

DECISION-MAKER:	CABINET		
SUBJECT:	PROPOSAL TO ENTER INTO A JOINT VENTURE		
DATE OF DECISION:	15 JULY 2014		
REPORT OF:	DIRECTOR OF CORPORATE SERVICES		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY
None.

BRIEF SUMMARY

The purpose of this report is to recommend to Cabinet that the Council enters into a joint venture limited liability partnership (LLP) with a private sector partner, Public Sector Plc Facilitating Ltd (PSPF). PSPF is a company formed in 2007 between the Winston Group, the William Pears Groups and BVSF. PSPF approaches local authorities with whom it seeks to partner. It works in partnership with authorities using a relationship first approach and requires no prior commitment or guarantee of work by the Council. It provides the Council with an additional option over and above those currently available to it with regard to the disposal, sale or use of its assets to maximise income and opportunity. The relationship brings funding opportunities which are not traditionally available and the formed LLP will be required to demonstrate its value to the Council before projects are agreed for delivery. It is already operating in Bolton, Dudley, Dorset, Southend, Scarborough and Warwick .

RECOMMENDATIONS:

- (i) That the creation of a limited liability partnership (LLP) between the Council and Public Sector Plc Facilitating Limited (PSPF) be approved;
- (ii) That the final terms of the necessary agreements be agreed by the Director of Corporate Services, following consultation with the Cabinet Member for Resources, provided that all the due diligence checks have been carried out successfully;
- (iii) That it be noted that the LLP arrangement requires the establishment of an LLP Members board with equal Council and private sector representation, supported by an Operations board for officers;
- (iv) That the Council representation on these boards be agreed by the Director of Corporate Services following consultation with the Cabinet Member for Resources once the format of these boards is established as part of the final terms of the agreement; and that the Council representation on the LLP board will be from members of the Cabinet;

- (v) That it be noted that the LLP will be an additional option for the Council to use to deal with its property portfolio; and
- (vi) That it be noted that further reports will be submitted to Cabinet in respect of relevant proposals to pursue a property related project through the LLP.

REASONS FOR REPORT RECOMMENDATIONS

1. The purpose of the LLP would be to facilitate property related projects for the Council, making use of private sector funding, resources and skills in addition to those available through the Council and paid for by the LLP. The Council can use the Strategic Partnership created to achieve a wide-range of property opportunities for the Council, including regeneration, redevelopment, rationalisation and property portfolio reductions.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None.

DETAIL (Including consultation carried out)

3. PSPF has been in discussion with Council officers for a number of months.
4. It is proposed that the Council and PSPF will each own 50% share of the intended LLP whose main purpose would be to:
 - a. Invest private sector funds in projects of mutual benefit;
 - b. Facilitate comprehensive regeneration projects in Southampton;
 - c. Provide potential capital receipts and/or revenue income streams for the Council from the ongoing development of surplus land and buildings (the Council would share net profits 50:50 with PSPF);
 - d. Provide opportunities for any in-house surplus capacity to be deployed on development projects, thus generating a further fee income opportunity; (N.B. This is unlikely for the Council, as there is no surplus capacity at present)
 - e. Support the Council in its strategic review of its property portfolio, particularly in relation to its service property holdings;
 - f. The acquisition of private property by PSPF adjacent to SCC land holdings (or indeed other public sector land holdings) could facilitate an aggregation of sites for development purposes to deliver enhanced receipts; and
 - g. Provide further tools to maximise the return from the Council's land and property portfolio, interests and potential interests.
5. A clear driver of this initiative would be the desire to review and establish alternative approaches in relation to the current disposals programme post 2016. This could be from a robust review of service properties within the service property portfolio. It is also suggested that as part of this, a Property Board is established between Southampton City Council, Hampshire Fire & Rescue, Hampshire Police and relevant health bodies to pool information in relation to properties and consider options for co-location, marriage values and other aspects. This arrangement will emulate the approach undertaken by Hampshire County Council in relation to "One Public Sector Estate".

6. It will also emulate the approach undertaken by Bristol City Council who established a Property Board as part of their City Deal arrangements. It should be noted that the Property Board is not a pre-requisite requirement or linked to the LLP, but it is suggested that the two could provide additional opportunities (but this should be pursued regardless of whether the LLP is pursued).
7. In many cases the partnership may be able to respond more quickly than the Council using normal development processes to market opportunities and drive greater value through its commercial approach. The LLP is a commercial entity and is capable of taking risks that a local authority might not. The LLP sits outside the Council and does not carry the balance sheet risks for it. It is essentially "Opening an Account" with entrepreneurs, who have the skills and resources to look at individual problems and make creative suggestions, and then implement them if agreed. It is an alternative to "Asset Backed Vehicles".
8. Initially the LLP would focus on the service property portfolio and allow the Council to explore opportunities for sharing properties between service areas (and other public sector bodies where possible), improve service delivery by co-location of services, generate revenue savings, and generate capital receipts.
9. The risks of establishing the partnership and facilitating any subsequent projects will be met by the private sector partners although it would require input from existing staff resources within the property, finance and legal teams to set up the LLP initially. It is also worth noting that the Council will not be obliged to use the LLP should it choose not to do so, nor will it in any way be compelled to dispose of or transfer any assets to the joint venue company. All proposals, if they are to be taken forward, will be determined on the basis of unanimity between the public and private sector participants in the LLP and assets will only transfer when the necessary conveyancing documentation (usually preceded by an option agreement) is entered into.
10. The Council, in committing sites through an option agreement while they are investigated, would be limiting dealings on these sites for a period of time however the Council already enters into option agreements from time to time. Providing the initial feasibility results suggest it is worth progressing further, the risk in this respect should be limited.
11. Appendix 1 sets out in more detail how the LLP will operate.
12. It is proposed that the LLP will be governed by an LLP Members' Board, made of three Council members and three PSPF members. In parallel to this will be an Operations Board made of five Council officers and five PSPF directors. The Operations Board would have close links to the Council Management Team as well as the Council's Capital Board.

Next Steps

13. Next steps are envisaged to be as follows:
 - a. Formal approvals to establish the LLP – authority having been delegated to officers to negotiate the relevant agreements;
 - b. Negotiation and conclusion of legal agreements;
 - c. Establishment of LLP as a legal entity;
 - d. Review of initial project to stream through the LLP.

RESOURCE IMPLICATIONS

Capital/Revenue

14. It should be noted that the costs of establishing the LLP are met entirely by PSPF.
15. The PSPF model is unique as it seeks to share net development returns 50:50 between the public and private sector partners. The basic premise of value created less costs (costs accounting for any facilitation fee) = profit = profit share is central to the proposition. The aim of the LLP is to generate value using Council assets which is above and beyond that which the Council would be able to generate itself. This could be achieved by, for example, the LLP acquiring assets and improving them, or changing their use. It should be noted that the Council's existing asset value will be protected and it is only the value that is achieved above this figure that will be shared, after the deduction of the associated costs.

Property/Other

16. This proposal will clearly have potentially significant property ramifications and implications as its aim is to bring about a sea change in the way in which the property portfolio is considered by the Council, but individual proposals will be considered on a case-by-case basis and either addressed through the existing delegated powers arrangements for officers and/or as set out in the recommendations, in further reports that will be submitted to the Cabinet in respect of relevant proposals to pursue specific property-related projects through the LLP.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

17. Local Government Acts 1972 – 2000 and the general power of competency under the Localism Act 2011.

Other Legal Implications:

18. The Director of Corporate Services has reviewed the legal documentation in relation to this matter. These arrangements are constructed in such a way that they do not attract the attention of the European Procurement regime. Property disposals are dealt with on that basis, namely as property disposals in accordance with the Local Government Act 1972. The legal documentation, which includes Counsel's advice, has been reviewed in detail alongside the existing arrangements the Council has with its commercial partners which could impact upon the way the LLP might operate. The due

diligence work undertaken has demonstrated that the arrangements would work in the environment that Southampton currently finds itself, both in terms of its partnership with Capita, but also its other commercial arrangements, including where commercial operators are using council premises and property. However, as part of the Council's own diligence, the documentation will be considered further and any points of concern highlighted prior to the Council entering into an agreement.

POLICY FRAMEWORK IMPLICATIONS

19. None.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Appendices

1.	Detail of how the LLP will operate
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None	
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