

19th September 2017

Policy, Projects and Resources Committee

Brentwood Asset Development Programme

Report of: *Phil Ruck – Chief Executive.*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 The purpose of this report is to update Members on progress made to date in taking forward the Council's asset development programme and to outline next steps and issues that may arise.
- 1.2 The aim of the asset development programme will be to steer and manage development opportunities from the Council's property asset base so as to deliver improved revenue income streams from the portfolio but at the same time securing the regeneration, economic development and housing objectives of the Council.
- 1.3 The project board has considered a range of options for securing returns from the portfolio and at this stage favours a hybrid approach which allows the Council to take forward smaller projects alone but shares risk on the more complicated projects.
- 1.4 Under a hybrid approach straightforward smaller sites are self-developed by the Council with more complex sites developed by a single joint venture development partner in accordance with the Council's vision for each of those sites. This activity will be programmed over a number of years in accordance with business plans and cash flow requirements that will be agreed by Committee.
- 1.5 For a Hybrid approach to deliver successfully there will be a requirement for the Council to undertake development activity itself. It will need to resource the role and manage the related risks. In addition, it is crucial that the Council adequately resources its role as a partner to the activities of a partnership, either as shareholder to a new Company, or through an alternative governance arrangement. A common mistake by Councils is not to undertake this role with appropriate resource and skillsets such that the partnership either does not operate effectively, or the rewards between the partners are not appropriately shared.
- 1.6 The next stage in taking forward the project is to consult the market. This will identify market appetite for the options and assist in defining the scope

of the approach the Council may wish to take forward and how it can be realised/procured. This will inform how the Council might engage with partners or indeed procure a Joint Venture development partner or investment partner. It will also inform how the Council may take forward self-development projects. As such this next stage of the work is critical in shaping the delivery of the entire programme over future years.

- 1.7 The output of this next stage will be considered by the Project Board, comprising Cllr McKinlay, Cllr Kerslake, Phil Ruck, Steve Summers and John Chance in a check and challenge session, with the objective of developing a detailed recommendation to the Council's Policy Performance and Resources Committee for how the project should be taken forward.

2. Recommendation(s)

- 2.1 The committee approves a Hybrid approach for securing the Councils Vision and Objectives.**
- 2.2 That delegated authority be given to the Chief Executive in Consultation with Group Leaders or their appointed deputies to consult with the market to inform the next stage of project development.**
- 2.3 A further report be brought back to this committee's November meeting with the Project Board's detailed recommendations and action plan for taking forward this project.**
- 2.4 The committee approves that officers investigate the establishment of an appropriate investment vehicle or vehicles for the delivery of the Councils objectives. Such an investment vehicle will be subject to appropriate legal requirements.**
- 2.5 That progression of the development and delivery of the asset programme will be brought back to an appropriate future committee.**

3. Introduction and Background

- 3.1 East of England Local Government Association (EELGA) were commissioned in March 2017 to support the Council in driving forward its asset agenda, with particular focus on considering options for steering

and managing the development opportunities from the Council's asset base so as to deliver improved revenue streams.

- 3.2 As part of the commissioning process EELGA developed a 7-step plan (for Phase 1) to help the Council select a preferred option and the best way of achieving its implementation by reviewing delivery models and the most effective procurement paths.
- 3.3 An initial visioning workshop was held with the Project Board to develop a draft vision and objectives to be used to underpin the project and a development programme with forecast returns developed from a sample of Council owned assets to illustrate the potential revenue outcomes.
- 3.4 The vision for the programme is:

Vision

"A development, investment and optimisation programme that quickly delivers/optimises a portfolio of income generating assets and capital receipts to support the Council's growth agenda. Whilst generating financial returns for the Council and acting commercially this programme will respect the residents, businesses and taxpayers of Brentwood and the ethics and values of the Council."

Primary Objectives

- Generate capital and revenue returns from the Council's asset programme and managing opportunities as appropriate.
- Develop a portfolio approach that balances risk and reward across a portfolio of assets;
- In developing / making investment decisions / optimising assets be cognisant of the potential to reduce long term costs and risks to the Council Tax payers;
- In making development / investment decisions / optimising assets take into account the Council's growth agenda;
- To develop and utilise a series of approaches that are in line with the Council's corporate strategy whilst maximising income return;
- The Council will use its borrowing powers, and capital receipts, to invest in asset based transactions targeting financial return;
- Undertake activities with a view to establishing and maintaining pace; and

- The Council is open to appraising out of borough investments for better financial returns and will also consider co-investment opportunities with public not for profit and private sector partners.

3.5 EELGA has worked with the Project Board to undertake an asset challenge and triage process to review the Council's property assets and the Council's vision for them.

3.6 A range of delivery options has also been considered and at this stage the Project Board is likely to favour a Hybrid approach and it is now seeking Committee approval for the hybrid approach and to proceed with a market consultation to check and challenge its considerations, seek levels of interest and inform the next stage of project development.

4. Issue, Options and Analysis of Options

4.1 Asset Challenge and Triage - The asset challenge and triage process considered the current status of the Council's property assets, the Council's ambition and vision for them, their planning status and their complexity and deliverability. Assets initially considered as part of this process are set out in Appendix A. The principal properties are shown below.

Warley Depot	William Hunter Way
Chatham Way Car Park	Westbury Road Car Park
King Edward Road (<i>vacant development site</i>)	Land Adjacent to Alexander Lane
Garage Sites	1-2 Seven Arches Road

4.2 This process was followed by an assessment of delivery options which included:

Option 1 – Disposal – Baseline (in current condition / stage)

Option 2 – Joint Venture Enabling Partner – All sites enabled by a joint venture partnership and service plots sold to the market

Option 3 – Joint Venture Development Partner – All sites developed by a joint venture partnership with a single development partner

Option 4 – Joint Venture Investment Partner – All sites developed by a joint venture partnership with a single investment partner and multiple development / construction organisations

Option 5 – Hybrid Approach – Simple sites e.g. garage sites are self developed by Brentwood / more complex sites e.g. Town Centre are developed by a single joint venture development partner

Option 6 – Self Development – All sites are developed by Brentwood

Option 7 – Do Nothing – discounted because of the Council's need to generate revenue returns from its portfolio of property assets.

Please see tables at **Appendix B** for a more detailed consideration of the advantages and disadvantages of each option.

- 4.3 Project Board currently favours the Hybrid Approach and is now seeking Committee approval for the approach and to proceed with market soundings to assess interest in and the deliverability of the options and to inform the next stage of project development which will include development of a resourcing plan and detailed delivery/action plan.
- 4.4 Market soundings will allow project board to better understand and flesh out how the Council's role could be undertaken. For example, under the Hybrid approach there will potentially be a requirement for the Council to undertake significant development activity itself on the smaller sites. It needs to be established how this role will be resourced, the most appropriate investment vehicle(s) and the related risks managed. Will the Council utilise external resource to help manage these risks and undertake these roles? Or will it staff up internally? What will be the extent of the requirement and across what time horizon? These are key questions that need to be answered in order to understand and shape the project that the Council may resolve to take forward.
- 4.5 For either a Hybrid or pure partnership approach it is crucial that the Council adequately resources its role as a partner to the activities of the partnership, either as shareholder to a new Company, or through an alternative governance arrangement. A common mistake by Councils is not to undertake this role with appropriate resource and skillsets such that the partnership either does not operate effectively, or the rewards between the partners are not appropriately shared.
- 4.6 With the insight from market soundings Project Board will be able to identify its preferred option and develop the scope of the potential partner. For example, issues to be addressed in the market soundings will include what are the services, schemes, and responsibilities to be required from the parties? Will they be asked to fund, develop and manage assets or

will it be an alternative configuration of just some of these roles. This needs to be understood before the project can be progressed.

- 4.7 These steps will address the roles and responsibilities of the Council and the potential partners. Concurrently with progressing these areas, the Council needs to undertake further work on the sites/schemes in question. Decisions will need to be taken on a range of issues including planning strategy and appropriate investment vehicle(s). For example, does the Council want to obtain planning before working with a partner? Or share these costs with the partner following engagement? Which sites / schemes might it want to undertake itself and which with a partner? And there's a variety of other questions. It is important that the Council undertakes this review and utilises the appropriate skillsets both internally and externally in the form of Financial, Legal and Property advisors.
- 4.8 Once the Project Board has worked through the above areas it will be clear on the option(s) it wishes to recommend to the Policy Performance and Resources Committee and the roles and responsibilities which should be undertaken in house and those that it needs to procure from a partner, or partners.
- 4.9 Subject to obtaining Committee approval the project board will then be in a position to develop the procurement approach and documentation that underpins it. A partnership approach requires a dialogue to achieve the most appropriate relationship, and most commonly a "Competitive Dialogue" OJEU procurement procedure is used. This is not the only approach available to the Council, and working with its advisors it can weigh up the potential approaches and decide which is most suitable, as well as the key stages and timeline for the procurement. Typically, the procedure would take between 6 and 12 months to complete.
- 4.10 Once the approach has been agreed by Committee, the key documents can be developed. These include, but are not limited to, elements as follows:

Selection Questionnaire – How will bidders be judged to pre-qualify for the procurement, including an assessment of historic performance on similar projects and financial assessments.

Descriptive Document - The Vision and Objectives of the Council and the "glossy brochure" that the market will see showing what the Council is trying to achieve and laying out the headlines of the procurement.

Specification – This is the key document that articulates the Council's requirements, providing a detailed scope of works / specification that the

Council is seeking from its partner. This clearly explains the role in detail and the requirements the Council has as to how it will be delivered.

Evaluation Criteria – How will potential partners be evaluated, including the balance between price and quality in this assessment and the types of quality question to be asked, ranging from Skills and Capabilities of its potential partner, to its approach to planning, and from scheme design to partnership approach.

Scoring Mechanism – A technical approach to how questions are scored in order to shortlist bidders and eventually select the preferred partner.

The process of developing this procurement documentation is crucial in both designing a procurement that delivers the appropriate partner for the Council and also in ensuring that it is completed in the most efficient and effective way. Typically, the Council requires internal resource from key services as well as external Financial, Property and Legal advice to develop the documentation.

- 4.11 Once the documentation has been set the procurement can be launched and run in line with the appropriate procedure. As mentioned earlier, a “Competitive Dialogue” procedure typically takes between 6 and 12 months, depending on a number of factors, ranging from the stages utilised within the procedure to the level of Dialogue. It requires Dialogue sessions with bidders, and marking and moderation of responses in stages across the timetable. Once the preferred bidder has been selected there is then a period to optimise and finally sign the contract. Typically, this takes a period of 2 to 3 months. Once these stages have been completed the partnership can launch and drive forward its first schemes.
- 4.12 The stages above lay out the key tasks that are required to drive a selected approach forward. They show a clear need for significant resource from the Council, and from a team of appropriate advisors.
- 4.13 As highlighted above, there is a clear on-going role for the Council once the approach has been determined. This role should not be underestimated. As the financial case has shown in the work completed to date, the size of the potential prize for the Council in revenue and regeneration terms is significant. However, an element of this financial return needs to be set aside to fund the in house resource needed to self develop projects and manage the programme and ensure the “client side” role is effectively delivered.
- 4.14 It is only by closely monitoring / challenging yourself and your partner and focusing on scheme delivery that the financial and non-financial benefits can be realised. This paper does not seek to articulate this resource

requirement, as it is a direct product of the approach the Council may eventually select and which will be set out in the recommendations from the Project Board after completion of the next stage of work. As highlighted above, if the Council is undertaking development activity itself, the level and type of resource is significant, and differs significantly from a “client side” role to a development partnership. This will be reviewed as part of the approach selection and delivery.

- 4.15 Most important, at this stage, is understanding the level and type of resource required from the Council to take the project forward. The most crucial resource is a Project Lead. This individual will be the point person acting as the Council’s voice in taking the project(s) forward. They know the project most intimately and can bring in the appropriate external advisors for appropriate elements of the programme. They need not be a legal, financial, property or procurement expert but be a strong programme manager who understands the Council’s vision and objectives. This is often not someone who is undertaking a full day job as well as this role, thus often they are external parties who are brought in for this type of project. At this stage it should be acknowledged that this resource does not exist within in the Council and will need to be procured albeit the resource will not be required once the programme is established and operational.
- 4.16 There will be significant input required from Senior Staff. A project as high profile as this would have input from the Chief Executive and Senior Directors including Finance, Housing, Regeneration and Legal. This group would not be required for day-to-day input but would be represented on the Project Board that is the decision-making group for the project. The Board would be responsible for steering the project and agreeing all major decisions, including the approach, and the detailed documents that underpin it. At this stage it should be acknowledged that there isn’t the capacity or knowledge in house to fully resource this group and additional suitably experienced and senior staff may need to be recruited. This resource would be required during the procurement and set-up stage and on-going once the programme is established and operational. In the longer term income from the programme would cover the additional costs but a short-term provision will need to be made to cover the set up period.
- 4.17 On a day-to-day basis, an operational group would also potentially need to be established. This would involve Operational Staff from the same areas as the Project Board and they would work with the external advisory team on a more intensive basis to develop key documentation, research policy positions and ultimately drive the project day-to-day. This group

would, on average, require approximately 2 days a week, dedicated to the project. These 2 days are likely to be “lumpy” in nature. It will not be required at all for some weeks, but then at other times, whole weeks would be required e.g. during Competitive Dialogue. At this stage it should be acknowledged that there isn’t the capacity or knowledge in house to fully resource this group and additional suitably experienced operational staff may need to be recruited. This resource would be required during the procurement and set-up stage and on-going once the programme is established and operational.

4.18 The project will also require dedicated external advisory support in three main areas:

- Lead Strategic & Financial Advisor;
- Legal; and
- Property Support

These will be crucial appointments and necessary to support the Council in taking forward this major project.

4.19 Further work will be undertaken on cost and resource requirements following the market soundings and check and challenge sessions.

5. Reasons for Recommendation

5.1 The next stage in taking forward the project is to consult with the market. This will assist in testing the appetite of the market for projects of this nature and also in defining the scope of the approach the Council may wish to take forward, and how it can be realised/procured. This will inform how the Council might engage with partners or indeed procure a Joint Venture development partner or investment partner. It will also inform how the Council may take forward self-development projects. As such this next stage of the work is critical in shaping the delivery of the entire programme over future years.

6. Consultation

6.1 A purpose of this report is to seek Committee approval to consult with the market to inform the next stage of project development.

7. References to Corporate Plan

- 7.1 This project directly supports delivery of the Councils Corporate Strategy - Vision for Brentwood 2016-2019 and in particular the following sections:

“We are exploring ways of generating income by maximising returns from our property assets” - paragraph 2 of the introduction.

“Our Borough is a great place to live, work and visit; with strong, healthy and vibrant communities along with a beautiful green environment to enjoy. We want to keep it that way and are working hard to produce a new Local Plan which both protects the essential qualities of the Borough, while at the same time delivering the right mix of housing, jobs, open space and other infrastructure that will be required in the future” - paragraph 3 of the introduction.

“Increase access to the Borough's leisure opportunities” – Environment & Housing Mgt.

“Develop new approaches to grant funding, and the use of community assets” – Community & Health.

“Broaden the range of housing in the Borough to meet the needs of our population now and in the future” – Planning & Licensing

“Consider how Council assets can be utilised to promote sustainable development in the Borough” – Economic Development

The project will indirectly support delivery of the following section of the Corporate Plan:

“Develop new ways of working for the Council, improving service delivery and reducing costs and unnecessary bureaucracy” – Transformation.

The project will achieve this because in securing the project objectives the Council will need to develop new ways to secure project delivery and this could include establishing a formal legal partnership with another organisation, managing the relationship with the partnership, and undertaking trading activity to generate returns from property assets.

8. Implications

Financial Implications

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- 8.1 More detailed financial implications will be understood and reported to Committee following the conclusion of the market consultation exercise. The Council has made budget provision for this project as part of its transformation and other earmarked reserves.

- 8.2 At this stage and based on the initial work undertaken by EELGA and 31ten consulting the potential additional revenue returns from an Asset Development Programme could be in the order of £2m to £5m per annum dependent upon the details of the programme and the assets utilised in developing it. Professional fees for legal, property, lead strategic/financial and project lead services to advise and support the Council in taking forward an asset development programme are anticipated to be up to £2m - £3m as a one off set-up cost. An estimate of the cost of additional in house resources for any direct project delivery and managing the relationship with a partner will not be possible until the next stage of the project has been developed and the preferred option identified and resource requirements confirmed.
- 8.3 Further work will be undertaken on cost and resource requirements following the market soundings and check and challenge sessions.

Legal Implications

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- 8.4 Several options set out in this report will require compliance with EU procurement regulations including the Public Contracts Regulations 2015, in addition to the Council's Constitution and contract standing orders. Legal Services acting in conjunction with external legal advisers as appropriate will provide advice and assistance throughout. Further detailed comment will be available as specific projects emerge.

9. **Background Papers** (include their location and identify whether any are exempt or protected by copyright)

Please refer to Appendix A.

10. Appendices to this report

Appendix A – Assets initially considered

Appendix B - Options

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