

DETAIL

1. **Background**

This document summarises the outcome of an initial review of the potential establishment of a limited liability partnership (LLP) with PSPF.

The purpose of the LLP would be to facilitate property related projects for the Council making use of private sector funding, resource and skills in addition to those available through the Council and its commercial partners, and paid for by the LLP. The Council can use this strategic partnership created to achieve a wide range of property opportunities for the Council, including regeneration schemes, estate development programmes, property portfolio rationalisation and reduction and the development of “tricky” sites.

The principles of this approach have been discussed and reviewed with a wide group of senior officers and this document summarises the outcomes and opportunities.

2. **Overview of Public Sector PLC model**

Projects are facilitated through the establishment of a limited liability partnership. The governance arrangements for the LLP provide both structure and process to facilitate the delivery of projects; it is a robust and flexible model that is already tried and tested and operational in a number of local authorities.

Key facets of the offer include:

- a. it provides access to substantial private sector funds otherwise not available to the public sector;
- b. it provides capital receipts and/or revenue income streams to the Council at the choice of the Council but without the need for any expenditure by the Council;
- c. it provides Southampton City Council with sufficient private sector resource and expertise to deliver their long and short-term property strategies in the current financial climate;
- d. it can involve working with other public sector bodies including (but not limited to) agencies already based within Southampton, eg Police, Fire, etc as well as other bodies such as the Homes and Community Agency;
- e. the Council shares net profits 50:50 with PSPF, profits being generated from downstream development activities not normally shared with the Council;
- f. it promotes in-sourcing, that is to say the use of Council resources on a paid for basis where appropriate, thus producing further income streams to the Council for areas such as property, etc.

Once established, the LLP can add value to the Council:

- a. through delivery of early capital receipts to the Council by transferring assets into the LLP;
- b. by aggregating Council land with other land, whether acquired by the LLP or by the Council using its CPO powers funded by the LLP to enable more comprehensive development to take place;
- c. by reworking existing assets to create value through refurbishment, improvement, securing planning permission or active management;
- d. the avoidance of future costs that would otherwise be required to deliver new projects;
- e. speed of delivery.

3. Initial Prospect Review

There is a wide range of property opportunities, and this initial review should not be taken to be either a full list or to exclude other opportunities that may arise, but generally speaking, there seemed to be some specific opportunities worthy of exploration through this regime:

- a. regeneration opportunities: there remain regeneration opportunities within Southampton, although some of them are tied to sites that are difficult to develop, whether through multi-ownership issues, sites that have remained on the market but sterile for a number of years or for other reasons. The LLP cannot buck the market, but it can assist the Council to deliver schemes that are viable by:
 - i. providing initial funding to enable schemes to be progressed and de-risked;
 - ii. acting in a facilitating role, securing planning provision for sites and running a competition for the delivery of other developers;
 - iii. reviewing opportunities for requiring additional land to secure the delivery of more comprehensive schemes which make an otherwise unattractive or high risk option more attractive to development.

- b. estate development programmes: PSPF, through its partner organisations, has access to a residential land development model created specifically for use in bringing forward public sector land for residential development. This is a flexible model allowing different sized sites to be released or groups of sites to be released as a package and that can bring some significant benefits, eg homes can be sold at a significant discount to market sales (15-30%). In addition, land owners returns are significantly enhanced with the reduction of individual ground rent in lieu of selling the land to a house builder. By securing ground rent in lieu of a capital receipt, this would mean that the City Council would keep all of the income.

- c. property portfolio (particularly service properties): the Council has been working through a robust accommodation property strategy for sometime. The civic accommodation strategy is in hand, although future options including the future of OGS may well be capable of contemplation through the LLP. The investment portfolio has also been robustly reworked, but could be re-considered by the LLP. The third aspect of the Council's property portfolio which has not be the subject of a significant review, is the service property element. By using the LLP to help, in particular, review (but not exclusively) the service property element of the Council's property portfolio, benefits that could accrue to the Council include:
 - i. costs – this work will not require the Council to find money for consultant fees. The work will be done through the LLP who will off-set costs against future capital receipts;
 - ii. resources – the LLP has access to a vast array of property-related expertise and will draw down relevant expertise as and when required, including from the Council / Capita. The nature of the relationship is that the LLP would start work immediately;
 - iii. relationship – unlike many traditional Council / consultant relationships, the LLP will be established for a life beyond a single project. Having formed a long-term partnership with the Council, it will take on some ownership of the wider problems and will remain in place long after it helps the Council deliver the right solution. The Council's representation on the LLP board would ensure that the Council's interests (value for money, regeneration, priorities,

etc) are considered properly, and no proposal can be taken forward unless both parties – public and private sector – agree.

- d. other opportunities – there are a number of other opportunities that are less well defined but could become valuable additions to the work of the LLP:
 - i. job creation – PSPF is exploring ways in which links can be made to new and existing social programmes to channel local people from employment projects and initiatives into jobs that will be created through the development of public sector assets that will arise as a consequence of these activities.
 - ii. place-based budgets – once the LLP is established, it can act as a conduit for delivery of projects with other public sector partners with whom the Council has an interest in engaging;
 - iii. environmental opportunities – the LLP can help the Council achieve its carbon reduction programme with particular emphasis on the opportunities created through renewable energy installations that generate revenue streams;

4. The Commercial Proposition

The PSP model is unique in that it seeks to share net development returns 50:50 between the public and private sector partners. The basic premise of “value created less cost = profit = profit share” sits at the heart of the proposition. This is achieved through the creation of a long-term partnership rather than a single project-specific vehicle.

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 for itself. This value can be achieved by:

- a. generating capital receipts through acquisition of Council assets by the LLP, and through sales into market of assets.
- b. creation of revenue savings in terms of rent costs, running costs, maintenance costs and efficiency gains.

Of increasing significance is the need to generate revenue savings. In many instances the creation of revenue savings only comes through expenditure and often that expenditure is not accompanied by capital receipts to pay for the investment. In such instances, the LLP can contribute to the creation of revenue savings through the aggregation of projects to deliver a larger suite of projects that generate a commercial return. This would enable projects to be delivered without the need for expenditure by the Council.

The value of revenue savings needs to be shared along with capital sums created to establish an overall sharing of value once costs have been deducted. Costs cover all aspects of delivering the agreed project and can include payments to the Council for projects brought into the LLP, payments to the Council for the use of its resources in delivering projects, such as in-source staff members, the use of Capita, etc and interest payments to the Council should an investor invest in the project.

5. Governance

The PSP model is a combination of structure and process. The governance structure provides appropriate levels of participation at all relevant points within the Council thus ensuring there is a conduit for requirements to be streamed into the LLP for delivery.

Two boards will be established, a strategic members board, populated by elected members and an Operations Board populated by senior officers. Once the structure is agreed and

established, the process of the model provides a template through the LLP will operate using a four-stage process of:

- a. explore;
- b. evaluate;
- c. examine;
- d. engage.

The use of this four-stage process takes opportunities from their earlier stages through to delivery in the manner that is compliant with all the necessary financial, governance, statutory, legal and procurement rules.

Of these, “examine” is vital, since it is the yardstick by which the Council is able to confirm that it is securing value for money and through the use of appropriate success criteria, see the wider objectives of the Council are being delivered through its use of the LLP.

6. Next steps are envisaged to be as follows:

- a. presentation of formal proposal to Cabinet, including presentation by PSPF;
- b. formal approval to establish the LLP with authority delegated to officers to negotiate the relevant legal agreements;
- c. negotiation and conclusion of legal agreements;
- d. establishment of LLP as legal entity;
- e. review of initial projects to stream through LLP Board and Operations Board, which will be populated by a combination of members and officers as outlined in this paper.