



COUNCILLOR PHIL DAVIES

CABINET
19 JUNE 2017

DELIVERING WIRRAL'S GROWTH

Councillor Phil Davies, Leader of Wirral Council, said:

“Driving economic growth is a key priority for my administration. Only by building a strong economy can we attract well paid jobs, offer skills training and apprenticeships, and provide support for businesses based in or relocating to Wirral.

“This report marks an important step in delivering that ambition. If we are to transform our economy, build better homes and continue to make quality of life improvements for all our residents, we have to make significant changes in how we are organised and better use of the assets and resources available to the authority to deliver sustainable, long-lasting benefits.

“The creation of a joint venture property company – Wirral Growth Company – will bring new expertise, new ideas and new investment to Wirral.

“It will allow the Council to share in the risks but reap the rewards of the regeneration of key sites across the whole borough. It will bring benefits to our coastal communities in north and west Wirral, add to the warmth and character of towns and villages across the peninsula, and reposition Birkenhead, its waterfront and town centre as one of the most attractive investment opportunities in Britain today.

“It will also provide the Council with a series of new revenue streams which can be re-invested in the services residents rely on, especially important as the Government has announced it will cease to provide funds from 2020/21.

“Meeting our 2020 Pledges to increase inward investment, create new job opportunities and continue to support our thriving small business community, the joint venture property company will also encourage other investors and entrepreneurs in Wirral to realise their business goals and give them the confidence that once again, Wirral is a borough on the move.”

REPORT SUMMARY

On 27th February 2017, Cabinet considered and approved an Outline Business Case (OBC) that set out a proposal to create a Property Company. Primarily the purpose of the company was to enable the council to use its assets to secure local economic growth, community and environmental benefits and to provide long term sustainable income streams for the Council. Cabinet instructed Officers to develop a Full Business Case (FBC) for a joint venture property company to take forward the delivery of growth and regeneration in Wirral.

This report presents a business case to create a Limited Liability Partnership (LLP) between the council and a private sector investor/developer as a joint venture (JV). Whilst a range of company models exist, the business case concludes that the LLP model is best able to meet the council's strategic objectives and in particular offers a governance structure that will allow the council to exert joint influence over the company with the private sector partner and benefit from more favourable taxation arrangements.

The business case shows a potential financial return based upon around 50 indicative sites, including three prospective acquisitions. Whilst a significant proportion of these sites could form part of a development programme, only at the end of the procurement phase will it be clear exactly which will be included within the JV development programme. At present due diligence on the title to the sites and other potential development constraints are being considered. It is important to note it is only at the stage of preparing a JV Business Plan for the creation of the JV partnership that the more accurate financial returns will be known.

RECOMMENDATION/S

Cabinet is requested to:

1. Approve the FBC, noting the indicative list of sites within the FBC (including those that are likely to form phase 1) and recognising that the figures within the FBC are likely to change and are predicated on three strategic acquisitions being made.
2. Authorise the Director of Transformation to commence and conduct an OJEU works concession competitive dialogue process to identify a private sector partner with which to form a joint venture vehicle to develop sites and areas within Wirral to meet the Council's strategic objectives approved by Cabinet on 27 February 2017 and set out in the FBC. The procurement will include the full range of services required to promote and deliver development, including development management, contracting, asset management services and potentially facilities management services. That the Director of Transformation be authorised to select a shortlist and the bidders to be invited to participate in competitive dialogue and then continue dialogue through to preferred bidder stage.
3. Approve the proposed form of the joint-venture as a 50:50 long term (10 year plus potential 5 year extension) Limited Liability Partnership (LLP) with a board of two Council representatives and two from the private sector partner starting from the principle of equal sharing of risks and rewards.

4. To approve the structure and principles of the joint-venture documentation as set out in the FBC, including the way in which sites will be brought forward for development, following the preparation of site development plans and valuation to ensure the Council receives best consideration.
5. Agree that, where appropriate, the Council will consider using compulsory purchase powers (providing the joint-venture LLP indemnifies the Council for costs in the usual way).
6. That the Strategic Commissioner for Growth be authorised to apply for planning permission and City Region funding in relation to any of the proposed sites within the programme as considered appropriate.
7. That the Director of Transformation report back on the proposed outcome of the procurement process, if possible with the recommendation to appoint a preferred bidder, before the end of 2017, recognising that this will require significant resource commitment in order to be achieved.
8. To note that further authority will be sought from Cabinet to appoint the partner for the creation of the joint venture vehicle, the appointment of representatives to protect the Council's interests on the LLP, for the terms of transfer of sites to be included in phase 1, to approve the three year business plan for the joint-venture and to enter into legal documentation in due course.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

A joint venture LLP offers an additional opportunity for the council to drive economic growth in the Wirral by playing a leading role in the redevelopment of a number of sites across the area. The recommendations will allow officers to proceed with an OJEU process to secure a long-term JV partner and finalise the exact financial arrangements and anticipated returns to the council.

2.0 OTHER OPTIONS CONSIDERED

Other options were considered as part of the OBC and Strategic Options Report considered by Cabinet on 27 February 2017. This paper explores the different JV structures that could be used and reports that no preference for either a company or LLP was received from prospective partners through the soft market testing undertaken.

3.0 BACKGROUND INFORMATION

The proposals contained in this report provide a direct contribution to a number of the Pledges within the Wirral Plan, including:

- Increase inward investment
- Greater job opportunities in Wirral
- Thriving small businesses
- Assets and buildings are fit for purpose

The initial work undertaken on the concept of a joint venture Property Company was focussed on making a step change in the delivery of regeneration in the borough. Although work had already been undertaken via the Growth Plan to determine where opportunities existed, the mechanism for how this would be achieved needed to be identified. Specifically, the Property Company was intended to;

- Accelerate growth in jobs and housing
- Secure additional private and government investment
- Create profitable and transparent relationships with developers and investors which deliver financial and regeneration benefits
- Maximise developments and minimise risk to the council by providing dedicated delivery arrangements and property and commercial expertise.

Following Cabinet agreement to the OBC in February 2017, two key phases of work have been progressed in parallel; the Full Business Case and a Soft Market Testing Programme to determine appetite amongst investor/developers.

Business Case

The attached Business Case has been developed around 50 indicative council assets within the Wirral, from which a number of sites would be prioritised. These assets were identified on the basis that officers were confident that there was an opportunity to re-develop them within a 24 month timescale. Many of the assets already sat within defined regeneration target areas. Some of these sites are currently used for operational purposes and some are leased. But in all cases, there appear to be opportunities to relocate staff or tenants.

The business case illustrates the likely returns that could be made if all assets were redeveloped through a JV LLP. In order to calculate the financial return, a range of commercially standard assumptions have been made and can be found in the supporting annexes. These assumptions range from all aspects of construction through to the likely rental incomes from developments. The case also applies stamp duty, agent fees and legal fees based on 2017 costs. Site appraisals that were undertaken to determine what could be built on specific sites are in line with the Planning Framework.

Subject to securing a JV partner, it is likely that the majority of sites listed in the business case will be redeveloped. However it should not be assumed that all of them will or that other sites will not be offered to the company. Title and other due diligence processes are ongoing and may have an effect on sites within the programme. The case and opportunity for regeneration and development in Birkenhead, New Brighton, Moreton, Seacombe and Bebington is strong along with the former MoD site at Bromborough. These areas will form the focus of discussions with prospective partners. Additionally the council has commenced work on land assembly and is part of collaboration arrangements that mean further sites will come into scope.

It may be necessary to use CPO powers (or the threat of CPO) in some areas in order to secure comprehensive land assembly for redevelopment and members should therefore be open to consideration of CPOs where appropriate and on the usual basis that the Council would expect to be indemnified by the JV for costs associated with use of such powers.

The business case should be seen as framework to illustrate what is possible. The final selection of sites, to be approved by Cabinet later in the year, will define more accurately the financial returns that the council should anticipate.

Cabinet should note that the business case reflects a number of principles that were agreed in earlier papers. In particular, the council will not be selling land unless there is a good reason to do so. Land and property will be offered to the property company on a freehold or leasehold basis (depending upon the type of development and market requirements e.g. freehold for residential development) and any subsequent redevelopment may be offered to investors on a long leasehold basis. Leases may run for a number of years but the freehold will be protected. It should be remembered that any asset being offered to the property company will require Cabinet approval and has to be paid for at best consideration on the basis of an independent valuation. No asset will be 'given' to the company. The business case also reflects the opportunity for the Merseyside Pension Fund to partner with the Council and/or the property company as an investor on specific developments where this is in the interests of the council and pension fund.

Cabinet should also note that the proposed company will be commercial in its approach. Prospective sites will need to be financially viable (unless there are opportunities to cross-subsidise in areas to ensure comprehensive re-development or in exceptional cases the Council is willing to consider subsidy, perhaps from profits attributable to the Council).

Additionally Cabinet have made clear their wish to see a positive social impact from the activities of the company in addition to the development of commercial, industrial, houses or work places. The procurement approach has set out the need for the company to work with local communities, provide skills qualifications and apprenticeships and ensure that local developers and suppliers are considered in accordance with the Council's social value duty.

In conclusion the business case identifies the potential to secure good, sustainable financial returns whilst providing a positive social impact for the residents of Wirral

Soft Market Test

In parallel with development of the business case, work has been undertaken to test the appetite amongst Investor/Developers to partner the council in a JV company. At MIPIM in March, the council announced its ambition to create a JV, which it named Wirral Growth Company. Since the request for expressions of interest, in excess of 100 companies have had conversations with the council. These conversations have confirmed that the initiative appeals to the market and potential partners are excited about the opportunity to work with Wirral Council and its residents.

Both the council and potential investor/developers are aware of the viability issues that relate to development in some parts of the borough but imaginative ways to overcome this have been presented. Additionally the council needs to begin to consider making applications for outline planning permission and the potential to develop a strong set of bids for the next round of City Region Single Investment Fund (SIF) bids.

In summary we are confident that an LLP JV on a 50/50 basis will be attractive to the investor/developer market

OJEU Process

The next stage of the process to secure a partner would be to formally start an OJEU procurement process. This would be managed through a competitive dialogue process. The outcome of this work would be to find the best partner for the council and create a detailed development plan and financial summary that could form part of a binding contractual agreement.

Cabinet will have opportunity to approve the selected partner as well as the creation of the joint venture vehicle, the appointment of representatives to represent the Council's interests on the LLP, for the terms of transfer of sites to be included in phase 1, to approve the three year business plan for the JV and to enter into legal documentation in due course ahead of any contract award or offer of assets to Wirral Growth Company.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The financial figures detailed in the Business Case are indicative. They are based on a forecast model which takes into account the site assessments received from GVA, sales value and rental assumptions, industry based cost assumptions, and the possible financing and profit share arrangements for the proposed JV. The

model assumes that the development will continue over a 49 month period commencing in March 2018.

4.2 The model is indicative and by its nature has to include a series of assumptions which would be subject to change. Once a partner has been procured, further and more accurate revisions will be made which may impact on the sites selected, timings, revenues, costs and profits. As part of the procurement process prospective partners will be asked to evaluate a smaller number of sites and the results will be compared to the model calculations for those sites.

4.3 The model is based on the following main assumptions:

	Area	Assumption
1	Site Usage	Number of units to be developed
2	House Sales Values	Range based on location and size
3	Apartment Sales Values	Range based on location and size
4	Commercial Rental Values	Based on type of business/ quality
5	Hotel Revenue	Per bedroom basis
6	Affordable Housing	Specified by Council
7	Construction Costs	Based on Building Cost Information Service (BCIS) from the Royal Institute of Chartered Surveyors
8	Gross Development Value	Gross Development Value (GDV) is the total of House/Apartment Sales Values, Commercial Rental Values, and Hotel Revenue
9	Developer Profit Margin	Assumed profit based on type of site
10	Land Values	It is assumed that sites will be purchased at their Residual Land Value (RLV), which is calculated from the Gross Development Value, less all Construction costs, associated Professional costs, and Developer Profit margins. It is assumed that less attractive sites (with negative RLV) will be packaged with more attractive sites.
11	Construction Timing	Construction is assumed to start between month 7 and month 13.
12	Investment Interest	Assumed to be 7% for the investment provided by the Council and the Partner.
13	Borrowing Interest	Assumed to be 4% for the external borrowing requirement. The borrowing requirement is calculated based on the aggregate requirements for all sites.
14	JV Profit	This is calculated from the revenue and cost assumptions described above, and split equally between the Council and the Partner.

4.4 Capital receipts for land transferred to the company will be deferred until the joint venture is generating a positive cash flow from the revenue generated from sales and rental. An initial payment may be received earlier than this depending on the

commercial agreement with the partner and the commercial viability of the sites selected in the final scope. The Council will also receive interest, for the land invested, at the point of positive cash flow.

- 4.5 Any sites transferred to the company will require “Best Consideration” to be evidenced before any transfer takes place. The Business Case provides advice as to how this assessment should be undertaken.
- 4.6 Some of the sites included in scope currently generate income to the Council. The final selection of sites, to be approved by Cabinet later in the year, will define exactly the financial returns that the Council can anticipate.
- 4.7 The Business Case does not include any benefits of additional Income for any increased Council Tax and Business Rates from the Property company developments which will be received.
- 4.8 Set up costs for the Company are not included in the modelling. The business case does not take account of any costs required to establish the JV nor for monitoring of progress once established. Cabinet will have the opportunity to approve any set up costs ahead of contract award.

5.0 LEGAL IMPLICATIONS

The legal and governance implications are detailed in the Full Business Case. Additionally legal documents are being prepared for the Procurement phase should Cabinet approve the Full Business Case.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

The implications for these proposals will be considered as part of the OJEU process, however, due to the speed of the proposed procurement process significant officer resources will need to be devoted to supporting the process if the anticipated timescale is to be delivered.

7.0 RELEVANT RISKS

All risks associated with this programme will be identified and managed as part of the Transformation Programme.

Below is a summary of some of the key risks identified and how they will be managed.

Key Risk	Mitigation Strategy
<p>7.1 Consequences of Brexit may have a negative financial impact on Wirral Growth Company (e.g: increased costs of labour and / or materials.)</p>	<p>A sensitivity analysis will be carried out on the sustainability of the company, looking specifically at costs of material and labour.</p>

<p>7.2 The WGC will require a defined development pipeline to maximise success and investment opportunities.</p>	<p>At the outset of the procurement process the Council will identify the development opportunities for the property JV in the short, medium and long term. The partnership business plan (approved by the property JV Board) will set out priorities for development on a rolling 3 or 5 year basis to maximise success and investment opportunities, balanced against the objectives of the Council and property JV.</p>
<p>7.3 Higher rewards need to be balanced against sharing in re-development costs.</p>	<p>It is expected that the Council will take a share in development risk in order to maximise the opportunities for development profit/reward. This will be further tested during the procurement process.</p>
<p>7.4 Lack of demand for commercial, residential, multi-use developments on the Wirral.</p>	<p>Through the Wirral Strategic Regeneration Framework, the Council will make a robust case to attract businesses and individuals to the Wirral.</p>
<p>7.5 The business case may be weakened if Gross Development Values are lower than anticipated, or Construction Costs are higher than anticipated.</p>	<p>Cabinet will have the opportunity to review the revised financial summary, and the sites it is based upon, ahead of any contract award or offer of assets to the Wirral Growth Company.</p>

8.0 ENGAGEMENT/CONSULTATION

Where consultation is required, it will be delivered following agreement of the Business Case.

Further information can be found on <http://wirralwellmade.com/>

9.0 EQUALITY IMPLICATIONS

The potential impact has been reviewed with regard to equality and the Equality Impact Assessment can be found at:

<http://www.wirral.gov.uk/my-services/community-and-living/equality-diversity-cohesion/equality-impact-assessments>

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APPENDICES

Wirral Property Company – Full Business Case

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet: Delivering Wirral's Growth	8 th December 2016
Cabinet: Delivering Wirral's Growth – Options Appraisal	27 th February 2017