low is used by Ashford/ Swale where they share the technical expertise required. The internal core team capacity needs to be sufficient to set up and manage the service requirements as part of the strategic duties. In each case there is a fully tendered selection process to administer and manage.

- 3.12 A key assessment is whether the tender and subsequent external supplier prices for service delivery will be less than the present cost of the additional internal resources necessary beyond the core team of two. The upper limit suggested above is of the order of £140k including a £32k portion of the overheads.
- 3.13 The likely cost of the external contracted services required is estimated as:
- a. Rent Reviews and lease renewals, typically these might be 5-10% of renewal value. A four year renewal programme for £4m is £1m per annum, so fees are likely to be £50k - £100k per annum, say £75k.
 - b. Valuations for the register, reporting and advice on "right to buy" sales transactions take a similar proportion of the sections time. The fee for this is therefore also likely to be £65k per annum.
 - c. Occasional sales, record and information maintenance and updating add a further service requirement to the supplier costs. A nominal £25k is estimated to cover this less well-defined service requirement.

The total may therefore be £165,000 for external contracts. By engaging through a partnering arrangement with one supplier for all these services a discount of say 10% may be achieved in negotiation.

- 3.14 **Contract in services as required.** An alternative is to wait and make ad-hoc appointments in each service area. Whilst this allows specific tendering and appointments to be made it does require more internal cost for each tender exercise and risks incurring learning costs both contractually and technically working with each new contractor. Under this option there would be need to employ probably one more in-house above the core unit of two, to plan, programme and manage the procurement of the external services.
- 3.15 The external contract costs would need to be kept to less than £108,000 to make this a cost effective solution. £108,000 is the total apportioned cost of the existing two in-house staff without the £32k overhead allocation. For each contract let there would be internal procurement costs in addition to the FTE appointed to manage the programme.
- 3.16 In tabular form a comparison of the net differences in the options is:

	Core Estates & Valuation Team	Rent Reviews and lease renewals	Valuations and Right to Buy,	Sales and Purchases	Total Net Annual Cost in addition to above
In-House (as present budget and service plan)	Core cost as above	2.0 FTE, perhaps 3 FTE £ 140k (An estimated £32k of these costs are for overheads and recharges so may not result in cashable savings)			£140k Net Cost £108k
External Partners (Out-source)	Core cost as above	£70k	£60k	£20k	£150k* Plus One off cost of implementation allow £50k (minimum)
Ad-Hoc Contracts	Additional 0.5 FTE £35k	£75k	£65k	£25k	£200k

*The external outsourcing arrangement may in negotiation achieve a discount to the Council of 10% against the ad-hoc contract rates for the £165k of external costs.

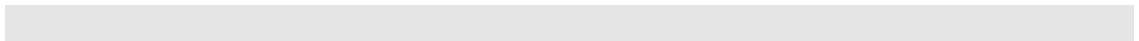
- 3.17 The overall margin of contract price risk might also be 10%, on the basis of the estimation information applied. This might go either way. However in the present competitive environment, we might allow a further £15k discount in the outcome of an externalisation process. This might lower the overall estimates of the outsourcing and ad-hoc contracting options towards total service costs £350k and £400k, retaining the overhead allocation against the service area.
- 3.18 The only price certainty is around the in-house team. For the in-house team, however any variation in the above estimations is likely to be measured as lack of output given the resources allocated and the ability of the team to meet targets and deliver. This situation would be managed on basis of the Council's priorities and impact on overall financial outcomes.
- 3.19 Previous experience and discussion with the Assistant Director Legal has led to an estimate of at least £50k as the one-off cost of specifying requirements, managing and drafting the contract documentation, evaluation and negotiation of offers and reporting to members and the Council on progress and recommendations.

4. Conclusion and Recommendations

Closing comments

- 4.1 The Council's Estates and Valuation Services appear to be overstretched when compared to other Local Authorities' sections with a similar workload as far as it is practical to compare. The evidence reviewed and examined suggested that in all options the Council would need to employ at least one Principal Valuer and one Senior Surveyor (the core team) to manage and deliver the strategic advice and supervision of the wide range of services required and to improve on the present high level of income generation, over £4m, from the estate portfolio.
- 4.2 Other similar authorities at these levels of activity would appear to employ a section of about 6 FTEs. This suggests a demand tension for achieving and delivering the Council's output requirements of the service. This is sustainable as long as the section can be supported by occasional employment of specialists and additional resources as the Council judges necessary. If not, then there will be a lag at the margins of the work programme. This can be managed in the short term by application of the existing team's knowledge of the estate and the Council's priorities. Consideration of the appointment of one trainee surveyor to the in-house team would be a way to plan forward for service continuity.
- 4.3 The overall result from comparison of the options above in section 3, is between possible net staff cost savings of £108k maximum and the external cost of service provision that may be between £150k, at the most optimistic, and £200k according to the contracting route selected. There are further disadvantages in the £50k cost of implementation and subsequent loosening of control over day to day work programming. If it is decided to externalise the service and contract in, then one of the two core technical staff retained by the Council in-house should have direct contract experience of managing outside suppliers. This may require both officers to be at Principal Valuer level increasing the cost of the core team.
- 4.4 The analysis cannot find any evidence to suggest that the council would achieve better use of resources or value for money by engaging external suppliers for delivery. In fact in our view it is probable given the level of income generation at the centre of activities that this solution would be more expensive and potentially create additional management issues coordinating activities and meeting Council service requirements.
- 4.5 The findings and analysis suggest that the EFDC portfolio of activities in Estates and Valuation Services are not suitable for outsourcing or externalisation through contract.

Recommendations

- 4.6 The Council should appoint a Principal Valuer and Senior Surveyor employed in-house to manage the core advice, asset management plan delivery, specify, manage, and monitor work programmes, report on all estates and valuation issues to Council.
 - 4.7 That the in-house option is the preferred solution to support the core team.
 - 4.8 That to deliver the full service in-house, a further two or three technical and professional staff in addition to the core team should be retained or appointed. This makes a full team of four to five plus a part-time support officer.
 - 4.9 That permanent appointments are made as soon as practical to replace the agency placements to reduce the unit costs of these established positions.
 - 4.10 That in the event of this report and its recommendations not being approved £50,000 is budgeted for to pay for the procurement and staff transfer costs of externalisation.
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APPENDIX A Terms of Reference

External Review of Estates and Valuation Section

1. To review the existing establishment and grading structure against the provision of a Valuation and Estate Management Service and advise on its adequacy.
2. To consider options for the future provision of a Valuation and Estate Management Service and make recommendations to the Council on the option(s) that will provide the best value for money whilst at the same time maximising the revenue income from its land and property assets.
Such options to include:
 - a. Retention of the in-house service;
 - b. Outsourcing of the service in totality;
 - c. Outsourcing of the service in part;
3. If outsourcing either in total or in part is the preferred option to advise on:
 - a. The level of in house resource required to manage an outsourced contract; and
 - b. Whether the combination of costs of an outsourced contract and in house resources to manage that contract is likely to be more or less expensive than the cost of maintaining an in-house service.
4. If retention of an in house service is the preferred option either in total or in part, to review current working practises and where appropriate make recommendations for improvement.