

CABINET MEETING – 27 NOVEMBER 2013

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Local Asset Backed Vehicle - Preferred Bidder Stage

Author(s):

Report of the Executive Director of Commercial and Corporate Services and the Deputy Chief Executive

Purpose of Report:

The purpose of the report is to inform Cabinet of the progress made in respect of the procurement process for the appointment of the Local Asset Backed Vehicle (LABV) partner and the subsequent establishment of the proposed LABV (for the purposes of this report referred to as the Sunderland Delivery Vehicle (SDV)).

Description of Decision:

Cabinet is recommended to note the contents of this report and the substantial progress made to date in respect of the LABV partner procurement process leading to a recommendation of a preferred bidder and the next steps in order to establish the Sunderland Delivery Vehicle.

Is the decision consistent with the Budget/Policy Framework? **Yes**

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

The procurement process for the SDV partner, the appointment of a preferred bidder and the subsequent establishment of the SDV will enable the Council to form a public-private partnership with the selected partner utilising the Council's asset base, the partner's equity funding and expertise plus proposed third party finance to deliver economic and regeneration benefits to the City in accordance with the key objectives of the Economic Masterplan.

In overall terms the SDV will deliver a financial return to the Council, enable leverage of partner and third party expertise, capacity and finance, and deliver significant economic regeneration benefits for the City.

Alternative options to be considered and recommended to be rejected:

The Council could decide not to continue the LABV procurement process and not to appoint a preferred bidder. However the abandonment of the procurement process would not deliver the economic regeneration benefits for Sunderland as detailed in the report.

The alternative options to the procurement and establishment of a LABV were considered and rejected by Cabinet on 18th July 2012. None of these options would deliver the same level of regeneration benefits for the City in the current market and in accordance with the same timescales as the proposed LABV.

Impacts analysed;

Equality Yes Privacy N/A Sustainability N/A Crime and Disorder N/A

**Is this a “Key Decision” as defined
in the Constitution? Yes**

**Is it included in the 28 Day Notice?
 Yes**

Scrutiny Committee

LOCAL ASSET BACKED VEHICLE APPOINTMENT OF PREFERRED BIDDER**REPORT OF THE EXECUTIVE DIRECTOR OF COMMERCIAL AND CORPORATE SERVICES AND THE DEPUTY CHIEF EXECUTIVE****1. Purpose of the Report**

- 1.1 The purpose of the report is to inform Cabinet of the progress made in respect of the procurement process for the appointment of the Local Asset Backed Vehicle (LABV) partner and the subsequent establishment of the proposed LABV (for the purposes of this report referred to as the Sunderland Delivery Vehicle (SDV)).

2. Description of Decision (Recommendations)

- 2.1 Cabinet is recommended to note the contents of this report and the substantial progress made to date in respect of the LABV partner procurement process leading to a recommendation of a preferred bidder and the next steps in order to establish the Sunderland Delivery Vehicle.

3. Background

- 3.1 In July 2012 Cabinet agreed that the LABV model was the appropriate delivery model for the regeneration of key sites within the City given the current economic conditions, and that by utilising the Council's asset base there was the potential to leverage private sector investment, capacity and expertise to fund a programme of regeneration on key strategic development sites.
- 3.2 A LABV is a public/private joint venture partnership which would utilise the Council's asset base comprising both the investment property portfolio (i.e. the shops, managed workspaces and industrial properties) and key development sites to provide substantial leverage of private sector funding, capacity and expertise to proactively accelerate and deliver growth and regeneration across the City to assist with achieving the aims of the Economic Masterplan.
- 3.3 In high level terms the Council would form a joint venture with a private sector partner in the form of a limited liability partnership (LLP) which would involve each party holding a 50% equity stake with equal board representation and deadlock provisions on decision making where necessary. There would be a day one asset transfer between the Council and the LABV in respect of the Council's investment properties and in consideration the Council would receive equity to be matched by the partner and a secure loan note structure in respect of the balance of its investment. The Council's development sites would then be transferred to the LABV on a site by site basis subject to the satisfaction of pre-development conditions precedent. The LABV would deliver the development sites through a combination of funding streams including

equity funding from the partner, recycled returns from other sites and the investment portfolio and third party development finance. The Council would also receive financial returns in accordance with the loan note structure and the performance of the LABV through its equity investment.

3.4 Through the LABV the Council would be developing a delivery structure that would have the following key regeneration objectives:

- to leverage the Investment Portfolio to stimulate and accelerate economic development in the City and improve the quality and quantity of housing;
- to create early development wins by significantly accelerating the pace of delivery of outputs in relation to the Development Sites;
- to leverage in private sector investment, funding and involvement, including knowledge, skills, expertise and capacity, with a national profile, in relation to the Investment Portfolio and Development Sites, that otherwise would not be achieved;
- to enable the profitable parts of the property portfolio to be used to assist in bringing forward more complex regeneration projects on other Development Sites through the effective use of cross subsidisation;
- to bring forward priority development projects in the City in a timely manner, in accordance with the Council's development and policy aspirations for the Development Sites and to fulfil the aims of the Economic Masterplan;
- to generate employment opportunities in the city centre thereby assisting with the economic revitalisation of the City, and stimulating an improved retail offer and quality in the City; and
- to allow the Council to share in control of the development and delivery strategy for the Development Sites.

Property Portfolio

3.5 The Council's portfolio to be transferred to the SDV comprises a diverse range of income generating properties as well as land holdings in 6 key development areas, spread across the City. Under the LABV model, as explained above, the property portfolio would be transferred by the Council to the SDV. The portfolio includes both freehold and leasehold assets which can be categorised as follows:

- **Investment Portfolio**: the Council's ground leases, retail properties mainly comprising of its shopping parades on housing estates, industrial properties across the City including those at Rainton Bridge together with managed workspaces at The Place, St Thomas Street, Stanfield Centre, and the Southwick and Houghton Business Centres but excluding the freehold to the Bridges and Jacky White's market which are to be retained by the Council.

- **Development Sites:** comprising the former Vaux Brewery Site, Seaburn, Chapelgarth, Farringdon Row, Holmeside, and Numbers Garth Sunnyside.

As Members are aware, some of these key sites (i.e. Vaux and Farringdon Row) are owned by the Council but subject to contractual joint venture agreements with the Homes and Communities Agency (HCA).

In addition, the Holmeside site is currently in the ownership of the HCA.

The HCA has agreed that the SDV is the appropriate delivery vehicle for both Vaux and Farringdon Row.

The HCA and the SDV will agree the detailed development proposals for Holmeside at the appropriate time.

It is also possible that other Council (or other public sector) sites and development opportunities could be included in the LABV delivery structure in the future if considered appropriate.

4. Current Position

- 4.1 Following Cabinet approval at its July 2012 meeting, the Council has undertaken an OJEU procurement process for the appointment of a LABV partner using competitive dialogue. Through this process and following a pre-qualification stage, a group of three shortlisted bidders (with sufficient experience, capability and capacity for the LABV model) have participated in the detailed dialogue stage and developed and refined their proposals for the SDV. The competitive dialogue stage was formally closed on 9th October 2013 and the three bidders were invited to submit their final tenders for the SDV.
- 4.2 The three remaining bidders at that final detailed competitive stage of the process were:
 - i) A consortium led by Igloo Regeneration Ltd and Carillion Group plc (acting through Maple Oak Ltd);
 - ii) Langtree Land and Property plc; and
 - iii) A consortium including Ramboll, Calmont Project Services, Barratt Developments PLC, Kier Construction, BNP Paribas Real Estate Advisory & Property Management UK Limited
- 4.3 As part of the dialogue process, the bidders have been required to prepare, develop, refine and submit the following documents:
 - i) Detailed Funding Proposals for the SDV;
 - ii) A Corporate Business Plan for the SDV;
 - iii) An Asset Management Plan in respect of the Investment Portfolio;
 - iv) Site Specific Business Plans for each Development Site comprising:

Detailed plans for the following initial Development Sites:

 - Vaux;
 - Chapelgarth; and

- Seaburn
- Outline plans for the following sites:
- Farringdon Row;
 - Holmeside; and
 - Numbers Garth, Sunnyside.

- v) A full legal mark-up or detailed commentary of all the draft project agreements provided by the Council through the procurement process;
- vi) A Mobilisation Plan; and
- vii) An Executive Summary.

Evaluation of Bids

- 4.4 The bids received have been evaluated by the Council's Project Team comprising representatives from property services, finance and legal, in conjunction with the Council's external advisers (Jones Lang Lasalle (commercial and property) and Pinsent Masons (legal)). The evaluation criteria and respective weightings were as follows:-

Criteria	Weighting (%)
(1) Proposals for Development Assets	25
(2) Proposals for Investment Assets	10
(3) Financial Proposal	20
(4) Funding Proposal	15
(5) Resourcing	10
(6) Legal Structure	20

Each criterion was scored out of ten marks through a scoring system.

- 4.5 In addition, the bidders were also required to pass a minimum quality threshold of 60% of the marks in respect of the following three key areas:-
- Proposals for the Development and Investment Assets;
 - Financial and Funding Proposals; and
 - Resourcing and Legal Structure.
- 4.6 A detailed summary of the evaluation and scoring of the bids and a recommendation in respect of the appointment of a preferred bidder and the related matters are set out in the Part II report.

5. Next Steps

5.1 Subject to the approval of the recommendation for the appointment of a preferred bidder and related matters and to any further clarifications in respect of the successful tender as may be required, the Council would seek to finalise the project agreements with the preferred bidder and proceed to completion and establishment of the SDV.

5.2 It is envisaged that the next key stages are as follows:

- Preferred Bidder appointment - November 2013
- Fine tune and finalisation of legal documentation - November – December 2013
- Financial Close / Completion - January 2014
- Operational commencement - February / March 2014

6. Employee Implications

As part of the establishment of the SDV it has been identified that the Transfer of Undertakings (Protection of Employment) Regulations 2006 will apply. The TUPE regulations apply, when a business or undertaking, or part of one, is transferred to a new employer, in this case the SDV, or the SDV's Asset Management Contractor (as the case may be). All eight employees currently employed within Property Services will be in scope to TUPE transfer to the SDV, or the SDV's Asset Management Contractor (as the case may be). When the transfer takes place the affected employees will automatically become an employee of the SDV, or the SDV's Asset Management Contractor (as the case may be). Formal consultation will commence following the appointment of a preferred bidder with the recognised trade unions of the affected employees about the prospective transfer.

7. Financial Implications

7.1 The detailed financial implications are considered within Part II of the agenda. In overall terms the proposition delivers a positive financial return to the Council, leverages significant additional third party finance to build out some of the development sites and delivers significant economic regeneration benefits for the City.

8. Legal Implications

8.1 The legal implications arising from the evaluation of the bids, the appointment of a preferred bidder and the establishment of the SDV are considered in the Part II report.

9. Reasons for the Decision

- 9.1 The procurement process for the SDV partner, the appointment of a preferred bidder and the subsequent establishment of the SDV will enable the Council to form a public-private partnership with the selected partner utilising the Council's asset base, the partner's equity funding and expertise plus proposed third party finance to deliver economic and regeneration benefits to the City in accordance with the key objectives of the Economic Masterplan.

In overall terms the SDV will deliver a financial return to the Council, enable leverage of partner and third party expertise, capacity and finance, and deliver significant economic regeneration benefits for the City.

10. Alternative Options

- 10.1 The Council could decide not to continue the LABV procurement process and not to appoint a preferred bidder. However the abandonment of the procurement process would not deliver the economic regeneration benefits for Sunderland as detailed in the report.

The alternative options to the procurement and establishment of a LABV were considered and rejected by Cabinet on 18th July 2012. None of these options would deliver the same level of regeneration benefits for the City in the current market and in accordance with the same timescales as the proposed LABV.

11. Equality Impact Analysis

- 11.1 The equalities impact analysis in respect of the appointment of the preferred bidder and the subsequent establishment of the SDV is considered in the Part II report.

12. Other Relevant Considerations / Consultations

12.1 Risk Implications

The risk analysis in respect of the establishment of the SDV is considered in the Part II report as part of the consideration of the next steps.

13. List of Appendices

None

14. Background Papers

None