

# WIRRAL COUNCIL

## CABINET – 19<sup>TH</sup> SEPTEMBER 2013

<b>SUBJECT:</b>	<b>DEVELOPMENT OF LOCAL ASSET BACKED VEHICLE (LABV) MODEL FOR WIRRAL</b>
<b>WARD/S AFFECTED:</b>	<b>POTENTIALLY ALL WARDS WILL BE AFFECTED BY THIS REPORT</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR OF REGENERATION AND ENVIRONMENT</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>ECONOMY</b>
<b>KEY DECISION</b>	<b>YES</b>

### 1.0 EXECUTIVE SUMMARY

- 1.1 This report seeks Members approval to start a process to design a Local Asset Backed Vehicle (LABV) with the intention of using Council owned assets to support future regeneration activity in the Borough. If members agree to explore this direction of travel then a more detailed framework will be prepared which will include legal structures, risk, financial considerations and further project information will be brought back to Cabinet for consideration by members.

### 2.0 BACKGROUND

- 2.1 Regeneration faces major challenges in the aftermath of the credit crunch and a reduction in public spending. Coupled with the reduction of grant funding and minimal real estate lending Council's are increasingly looking at new methods of generating and funding regeneration activity. There are a number of examples of good practice within other Local Authorities as the public sector looks to kick start stalled schemes and unlock other developments to generate investment and ultimately, jobs growth.
- 2.2 Local Asset Backed Vehicles (LABV's) are one such solution that are being increasingly used to combine private sector finance and skills and public sector land and property assets as a means of driving development and investment.
- 2.3 Typically a LABV is a mid/long, 15-20 years, term joint venture equity partnership between a local authority and a private sector investment partner. It allows local authorities to utilise their land and property portfolio efficiently and to 'make it sweat' in order to generate revenue and capital returns to support regeneration activity. In essence the public sector invests land and property assets into the vehicle, which have a pre-agreed value. There are various LABV models in existence but the one that appears to be operating most successfully is where Local Authority assets are made available to the development partner where they at their own risk work up a viable scheme for the asset including securing planning consent and identifying appropriate funding for the proposed project. Theoretically, the recovery of these costs will only be realised if the selected partner delivers successful projects. This is true of the costs in securing planning consent, as these are normally only realised if the

selected partner delivers successful projects. Assets will also revert back to the public sector if the partnership does not progress according to pre-agreed timescales.

- 2.4 This may require the creation of further legal entities underneath the LABV depending on the security required for bank borrowing. The Authority will not want to take risk on this as either shareholder nor would members want to be exposed to risk given that members will need to act as Directors of the corporate vehicle alongside representatives of the private sector partner. However further work has to be done on the governance aspects, in order to bring a further report back to members.
- 2.5 Many local authorities are looking to use LABV's as a way to deliver their Economic Development Strategies and to deliver the economic, social and environmental well being of their areas. If structured correctly local authorities can incentivise the private sector to create local job opportunities and unlock regeneration by delivering developments that have been passed over by the private sector.
- 2.6 If the direction of travel is supported, Officers would explore options which would allow the Council to control the pace, location timing and type of development and by creating a development portfolio of the Council's assets ensure that we receive maximum financial, regeneration and economic returns from any disposal or revenue income.
- 2.7 There is no standardised drafting for LABV's or 'one size fits all' model which means that bespoke solutions need to be set up in order to ensure that each public bodies outcomes are delivered. Officers have applied to a competitive process run by the Local Government Association (LGA) which will support Local Authorities on certain areas of economic development by funding a 'Growth Advisor'. An application has been submitted highlighting this area of how the Council can best support local investment projects by developing approaches such as a LABV. If this application was to be successful, Officers would work with the LGA funded growth advisor to identify best practice and feed that into the development of the framework that will be presented back to Cabinet.

### 3.0 **REGENERATION BENEFITS**

- 3.1 The principal advantages of setting up a LABV include:
  - Flexibility: LABV's can react to the market to allow proposals to be developed between the Council and investment partner to deliver optimum financial and regeneration outcomes.
  - Significant Procurement Cost and Time Savings: The creation of a true Joint Venture arrangement lying outside Local Authority control should bring the entity outside the scope of usual procurement rules and mean that Wirral would only have to procure 'once' to deliver multiple sites over a mid/long term period. This delivers substantial cost and time savings for both the public and private sector.
  - Economic Leadership: The Council would be able to maximise financial returns and generate and sustain local jobs during construction and re-build of the local economy.

- Property Benefits: LABVs' lever in significant private sector investment not just from specialists but from the wider property and funding market as a whole. This attraction relates to the advantages of the partnership structure and the length of the project, which could be up to 15-20 years, and the returns generated.
- Risk Benefits: The LABV structure allows the public sector to transfer risk, as their assets are assigned a guaranteed minimum price at the outset regardless of future outcomes.
- The LABV model is being used by other Local Authority areas across the Country to deliver economic, social and environmental regeneration.

#### 4.0 **NEXT STEPS**

4.1 If members agree to take the direction of travel outlined in this report, Officers would seek to undertake a number of pieces of work, including using the existing asset review being undertaken to ensure the Council continues to rationalise its estate in a way that maximises the economic benefit of the assets released.

4.2 The following actions will need to be undertaken:

- To identify best practice areas in the development and delivery through LABV's, feeding in lessons learnt from other authorities and learning from best practice (via the LGA Growth Advisor programme if successful)
- To define an outline framework of what key outputs and deliverables Wirral Council would wish to generate from such a regeneration vehicle
- Develop an options appraisal as to the best approach for delivery in Wirral
- Bring in external legal support to guide the development of the of the LABV framework, supporting the structure and governance elements of the LABV
- To further understand risk and articulate any financial or legal implications as appropriate
- To draft an OJEU (Official Journal of the European Union) procurement notice setting out the Councils intention
- Draft a specification requirement for a private sector partner to be brought back to Cabinet with the delivery and assurance framework outlined above

#### 5.0 **THE PROCESS TO SELECT THE PARTNER**

5.1 A further report will be brought back to Cabinet and if supported, the development partner would be selected using a procurement process in accordance with the European Procurement rules. As part of this process it will be necessary to develop a robust evaluation matrix to ensure that the Council engages with a partner who shares its aims, objectives and ambitions.

- 5.2 This criteria is still to be finally developed but as a minimum potential partners will be asked to demonstrate their:
- Ethos in working in partnership with the Council to allow us to maximise the economic and financial benefits from our submitted land and property assets
  - Capacity and capability
  - Commitment to the employment of apprentices and training opportunities
  - Ability to deliver the aims and outputs referred to in Section 4.2 of the report, that will be scoped and brought back to Cabinet within the framework
  - Their track record of delivery and experience of working with a LABV.
  - Ability to lever in external funding support such as ERDF

## 6.0 **IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are none specifically arising out of this report.

## 7.0 **RESOURCE IMPLICATIONS: FINANCIAL, IT STAFFING AND ASSETS**

7.1 Specialist financial and legal advice will be needed in the development of the delivery and assurance framework outlined in section 4.2 of this report. Furthermore, advice will be required on the set up of any joint venture and to ensure appropriate governance arrangements are put in place that will protect the local authority. This includes scoping set up costs and also future tax implications. The cost of this specialist advice will be procured via the North West Legal Procurement Framework and be met from existing budgets.

7.2 If supported by members when a further report is brought back to Cabinet, Officers would also need to ensure any procurement process is compliant with EU Procurement frameworks. This cost can be met from existing budgets. As described in Section 2.3 of the report the Authority's surplus land and buildings assets could be strategically placed in the LABV at a pre-determined valuation. The development partner would be investing in the partnership at their risk with the recovery of costs and profit only occurring if they deliver successful projects. The cost and profit will be agreed between the Council and the partner when projects are commissioned and it will vary depending upon the amount of risk the Council is asking the partner to take for individual projects.

7.2 The development of the LABV taking it to the next stage identified within the report, can be achieved using existing staff resources.

## 8.0 **LEGAL IMPLICATIONS**

8.1 The legal implications will vary depending on the type of delivery model which will be identified within the delivery framework that will be brought back to Cabinet. As part of this process, an options appraisal will be carried out supported by external legal advice and this will be set out in the report to be brought back to Cabinet.

- 8.2 Once the preferred option for the delivery framework has been approved by Cabinet, Officers will undertake an appropriate procurement exercise to select a development partner and the European Procurement Regulations will need to be complied with. In order to support this process, external legal advice from a suitably qualified organisation will be used to support the design and the delivery of the process (as set out in 7.1).

## 9.0 EQUALITIES IMPLICATIONS

- 9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(a) Yes and the impact review can be accessed at:

<http://www.wirral.gov.uk/my-services/community-and-living/equality-diversity-cohesion/equality-impact-assessments/eias-2010-0>

*Investment Strategy overarching EIA*

## 10.0 PLANNING AND SAFETY IMPLICATIONS

- 10.1 Any future developments generated from the LABV will be assessed against the Council's Unitary Development Plan and emerging Core Strategy Local Plan and national policy within the National Policy framework.

## 11.0 RECOMMENDATION

- 11.1 Cabinet is recommended to authorise the Strategic Director of Regeneration and Environment to develop a delivery framework for the development of a Local Asset Backed Vehicle model (LABV) to support future regeneration activity in the Borough utilising Council owned assets. This draft framework will be brought back to members for consideration.

## 12.0 REASON FOR RECOMMENDATION

- 12.1 To allow the Council to create a LABV to deliver a range of regeneration opportunities across the Borough for the reasons set out in the report.