REPORT TO:	Executive Board
DATE:	14 January 2016
REPORTING OFFICER:	Strategic Director, People and Economy
PORTFOLIO:	Physical Environment
SUBJECT:	Joint Venture Proposal
WARD(S)	Borough-wide

1.0 **PURPOSE OF THE REPORT**

1.1 The purpose of this report is to advise Executive Board of a proposal for Halton Borough Council to enter into a joint venture arrangement with Langtree.

2.0 **RECOMMENDATION: That**

1) Executive Board consider the proposal to enter into a joint venture arrangement with Langtree; and

2) The Chief Executive, in consultation with the Leader and Portfolio Holder Physical Environment, is given delegated authority to conclude a joint venture with Langtree, on the terms set out in this report.

3.0 **SUPPORTING INFORMATION**

3.1 Langtree is well known to the Council, notably as part of the joint venture partnership at Sci-Tech Daresbury .

3.2 Langtree is providing asset management and investment advice to a major institutional investor with assets exceeding 7.7 billion dollars, on multi-let industrial assets across the North West.

3.3 In partnership with this institutional investor Langtree have acquired a Runcorn multi-let portfolio including an estate on Astmoor and are looking to acquire more assets both in Runcorn and Widnes to benefit from the opportunities presented by the New Mersey Gateway and associated infrastructure improvements.

3.4 Langtree has approached the Council with a view to entering into a joint venture partnership agreement to develop a Halton portfolio, including properties at Astmoor.

Astmoor is a key employment area for the Borough. It has been identified as a key impact area within the Mersey Gateway Regeneration Strategy. As part of the delivery of this strategy, Aecom have been commissioned by the Council (as part of a Time bank agreement) to undertake some initial Master planning work which seeks to establish a long-term plan for the area.

Astmoor is also one of the Borough's Business Improvement Districts. The BIDs programme has made small scale but high impact improvements to the area, but overall the area generally, has suffered from underinvestment over the last 25 years.

To emphasise this point, Astmoor often competes on price, but this has led to depressed commercial rents and lower capital values. Consequently, a 'vicious circle ensues where a lack of quality accommodation means that high value employers tend to locate in other parts of Runcorn, or other sites outside the Borough.

On a positive note, there is demand for high quality 80,000-100,000 sq. ft. premises, particularly in Runcorn. Sites such as Manor Park are close to capacity and, therefore, the Council needs to consider different ways of meeting this demand, both now and in the future.

Therefore, the joint venture partnership proposed could provide a mechanism for pooling the Council's property and landholdings in Astmoor, alongside recent investments made by Langtree and their investment partner.

This would then create the critical mass required to enable the partnership to take a more long-term strategic master planning approach to how the this portfolio could be promoted to benefit from future investment opportunities.

It should be noted that the Council's land and Property holdings in Astmoor are not significant.

- The Council owns the office block on 1-6 Davey Road; (red on attached plan)
- Dewar Court, (mentioned above);
- Astmoor Primary School;
- Wigg Island;
- Halton Council do occupy land at the Bridge School, however, the Council leases this from First Investments.

There will, however, be small areas of land coming back to the Council following completion of the Mersey Gateway (a plan of this land is attached).

As part of a Masterplan, a Joint Venture could consider a more effective use of the road and bus corridor infrastructure to free up additional land.

The Council could also consider extending the scope of the JV arrangement to include parcels of land the Council owns at Manor Park and other Council owned and privately owned assets within the envelope of the Mersey Gateway Regeneration Strategy

Given the complexities involved, it is acknowledged that the precise particulars of the sites and assets to be included in the proposal will need working up in more detail. Were the Joint Venture to be progressed initial actions would focus on the following areas: -

Filling void space – some space will be capable of letting with minimal repositioning or intervention. This drives overall profitability and returns.

Further acquisition - the fund manager would seek then to acquire further property on the Astmoor estate and within the envelope of the Mersey Gateway Regeneration Strategy. This would be done by further introduction of equity. Again a minimum return would be paid to the partners on this further equity.

Repositioning - the repositioning element is likely to be key for the fund as it will drive capital returns above the standard income return. Here it is likely that further capital will be needed for refurbishment cost. Again here the JV would agree the amount to be incurred based on delivering projected capital enhancement.

Draw down of land released post Mersey Gateway completion- again any additional land from the Council could be matched by equity from the Fund.

4.0 POLICY IMPLICATIONS

4.1 There are no further policy implications identified in this report.

5.0 OTHER/FINANCIAL IMPLICATIONS

5.1 How the Joint Venture Might Work

Clearly, the development of a financial model would need to be worked up in more detail. However, the Council has entered into Joint Venture arrangements previously.

The proposed approach would result in both parties transferring their existing assets into the Joint Venture at Day 1. At this stage, there could be a difference in value in the assets transferred. This gap could be offset either by a cash contribution, or a guarantee of cash.

The JV partners would receive the share of the ownership of the assets in accordance with the assets contributed. Not all the cash need necessarily be provided at day 1.

There would need to be an understanding that there would be minimum return which would be paid to the partners. This should then enable the Joint Venture to meet all its liabilities and generate some working capital.

The Council may consider prudential borrowing to support the joint venture. If this were the case, then the above approach would need to ensure that it would be in a cash generative position and, therefore, a running return would potentially be a requirement of the fund.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

Children & Young People in Halton

Employment, Learning & Skills in Halton

The proposal seeks to create and refurbish industrial and commercial premises at Astmoor, Runcorn and other sites within the Borough

Providing improved and fit for purpose accommodation would support businesses to become more productive and sustainable, leading to more jobs being created in the area.

It also safeguards existing jobs by creating grow on space for indigenous businesses looking to expand or relocate within the Borough.

6.1 A Healthy Halton

N/A

6.2 A Safer Halton

N/A

6.3 Halton's Urban Renewal

The proposal would reinforce potential regeneration benefits arising from the Mersey Gateway. It provides an opportunity to fulfil existing demand from businesses to provide much-needed high quality business space in Halton.

6.4 **RISK ANALYSIS**

6.5 There are several factors that Executive Board would need to consider. Clearly there are a number of benefits to the Council.

Firstly, the Council would seek to generate revenue on any capital investment made. Secondly, by creating a Joint Venture with a growth agenda beyond the initial assets identified, it is anticipated that the Council would receive a return in excess of the Public Works Loan Board rates.

Thirdly, a Joint Venture structure would result in the Council taking a share in any uplift created by repositioning Astmoor Industrial Estate and other assets within the JV.

Fourthly, in the long-term, the joint venture partnership would allow the Council to maintain a strong influence in determining the future regeneration of the area, whilst benefitting from both human and financial partners being provided by the private sector. Furthermore, the Council would be in a position to make commercial decisions regarding how the asset portfolio would be managed and would be less constrained by public sector policies and procedures.

There are also certain risk factors that Executive Board would need to take into account. Firstly, there has been a strong upturn in the level of inward investor interest in the Borough over the last 12-18 months. This is evident in the increased value of land and property disposals that have taken place. Therefore, rather than seeking to enter into an agreement with Langtree and its investor immediately, the Council may alternatively consider whether it wishes to undertake a mini-competition to assure best value and avoid any potential challenge from other potential investors/joint venture partners. The disadvantage of this is that a procurement process could be lengthy and resource intensive and any momentum that Langtree has developed with a significant financial backer could be lost. The Council also has a good working relationship, built on trust with Langtree and has seen the developer’s long-term commitment to the Borough at Sci-Tech Daresbury.

A procurement call may not be required given that Langtree has already acquired assets at Astmoor and these assets would be included in the Joint Venture partnership. The Council would also be making a cash contribution to the partnership.

An alternative approach that Executive Board might wish to consider is the development of a ‘relational partnering’ approach with Langtree.

This is a concept that the Council considered a couple of years ago with a company called PSP.

This model is different to the traditional Asset Backed Vehicle approach because it does not identify assets from the start but instead, the partners jointly explore property opportunities to their own mutual benefit. Projects then need to show how they are as good as or better than other options. A jointly owned LLP vehicle is established to develop property related projects that are governed by a Members' board. All decisions would need to be agreed by the Local Authority and private sector investor.

Executive Board is advised that if the Council were to borrow resources to support the Joint Venture, the Joint Venture Partnership would need to be constructed in a way that would enable the Council to 'own the assets' against which it was borrowing and these assets would need to be held on the Council's balance sheet.

If the Council were to borrow to invest in the Joint Venture, the Council would clearly need a guaranteed return to service the debt. Ownership of the asset would not be enough alone, and a return of approximately 7% over 25 years would be needed.

A further risk to the Council is that the initial development of a Joint Venture partnership is resource intensive. It would require input from a wide range of Council services to set up the Joint Venture, for example, from Legal, Finance, Property and Regeneration. The actual delivery of the JV would also require additional input from planning, and transport.

It is anticipated that a 'project coordinator' role would be required to take forward the proposal. These costs would need to be factored into the governance arrangements being established to manage the Joint Venture. Given, the relative 'leanness' of the organisation, Executive Board would need to reflect on whether there is the capacity to deliver the JV effectively.

A bid for additional resources under the Council's Invest to Save scheme would be appropriate.

There is an argument that the Council could simply sell its assets to Langtree, given the strong financial backing it already has.
This would approach would result in the Council losing direct control of the asset, and perhaps more importantly, would lose an opportunity to influence the future direction and strategy for Astmoor and within the envelope of the Mersey Gateway Regeneration Strategy the envelope of the Mersey Gateway Regeneration Strategy

However, realistically, from the perspective of 'future proofing' the Council will need to consider whether its regeneration priorities would be best served through greater collaboration with the private sector.

In the model outlined in this report, the Council would move from deliverer to facilitator of the Borough's major regeneration projects. The Council would still exert influence and ownership of the wider regeneration strategy for Astmoor and the envelope of the Mersey Gateway Regeneration Strategy

Other issues that would need to be considered further as part of the further exploration of the proposal include: -

Exit Strategy – Learning the lessons of previous joint venture partnerships, ensuring that mechanisms are in place should there be a need to dissolve the partnership;
Board Structures and properly managed meetings, for example, avoidance of deadlock, as well as open and transparent board meetings. In this regard, it is envisaged that arrangements similar to those at Sci-Tech Daresbury would be worth exploring further;
Robust Performance management i.e. clear milestones for delivery;
Profits and risks – ensuring appropriate distribution of the risks and rewards arising from the partnership.

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 There are no Equality and Diversity issues arising out of this report.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

None under the meaning of the Act.