

CAMBRIDGE CITY COUNCIL

REPORT TO: Executive Councillor for Customer Services and Resources

Report by: Director of Resources

Relevant Scrutiny Committee: Strategy & Resources Scrutiny Committee
14/10/2013

WARDS:All

MAKING ASSETS COUNT – STRATEGIC ASSET MANAGEMENT

1 INTRODUCTION

1.1 This report seeks authority to progress work towards the creation of a publicly-owned Joint Venture to deliver the Making Assets Count Programme.

2. RECOMMENDATIONS

2.1 The Executive Councillor is recommended to:

a) Agree in principle to the proposal to create a publicly-owned Joint Venture (MAC Public Property Partnership), in which the City Council would be a key partner, to manage public sector property assets across Cambridgeshire.

b) That work is undertaken to develop the detail of the proposal and that this work be reported back to Members.

3. REPORT STRUCTURE

3.1 This report outlines the basis of the proposal for the establishment of a publically-owned Joint Venture to deliver the MAC programme. This is shown in paragraph 3 based on wording that has been jointly

developed for presentation to each of the MAC partners' decision-making processes.

- 3.2 Paragraph 4 and subsequent sections consider the particular issues and implications for the City Council specifically in coming to a conclusion and recommendation.

4. **BACKGROUND**

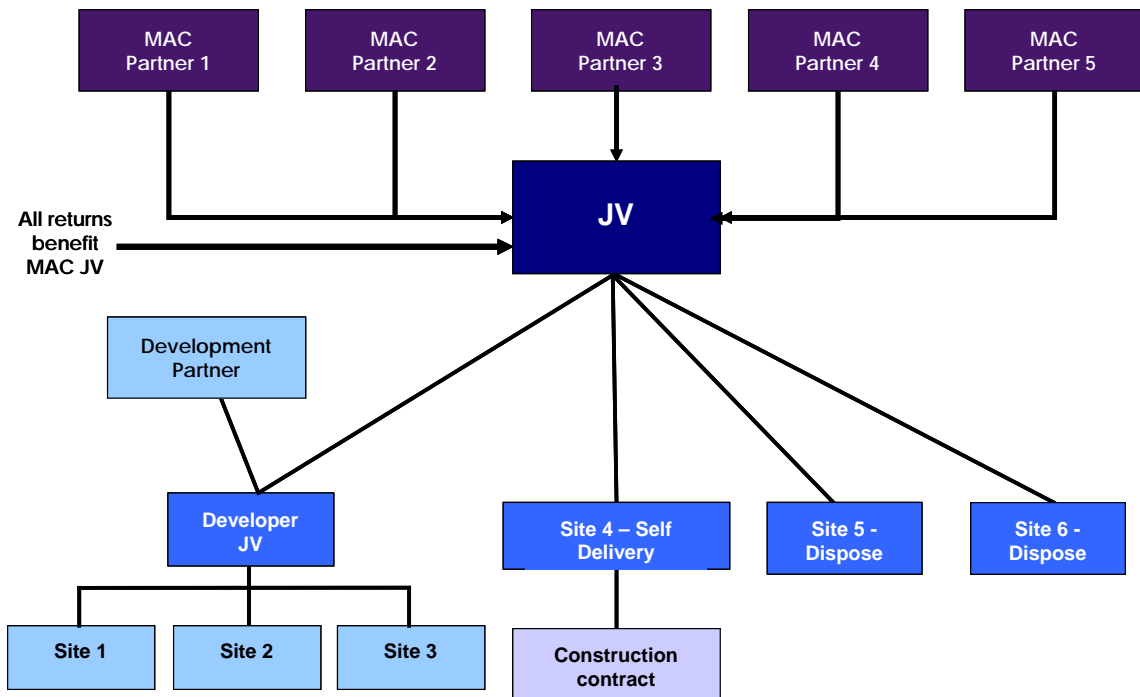
- 4.1 The Making Assets Count (MAC) Programme started in 2010. MAC brings Cambridgeshire public sector organisations together in a partnership that uses their combined property portfolio in a more efficient and effective manner. The primary drivers for MAC are to deliver better public services for communities and reduce the cost of property occupation. MAC seeks to 'sweat assets – save services'.
- 4.2 MAC is a partnership of all five District Councils, the County Council, Police Service, Fire Service and Health providers. There has also been consultation and involvement from parts of the Government including Communities and Local Government (CLG), Homes and Communities Agency (HCA), Job Centre Plus and Treasury. The voluntary sector has also been involved.
- 4.3 Collectively Cambridgeshire's public sector asset base that can be involved in MAC has a net book value of circa £586 million (as at 31st March 2012). This includes the property portfolios of all five District Councils, the Police, Fire and Health Services and the County Council. The City Council portfolio involved in MAC is the non-housing property estate. These assets form a substantial asset base for MAC to deliver benefits for Cambridgeshire.
- 4.4 Benefits to the MAC partners include:
- Reduced overall footprint of estate and lower property costs.
 - Delivery of significant property-related revenue savings
 - Capital gains through the disposal of redundant properties.
 - Service alignment benefits through service and partner co-location.
 - Improved public services and creation of new retail, housing and community facilities for communities.
 - Regeneration, economic development and growth across Cambridgeshire.
 - Support for jobs and skills in the construction industry.

- Mapping all public sector assets through 'Mapping the Public Realm' to support improved property management and service delivery
- Improved energy efficiency and carbon emission reductions.
- Government support for MAC through the 'Leaner and Greener: Delivering Effective Estate Management' and 'Leaner and Greener II: Putting Buildings to Work' reports and by MAC being a Capital Asset Pathfinder in 2010.

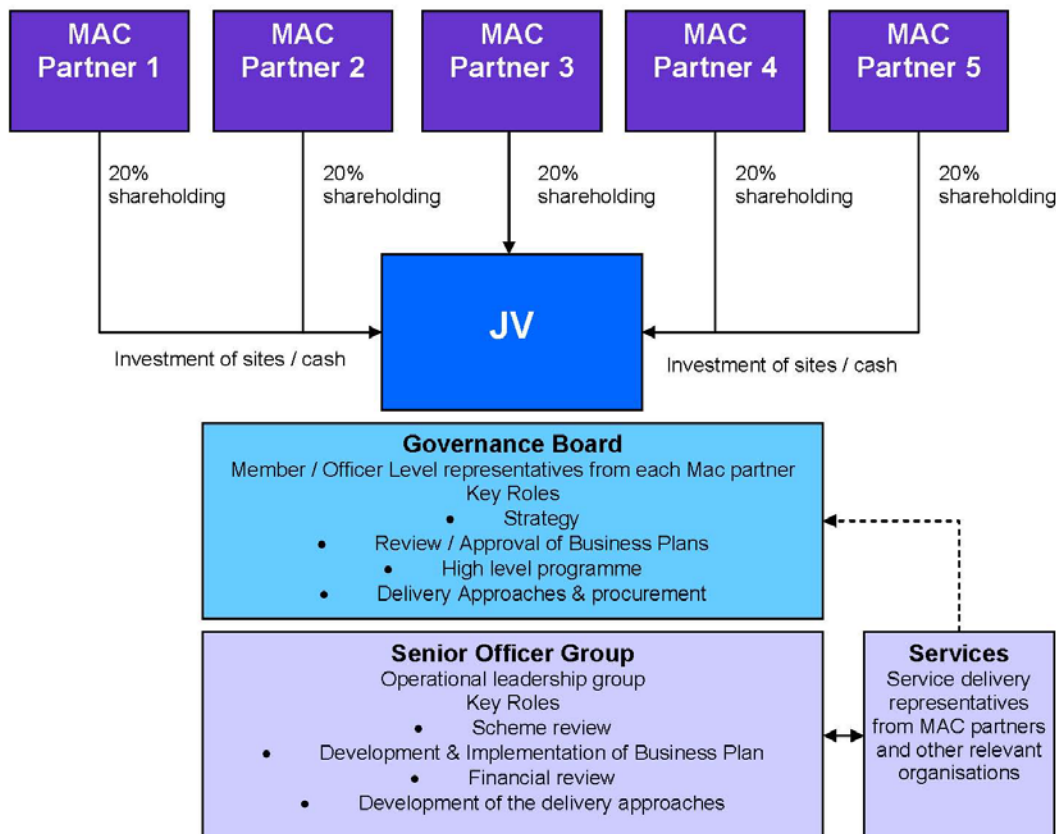
Appendix 1 is a Mapping the Public Realm map of Ely showing the public sector estate.

- 4.5 MAC projects include market town regeneration schemes, a Joint Operations Centre in the south of the county, delivery of Cambridgeshire's Asset Management Strategy, and development of efficient short-term arrangements for MAC partners to share space and reduce costs.
- 4.6 In order to deliver these benefits the MAC partners agreed that innovative approaches should be investigated. In 2012, four projects were chosen from MAC's wider portfolio of projects across Cambridgeshire to exemplify and test how this approach could be delivered.
- 4.7 MAC therefore produced Outline Business Cases for four market town/city projects (March, Ely, St Ives, St Neots). Consultants GVA were then appointed to identify and structure optimal delivery model(s) for these example schemes and for the wider management of public sector assets across Cambridgeshire.
- 4.8 Various delivery models were examined and suggested by GVA. The model that was supported by MAC partners to best balance risks, benefits, control and agility for the partners was an 'Amalgamated' partnership approach, where:
- MAC partners form a public/public Joint Venture (JV) (MAC Public Property Partnership) and transfer relevant assets into this structure.
 - Not all assets have to be transferred.
 - The MAC Public Property Partnership, as an arms-length body but with governance from investing bodies, then delivers projects, manages transferred assets and pays dividends to MAC partners who become shareholders in the JV.

4.9 The proposed structure of the MAC Public Property Partnership is detailed in the diagram below. The 'JV' in the dark blue box represents the MAC Public Property Partnership.



4.10 The governance of the MAC Public Property Partnership would likely reflect a 'one member one vote' arrangement, with dividends returned to the partners in proportion to the assets invested in the JV. The indicative governance structure set out by GVA is based around a Governance Board composed of Members and an Operational Board composed of Service leads/Senior Officers. A diagram showing the indicative governance structure is included below.



4.11 The advantages of working in partnership through the MAC Public Property Partnership for the City Council include:

- Potential share of profits, as if MAC develops in partnership with partners then the City Council shares in the uplift value.
- Significant revenue savings (for example, the GVA work showed a potential saving of 50% against current costs).
- MAC takes more shared risk but for potentially significant reward.
- The MAC Public Property Partnership can act with more agility and pace than if partners were involved as separate organisations. A significant decision-making process would otherwise need to be undertaken each time a collaborative project or asset management opportunity needed to be realised.
- Developer interest in this approach is strong in Cambridgeshire.
- As well as development and financial benefits, there are likely to be significant business benefits for the partners involved.
- The Public Sector controls what it wants.
- There are property portfolio benefits and risk diversification.
- The approach is scalable and applicable across Cambridgeshire and can include different/additional public sector assets.

- Opportunities to include relevant derelict properties in the work of the MAC Public Property Partnership.

4.12 Key Issues for Members to note:

- There is a dilution of partners' sovereignty around the assets that are put into the MAC Public Property Partnership.
- This represents an 'invest to save' opportunity for partners, as although there will be up-fronts costs in establishing the MAC Public Property Partnership, the proposals represents significant capital returns, revenue savings and business benefits to the partners involved.
- There needs to be an upfront agreement by partners to independent valuations of assets to be transferred in, and to abide by these valuations.
- The principle of this approach will need to be taken through each partner's decision-making processes.
- There needs to be clear governance arrangements for the MAC Public Property Partnership.
- The governance structure will ensure effective dialogue between MAC Public Property Partnership and services so that their needs are met.
- MAC is working with Government to ensure Stamp Duty Land Tax is not a barrier to establishing the MAC Public Property Partnership. Positive signals from Communities and Local Government (CLG) regarding this issue have been forthcoming.

4.13 The principle of the Amalgamated Approach was supported by the MAC Programme Board (30th April 2013), Cambridgeshire Public Service Board (8th May 2013) and Leaders and Chief Officers meeting (24th May 2013).

4.14 In conclusion, by pooling assets and creating the MAC Public Property Partnership structure to deliver the Amalgamated Approach:

- Assets are sweated which will allow key services to be saved.
- Improvements are made to service delivery.
- Significant money is saved and capital receipts generated.
- Wider economic benefits are delivered.
- Allows agility and quick responses to market opportunities.
- Removes burden of managing property/having asset management service for individual organisations – these functions transferred to JV at lower cost.

- But individual organisations will have to accept dilution of sovereignty.

5 ISSUES FOR THE CITY COUNCIL

5.1 A number of issues need to be considered, including:

Governance

5.2 Although details are yet to be agreed amongst partners (this is seen as the next step for those partners agreeing in principle, and will be reported back as the next stage of work) the proposal at this stage is that governance should be based on a 'one member, one vote' arrangement. This would be based on Member and officer involvement, as laid out in the report.

5.3 This could be seen to involve a dilution of the current sovereignty for all partners relating to any assets that are put into the partnership JV, but it is recognised that partners could choose how many / few of their assets they would put in. It would be important that clear objectives were set for any assets that were included. This may be not too great an issue if the overriding factor is seen as financial return, rather than employment creation or other factors.

5.4 This approach would mean that all partners could have an influence in the JV irrespective of the level of the assets that they have put into it.

Financial Gains

5.5 It is proposed that partners in the JV would share the overall 'profit' based on the ratio of the assets that they had put in.

5.6 This means that the 'profit' associated with individual transactions that could have been achieved independently of the JV would be shared with partners, but equally that partners would receive a share from projects they had no direct involvement in. The principle is that the overall position would be financially better for each partner compared to acting alone, and would produce a smoother income stream with a reduction in the overall level of risk. It would also provide a vehicle for delivering schemes bringing together the assets of multiple partners which may be more difficult (or even practically impossible) to deliver otherwise.

- 5.7 Assets would be put into the JV on the basis of agreed independent valuations, to avoid disagreements arising.
- 5.8 Whilst assets transferred-in form the basis for shares of 'profits', the fact that such transactions would attract Stamp Duty Land Tax (SDLT) under current regulations would effectively provide a barrier except in cases where there are development proposals generating sufficient benefit to offset these costs. MAC has been lobbying Government for exemption from SDLT in this case, and although there has been no formal conclusion to this there have been indications of support.
- 5.9 The MAC JV may provide the most economically advantageous options for re-investing capital receipts derived from disposals within the current portfolio, when compared to other market opportunities.

Risk

- 5.10 Whilst part of the approach is to encourage taking greater risk in developing assets, it offers the offsetting benefit that it effectively spreads the risk amongst a wide range of different projects across partners.
- 5.11 Whilst public sector bodies are traditionally relatively risk-averse this could provide an opportunity to make more entrepreneurial asset-based projects more acceptable, giving access to the potential for greater financial gains.

Wider Opportunities

- 5.12 The structure envisaged for the JV could also provide the basis for the incorporation of other delivery vehicles which are currently being considered by individual partners, the flexibility to allow for this could be considered as part of the next phase of work. This may require a variation on the structure as detailed in this report.
- 5.13 The City Council and South Cambridgeshire District Council are the only members of the MAC Partnership to retain direct provision of social housing. It was agreed at an early stage in the Partnership discussions that social housing would not be considered for inclusion in any JV structure.

6 Summary and Recommendation

- 6.1 Although the Council has seen a limited number of proposals emerging so far that have a direct impact on the City area (principally the Joint Operations Centre), agreeing in principle to the creation of the JV and working with partners on the detail for a final decision would enable us to retain the ability to influence the outcome.
- 6.2 The Council would not be required to put any assets into the JV, and the proposals allow for the continuation of separate management of assets where the Council feels that this creates a better outcome.
- 6.3 The JV proposed would provide a good vehicle for delivering a wide range of individual solutions required to implement specific projects. It would also create a means of achieving appropriately agile decision-making when dealing with asset decisions.
- 6.4 On this basis it is recommended that the Council:
- agree in principle to the creation of the JV
 - work with partners to develop appropriate detail for this structure
 - give final consideration based on the detailed report at the conclusion of the next phase.

7.0 IMPLICATIONS

(a) Financial Implications

The following bullet points set out details of significant implications identified by officers:

- Revenue costs for the establishment of the Joint Venture (JV) structure are yet to be determined but these costs would be shared amongst the partners involved in the formation of the JV.
- As an example of the potential financial returns involved, the capital cost for the four market town case studies is estimated at £80m. The potential capital surplus created for the MAC partners is £39m-£43m and there is a 50% reduction in revenue costs (saving £1m p.a.).

- However, the capital and revenue financial benefits of MAC are not just related to these market towns. If the benefits are extrapolated across the whole public sector estate then there are substantial financial and efficiency gains to be made.
- Developing this proposal represents value for money based on the potential returns. Property assets relevant to the proposal will be transferred to the JV.
- Performance has the potential to be improved through the ability of the JV to deliver benefits in a more agile manner than acting unilaterally.

(b) **Staffing Implications**

None

(c) **Equal Opportunities Implications**

An equality impact assessment has not been prepared for this item.

The following bullet points set out details of significant implications identified by officers:

- The proposals could improve access to services by bringing existing and new services together in new, multi-functional properties.
- Co-located services and modern facilities would maintain and improve workforce and customer equality, fairness and diversity.
- The design of hubs would have due regard to the Council's Equality Act duties.
- Community Impact Assessments will be undertaken as part of the proposal and for individual projects/hubs.

(d) **Environmental Implications**

Property resources could be used in a more sustainable way to create low-carbon and centrally-located hubs and residential/retail development.

(e) **Procurement**

There are no procurement considerations in this report.

There are, however, legal and risk issues associated with the creation of the new vehicle. The following bullet points set out details of significant implications identified by officers:

- There are a variety of legal structures that the MAC Joint Venture could use, identified through the GVA report and earlier exploratory reports from consultants DTZ and Mills & Reeve.
- Each structure has a number of advantages and disadvantages and these will be examined to determine the most appropriate structure for MAC.
- There are reputational implications of not pursuing the opportunities presented by a JV and risks associated with taking a new approach to asset management.
- The key risk is a dilution of sovereignty over the assets transferred. This can be managed by a strong legal and operational structure that clearly defines the Council's service requirements and returns financial benefits to the Council in relation to the level of initial investment in the JV.

(f) Consultation and communication

Each MAC partner is reporting through its own decision making processes to consult its key stakeholders as to whether or not the JV approach is supported in principle. The Cabinets at Cambridgeshire County Council and South Cambridgeshire District Council have already approved the approach outlined in this report.

(g) Community Safety

There are no community safety considerations in this report.

BACKGROUND PAPERS: The following are the background papers that were used in the preparation of this report:

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To inspect these documents contact David Horspool, Director of Resources on 01223 457007 or Dave Prinsep, Head of Property Services on 01223 457318.

The author and contact officer for queries on the report is David Horspool, Director of Resources on 01223 457007.

Report file:

Date originated: 30 September 2013

Date of last revision: 30 September 2013

