

2020 Liverpool.

Assessment of Medium Term Growth Opportunities

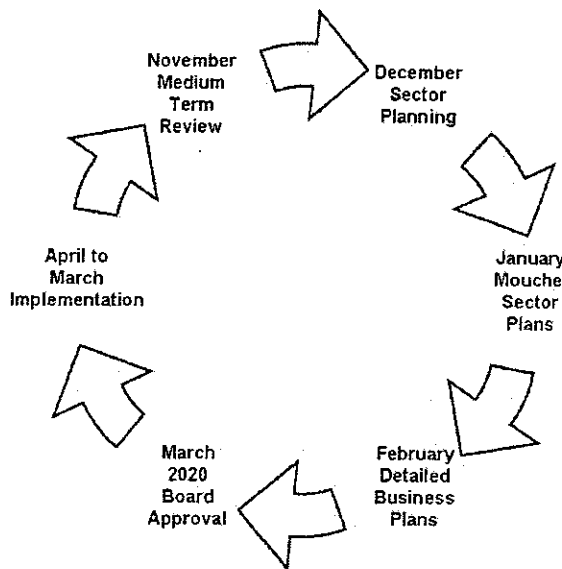
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Purpose

This paper is intended to inform the group of the possibilities for growth within 2020Liverpool.

Introduction

In line with previous years, 2020 Liverpool re-evaluates the three year medium term business strategy as part of the business planning cycle. The process is shown in the diagram adjacent



Business Planning Cycle

2020 Liverpool uses a business approach consistent with the model illustrated in matrix overleaf, where existing products are taken to new markets and new products are offered to existing. This approach is consistent with the low risk profile adopted at the outset for the Company.

	Existing Products	New Products
Existing Markets	Market Penetration: eg <ul style="list-style-type: none"> ▪ Property & Professional Services Agreement ▪ Local Frameworks ▪ Selective spot tendering 	Product Development: <ul style="list-style-type: none"> ▪ Transfer-in Services
New Markets	Market Development: eg <ul style="list-style-type: none"> ▪ Project Management ▪ Liverpool Mutual Homes ▪ Liverpool plc ▪ Schools Direct offering. 	Diversification: <ul style="list-style-type: none"> ▪ Not under consideration at this time

Ansoff Growth Matrix

As in previous years the determining factor for business growth has been derived from consideration of the requirement to deliver efficiencies of 2 % to the Council.

Outcomes of the Medium Term Review Process

2020 Liverpool has four operating units as listed below.

- Building
- Public Realm and Transportation
- Property (Estates)
- Project and Programme Management

The outputs from the process can be summarised as:-

1. Current financial position
2. Future financial position against plan
3. Opportunities for Growth
4. Risks

Growth target to achieve efficiencies

£k	Budget Mar 08	Target Mar 09	Target Mar 10	Target Mar 11
Turnover	16986			
Sub Consultants	2799			
Earnings	14187	16173	18437	21019
Growth		14%	14%	14%

Table 1

Bottom up current view of future earnings

Earnings £k	Mar 08	Mar 09	Mar 10	Mar 11
	Budget	Current view		
Estates	1390	1420	1448	1477
Growth		2%	2%	2%
Building Design	5513	6038	6800	6648
Growth		10%	13%	-2%
Infrastructure	6238	6690	6970	7260
Growth		7%	4%	4%
Business Services	1046	1324	1418	1530
Growth		27%	7%	8%
Total	14187	15472	16636	16915
Growth		9%	8%	2%

Table 2

Opportunities for Growth

The main sources of work activity over the next three years are expected to be as follows:

Building

- LCC and KMBC routine education projects eg. asset management surveys, maintenance projects and small building projects. The requirement in the future for maintenance work, in particular, is expected to decrease as new and refurbished schools fall off of the BSF and PCP production lines.
- LCC and KMBC schools projects. These are one-off, significant school design projects (Lower Lee, Greengates). It is expected that BSF and PCP will negate the need for any new projects of this nature.
- LCC BSF Wave 2. This programme of work has recently reduced considerably due to a Client re-evaluation exercise and it is possible, although unlikely, that it may reduce further. This assessment, however, assumes that the programme will remain as it is. Do you mean you've accounted for the reduction we know about but haven't accounted for any further reduction?
- LCC BSF Wave 6. There is a possibility that this programme may be delayed by several years. In addition, 2020's design involvement in the programme is uncertain. For Wave 2, 2020 has been restricted to designing only non-VA school refurbishment projects. In order to retain and attract staff, and to continue to build our reputation as high quality building designers, we need to be commissioned to design some new-build BSF schools (and the client is currently warming to this idea). Also, to obtain the quantity of work that we need in the future the restriction on us designing VA schools needs to be removed.
- Primary Capital Programmes (LCC and KMBC). These programmes have not yet been fully developed but assumptions have been made based on best information received from clients. It is assumed that in Liverpool 2020 will design either all schools or only non-VA schools. In Knowsley, it is assumed that 2020 will design only non-VA schools and will do one every other year.
- Children's Centres Phases 3 & 4 (LCC). This programme has only recently been announced and has not been developed. It is assumed that 2020 will design all of the Children's Centres. Workload volumes are based on basic published capital budget figures so are very approximate.
- LCC's HMRI. This programme is expected to run on at its present level of activity (at least) for several years. There is a likelihood of 2020 being involved in similar activities (voids maintenance and demolitions) in relation to non-HMRI houses in Liverpool:
- LCC and KMBC Other Building Design and Other Building Surveying work. This is a mixture of generally small projects for non-education and non-housing parts of the two Councils. Growth in line with inflation is assumed at present as there is no visibility of significant future programmes.
- Schools Direct (Liverpool). Currently, 2020 has 14 of Liverpool's 200 schools signed up to SLA's. A sales campaign has been developed and will be

implemented soon with the aim of increasing the number of school clients. This assessment assumes that the campaign has some success.

- A rationalisation of the way in which building maintenance is undertaken in Liverpool could possibly result in the transfer to 2020 of Building Surveying services currently provided in house. This would best be undertaken at the same time as a rationalisation of the whole service including blue collar repairs. Assumptions have been made regarding the possible increase in earnings that this transfer would generate.
- Existing Non-LCC/KMBC Clients. This assessment assumes that the volume of work from existing "external" clients will only increase with inflation. Figures for this category are included in Other Building Design.
- New Clients and Markets. Until recently, 2020 had a large surplus of forward workload and is suffering (along with the rest of the industry) from an inability to recruit staff. In this situation, new clients and new markets were not actively pursued (regardless of the desire to diversify). Now, the workload surplus has disappeared and the need to seek work in new markets and with new clients is evident. As a marketing plan has not been developed at this time, no allowances have been made in this assessment for work for new clients and in new markets.

Transportation and Public realm

Forecasting the medium term position relies on a number of assumptions stated below for completeness:-

- The Highways Capital Programme producing similar levels of fee earning work for 2020 Liverpool as forecast for 2007/08. This is uncertain at the moment as the impact of the funding being included within the Local Area Agreement will not be known until summer 2008 and additional provisions need to be made in 08/09 and 09/10 for increased costs for the Hall Lane scheme.
- 2020 fee elements of council revenue budgets (i.e. traffic signal and bridge maintenance) remaining at the current level.
- A substantial proportion of section 278 design work to be undertaken by 2020 by August 2008.
- Current levels of staff secondments into the client being sustained.
- Commissioned to undertake the consultation / design for Mersey travel red routes within Liverpool with work commencing in the 2009/10 financial year.
- A substantial proportion of the work from Liverpool Plc to be undertaken by 2020 Liverpool.
- The cessation of NRF funding in March 2008 will impact on areas such as street lighting renewals.

Existing and potential clients are increasingly looking for us to provide services over a wider area, Such Clients would potentially include:

- Developers who are looking to utilise our services across the North West due to our knowledge of Council processes in order to provide them with more certainty over acceptability of the design and timescales for approvals. This could include Technical Impact Assessments (TIA's) for which we currently only undertake a review role on behalf of LCC.
- Partnerships with contractors to deliver a one stop shop for the design and implementation of section 38 and 278 works both locally and elsewhere within the UK.
- Siemens to provide reviews of their traffic management systems in place within other local authorities nationwide and provide advice / reconfigure systems to improve traffic flows through their road network.

A majority of highway work within the North West is undertaken by the Local Authorities who have existing arrangements with other consultants, other than Sefton who are currently pursuing a partnership for Professional Services to commence autumn 2008. However even those Local Authorities are issuing those consultants with very little work due to declining budgets.

Neighbourhood Partnerships in Liverpool are becoming increasingly important and prominent and it is possible that they may commission work that is within the capabilities of 2020. Awareness of our services has been raised within the neighbourhood teams but initial indications are that funding is currently very limited therefore no specific allowance has been made for this work in the forward workload predictions.

Talks are ongoing with Government Ministers in an effort to revive the Merseytram. If this was to proceed it would create substantial additional work for 2020 over a period of up to ten years.

The major source of potential work over which Liverpool City Council will have a considerable influence is that emanating from Liverpool Plc which is currently being established and will be responsible for delivering the likes of regeneration of the Northshore area.

There are considerable opportunities to undertake further work for other parts of Mouchel particularly for the likes of Traffic signal design where we have capabilities that are unique within Mouchel and for TfL where we can provide a full range of services. Relationships will also be developed with other parts of Government and Business Services to encourage sharing of work across the sector.

Project Management

Areas for potential new work are as follows:-

- The BSF programme will move to delivery of a further Wave involving additional secondary schools and thereafter the primary sector. The support needed within the LCC Client team will increase and there is the opportunity to redress the lack of resource currently being expended on Wave 2. It is expected that a significant element of the Wave 5 resource will come from 2020 Liverpool.

- From April'08 LLDC will cease to exist and a new delivery vehicle for regeneration projects within the City will come into force – Liverpool plc. In discussions with staff from LLDC the expectation is that their existing projects will transfer with the current professional teams and that Mouchel will be one of the limited teams to be offered new work. Work through this route could include projects covering both N-S and E-W access to Northshore and extensions to existing projects.
- Following work with MWDA through LCC on Holt Lane HWRC, MWDA have expressed a wish to extend the relationship and use 2020 Liverpool (through the existing Mouchel framework) to undertake design and procurement of Waste Disposal facilities.
- Further support to Management Consultancy Children's Services in delivery of Academy PM and in expanding their delivery capability in the construction project management elements also. The current frameworks for Project Management with PfS are due to be retendered in the next twelve months. Support will be provided from 2020 Project Management in this exercise and in undertaking subsequent work in NW. There is the potential for the PM and Technical Advisor frameworks to be merged which could have benefit to other divisions within 2020.
- Continuing to monitor OJEU adverts but be selective on those projects targeted. Work in conjunction with Management Consultancy in undertaking this exercise.

Estates

- It should be noted that the main drive for an increased order book is with our existing clients. A service transfer is the method that would increase the size of the division. Key to this is improving the specific relationships with the lead client officers in both PAMS and HMRI. Outside this areas for potential new work are as follows:-
- Mouchel Property. Currently this is at an embryonic stage. The Mouchel team in Manchester is the lead on this and it is envisaged that opportunities will arise from this. A number of opportunities have surfaced over the last 3 to 4 months.
- LMH. Liverpool Mutual Homes are receiving support from us at present. This is for their new HQ building. It is proposed that this could be an 'in' to the company when it goes live next year, currently our support is been seen by their shadow board. In addition we have flagged up existing home loss work that we do.
- The LLDC is an existing client for other parts of the business that should also be explored. It is noted that we are not on the NWDA approved consultant panel. This may cause a barrier to our working for LLDC until March 2008. From March the LLDC are merging with other bodies and this may alter this position

Risks to achieving Growth

Most of the **Building Services 2020** expects to be doing in the next few years is from four major central government initiatives: Building Schools for the Future, Primary Capital Programme, Housing Market Renewal Initiative and Children's Centres. By far the most significant of these is Building Schools for the Future.

A significant proportion of the **Transportation and Public Realm** work 2020 expects to be doing in the next few years is from the same funding streams as previous years. This would only produce similar levels of turnover as predicted for 2008/09. However achievement of this no growth forecast could be compromised by:

- Reduction in future LTP settlements
- Funding earmarked for Transportation being diverted elsewhere through the Local Area Agreement
- Further cuts in council revenue budgets
- Downturn in development within the city with consequential reduction in Section 278 / 38 work
- Delay in implementing requirement for Section 278 design work to be done by 2020 Liverpool
- Work not flowing direct to 2020 from Liverpool Plc
- Alternative funding streams to replace the likes of NRF not forthcoming
- Funding not approved for red routes
- Change of government with different priorities

The workload for the **Project Management** group for 07/08 is split 67% LCC, 21% Mouchel and the remaining as external clients such as LLDC. 30% of the LCC work is BSF project management and therefore it is vital that this role continues and is expanded to include the Wave 5 management given the increased need for new work over the 3 year period.

Whilst the Safety Camera Partnership is to continue for the forthcoming financial year, there remains the potential risk for funding to be reduced or for an alternative avenue for procurement of the work in subsequent years.

Based on the excellent relationship we have with LLDC the desire and intent is to maintain and expand the role played by Mouchel in delivering regeneration projects such that new projects are managed and designed on the whole by 2020/Mouchel. Such a procurement route has still to be confirmed.

Within **Estates** the risk associated with the HMRI function is that they cease acquiring property. The cause would be a change of Government Policy, which is outside our control.

Loss of budget due to the transfer of the housing shops. This is outside our control, however the client is planning to transfer the housing shops into the C and I estate, prior to the transfer. The expectation is that the budgets will be transferred as well.

Ultimately a significant number of the housing shops will be released onto the market and this will free staff resource to work in other areas of property management.

Lack of funding. This is the principal risk. Currently the budget does not match expectations of what work is required to be undertaken on the property that we manage. Principally this affects the Property Management function. This also causes team morale issues. It should be noted that the objective of the Asset Management Plan is the reduction of management costs through efficiency gains.

Conclusion

The Company continues to grow and deliver improving quality services in an increasingly more efficient manner. The financial health of the company is sound and there are no significant immediate risks to the business.

The medium term growth of the company is something that both partners have expressed a desire for and strategies are in place to achieve this growth.

The market is becoming more challenging however and there is a need to constantly review and adapt to these conditions.

There are risks to the identified growth opportunities however these are largely within the control of the partners.

A number of initiatives are underway to strengthen the partnership both commercially as identified in this paper and also to re-establish partnership behaviours and attitudes and to reinforce the benefits of this type of working over more traditional adversarial methods.