Cabinet - 6 December 2012

Report of the Chief Executive

Electoral Division affected: None

The Establishment of Two Lancashire Regeneration Property Partnerships

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Executive Summary

The report describes the process for the proposed establishment of two Lancashire Regeneration Property Partnerships and the likely benefits to be derived.

Recommendation

Cabinet is recommended to agree to the County Council establishing two Lancashire Regeneration Property Partnerships, the first with Carillion Construction Limited and the second with Eric Wright Group Limited on the terms set out in this report.

This is deemed to be a Key Decision and Standing Order 25 has been complied with.

Background and Advice

1. **Introduction**

The County Council currently has in the region of 550 operational properties (excluding schools and waste plants), with an estimated value of £280m.

The financial pressures faced by the public sector are well documented and continue to be challenging. Consequently, it is more important than ever we consider every aspect of Council expenditure including accommodation. This extends to use, cost and value.

By challenging current practices and embracing flexible working patterns (enabled by modern technology) across both back office and front facing services, the County Council can achieve a much more efficient and cost effective approach to the use of accommodation whilst ensuring that operational requirements are satisfied. In addition, the reduction in size and scale of the workforce over the past two years also impacts on the scale of accommodation required.

The aim is to continue to rationalise the County Council's property portfolio by reducing revenue costs and, where appropriate, realising capital receipts. Additional benefits for the County Council include the facilitation of more cross-directorate working through the shared use of buildings and the provision of appropriate space for staff to carry out different aspects of their roles. Inevitably in the future, we will need fewer buildings.

Once properties are vacated, the County Council still incurs holdings costs unless it takes action. Financial benefits, i.e. revenue savings and capital receipts, are only realised once the properties are disposed of or alternative, non-council, use is found. With the current economic climate, the state of the property market, and the fact that reviews across the public sector are bringing a glut of surplus public sector assets to market at the same time, generating maximum financial benefit from the County Council's surplus assets is increasingly challenging.

The current economic climate presents a real opportunity to use our surplus assets as a lever for regeneration, bringing economic benefit to the areas in which those assets sit

To assist the County Council in meeting the challenges of driving efficiency from our property estate and ensuring that maximum financial and economic benefit is derived once properties are declared surplus, the proposal is to create two regeneration property partnerships, based on geography, with private sector partners.

2. Creating Lancashire Regeneration Property Partnerships

The impact that our surplus property can make on the regeneration of Lancashire is significant.

The County Council has a number of existing strengths in property management including review, disposals and property development. However, in many cases our internal resources are fully committed to delivering existing day to day business. We are more likely to succeed in meeting the challenges outlined above if we work with a partner with a proven track record in property management that can bring skills and expertise to complement our own.

Given the potential volume of work that will be generated, it is proposed that one partnership is created for the north and east of Lancashire (i.e. the administrative areas of Burnley, Hyndburn, Lancaster, Ribble Valley and Rossendale) and one for the south and west (i.e. Chorley, Fylde, Preston, South Ribble, West Lancashire and Wyre).

The objectives for each regeneration property partnership will be to:

- use public sector assets as a lever for delivering sustainable regeneration;
- support the County Council in pursuit of wider objectives by identifying and helping deliver the best possible solutions for surplus properties balancing financial, economic and social returns;
- ensure we identify surplus sites that are developed for the most appropriate use to meet key objectives; and

- attract investment and jobs promoting economic development in Lancashire.

It is anticipated that these regeneration property partnerships will bring the following benefits:

- **Risk Share** – the partners will share the risks of achieving these objectives.
- **Capability and Capacity to successfully deliver our objectives** – the partners will bring both capability and capacity in key areas, both in terms of resources to deliver these objectivities, but also knowledge and expertise developed through proven experience of delivering similar outcomes with other organisations. In particular, their closer working relationship with the various property markets within Lancashire and the wider North West will better inform our overall estates strategy going forward. This will supplement our existing resource base, including the skills of our staff.
- **Shared Leadership and Strong Drive to Transform** - the partners will support us in delivering these objectives. Each regeneration property partnership will give us a clear focus for our efforts, whilst the partners will actively drive forward work in key areas.
- **Shared Services** - each regeneration property partnership will provide a legal and commercial vehicle which will enable any one or more of our public sector partners in Lancashire to be involved without the need to undertake a separate procurement process. The procurement process has been managed is such a way as to ensure this is the case.
- **Innovation** - our partners will bring new ways of working, new ways of thinking, and alternative models for delivery of the objectives. This fresh perspective will be invaluable in supporting the skills of our staff to deliver the regeneration of surplus sites.
- **Improved Outcomes** - the two partnerships will deliver the best possible outcomes for the people of Lancashire through the regeneration of surplus sites.

3. The activities to be carried out by the Partnership

The private sector partners will work with us to unlock the economic regeneration potential of surplus public sector assets in Lancashire. This will involve working on sites already declared surplus, but also, each partner will support the County Council's ongoing property review programme, working alongside the in house review team to add extra capacity and capability in key areas. This will lead to a forward pipeline of assets being identified to ensure the County Council rationalises its estate in a way that maximises the economic benefit of the properties released.

The regeneration property partnerships will work up and deliver development proposals for these sites which may include new (or improvements to) office and business developments; retail and leisure developments; housing and residential accommodation; hotel developments; car parking; infrastructure; community facilities; tourist attractions; and public spaces (and incidental or related works to these developments).

Each partner will:

- work with the County Council to develop a strategy for the development and/or disposal of a particular property or group of properties. This may include working with the County Council to identify which properties should be retained for operational purposes and could be declared surplus to operational requirements.

- act as the single point of contact for the procurement and delivery of all the activities needed to deliver a project ; and

- integrate and manage a diverse range of supply chain sub-contractors;

There will be two main strands of activity:

- new projects will be identified and worked up. Each partner will work with the County Council to identify surplus properties and put forward proposals for those properties for approval by the County Council; and

- the delivery of approved projects will be through a range of methods including: outright disposal to a third party, the use of conventional design and build contracts, and the use of more complex corporate structures. The overriding principle is that the County Council and each partner will agree the most appropriate mechanism to deliver the proposal for the relevant phase.

Each partner will recover its costs and earn returns through the projects that it successfully delivers. It will be incentivised to work up proposals that result in successful projects which are consistent with the requirements of the County Council.

4. The process to select the Partners

Since the beginning of this year, the County Council has been undertaking a procurement process in accordance with the European procurement rules to select the partners with whom to form the Lancashire Regeneration Property Partnerships. This procurement process has been overseen by a Strategic Steering Group comprising the Chief Executive, the County Treasurer, and the County Secretary and Solicitor. The day to day work has been carried out by a group led by the Assistant Chief Executive and including officers from Corporate Property Group, Legal Services, the County Treasurer's Department and the Economic Development Service.

The scale of this opportunity generated significant interest from the private sector, 102 expressions of interest were received from organisations requesting further information about the proposed partnerships.

Twelve of these organisations then formally expressed an interest to work in partnership with the Council. Following a rigorous selection process involving the use of forty factors to analyse and evaluate proposals, these organisations have been reduced to the point where we have proposed partners

- East and North Lancashire: **Carillion Construction Limited**
- South and West Lancashire: **Eric Wright Group Limited**

The outcome of this rigorous selection process has been approved by the Strategic Steering Group.

In responding to these factors these organisations were required to demonstrate their:

- ethos in working in partnership with the organisation, enabling the County Council to maximise the economic and financial benefits from its surplus assets;
- capacity and capability;
- approach to continuous improvement;
- commitment to the employment of apprentices and training opportunities;
- approach to working with the County Council to deliver the activities referred to in paragraph 3.

5. What Carillion and the Eric Wright Group will bring to Lancashire?

Carillion are a mullti national company. The northwest forms a major element of Carillion's footprint in the UK and Lancashire is a significant part of this with approximately £12m Gross Value Added from Carillion employees living and working within a 25 mile radius of Preston supported by some 42 work locations.

Eric Wright Group Limited is based in Lancashire with its headquarters at Sceptre House, Bamber Bridge. 65% of Eric Wright Group's workforce is registered at a Lancashire postcode which generates £11.2m Gross Value Added to the Lancashire economy.

Carillion's proposals and the Eric Wright Group's proposals share common strengths in that:

- both potential partners are committing to a long term, strategic partnership with the council. Both partnerships will last for ten years, with the ability to extend for a further ten years in two five-year increments;

- the commitment to work with the County Council is evidenced by the fact that senior officers from both organisations i.e. Carillion's Chief Executive Officer and the Eric Wright Group's Managing Director will devote time to work on these partnerships;

- both potential partners are making additional high quality resources available to support the council's property review activity at no cost to the council;

- through the proposed partnerships, the council will have access to proven development expertise to help ensure that it secures maximum financial and economic benefit from its surplus assets. Both proposed partnerships also offer access to a full range of development services which can be accessed as they are needed, from development design, through construction, to final site management. Costs for this input will be met from successful projects, and these resources can quickly be accessed by the council without the need for any further procurement processes; and

- both potential partners have made clear commitments to supporting the council in achieving its wider economic development priorities, including through maximising apprenticeships, training and other workforce development activities and supporting Lancashire small and medium enterprise (SMEs) through the sourcing of goods and materials.

However, should the partnerships not be as successful as currently envisaged, the County Council's financial risk from entering into these partnerships is minimal. Both potential partners have agreed to input their resources at risk; no costs will be incurred by the County Council by entering into these partnerships.

6. Other Lancashire Public sector organisations

One key factor in procuring the proposed partners was to ensure that other Lancashire public sector organisations could benefit from what we are doing. Therefore, the procurement process has been structured to include all of the Lancashire local authorities, police, fire and health authorities and other public sector organisations. This means that any of these could work with the County Council and the partners without the need for a further procurement process

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Entering into these partnerships better enables the County Council to manage the risks around rationalising its property estate and maximising the impact of its surplus properties by providing extra capacity and capability in key areas, and through the partners taking on key development risks. It therefore better enables the County Council to deliver current and future financial savings, and means the County Council is better placed to respond to additional challenges over the next ten years.

However, should the partnerships not be as successful as currently envisaged, the County Council's financial risk from entering into these partnerships is minimal. Both potential partners have agreed to input their resources at risk; no costs will be incurred by the County Council by entering into these partnerships. The partners only recover costs through the delivery of projects.

Financial

Entering into these partnerships does not require the County Council to make any investment or financial commitment. The resources of both private sector partners will be invested in the partnerships at the partners' risk, and recovery of costs and profit will only occur if they deliver successful projects. These costs and profit will be agreed between the County Council and the partner when projects are commissioned and it will vary depending upon the amount of risk the County Council is asking the partner to take responsibility for that project.

The County Council's existing decision making arrangements relating to declaring properties surplus will remain unaffected, meaning significant decisions will still be made by the Leader of the County Council or other relevant decision-makers.

Human Resources

There are no human resource implications arising from this report.

Procurement

The procurement process followed to select the partner and establish these partnerships means that the council can access the full range of services outlined in the body of this report without needing to undertake a further procurement, thereby saving time and resource. Equally, the provisions of the partnership do not grant exclusivity to the partner around the County Council's surplus assets until the council has approved a development scheme. The County Council therefore retains flexibility.

Additionally, the procurement process followed also means that all public sector organisations in Lancashire are able to access the same services through the partnership without needing to undertake a further procurement. This brings benefits for those organisations themselves, but also for the County Council as the partnership provides a vehicle for the joint review and disposal and or development of assets.

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A