

SHAREHOLDER CABINET COMMITTEE	AGENDA ITEM No. 4
2 MARCH 2020	PUBLIC REPORT

Report of:	Steve Cox - Executive Director Place and Economy	
Cabinet Member(s) responsible:	Cabinet Member for Finance	
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PETERBOROUGH INVESTMENT PARTNERSHIP

R E C O M M E N D A T I O N S	
FROM: Steve Cox - Executive Director Place and Economy	Deadline date: N/A
<p>It is recommended that the Shareholder Cabinet Committee:</p> <ol style="list-style-type: none"> 1. Note the contents of this report. 2. Support the Council's continued involvement in the now-proven model of the Peterborough Investment Partnership as outlined in this report, including re-affirming the Council's commitment to the original objectives as set out in 4.1.3 below. 3. Delegate authority to review and if necessary update the members agreement for the Peterborough Investment Partnership to the Executive Director Place and Economy in consultation with the Director of Law and Governance and the council's s.151 Officer. 	

1. ORIGIN OF REPORT

- 1.1 This report on the Joint Venture Peterborough Investment Partnership is submitted to the Shareholder Cabinet Committee by the Cabinet Member of Finance.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to provide the Shareholder Cabinet Committee with a position update on one the Council's joint venture delivery companies, the Peterborough Investment Partnership (PIP).
- 2.2 This report is for Shareholder Cabinet Committee to consider under its Terms of Reference No. 3.2.2 (a), *'To monitor performance and financial delivery of the companies, partnerships and charities set out above in line with Cabinet approved business plans by means of monthly performance monitoring and scrutiny,'* and (c), *'To exercise decisions, where delegated by Cabinet, in relation to a company, partnership or charity's reserved matters'.*
- 2.3 There is an exempt annex attached to this report that is NOT FOR PUBLICATION by reason of paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972 because it contains information relating to the financial affairs of the Peterborough Investment Partnership. The public interest test has been applied to the information contained within this exempt annex and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

4.1 Background to the Peterborough Investment Partnership

4.1.1 PIP was created in five years ago in January 2015 and it is therefore worth providing a brief contextual introduction to PIP as background for this report.

4.1.2 The Council's decision to create PIP towards the end of 2014 was driven by its ambitions to be proactive in addressing key regeneration opportunities in the city (with a particular focus on the city centre) and it followed extensive legal and financial discussions and advice from Pinsent Masons and Grant Thornton over the course of 2014. Councillors will be aware some parts of the city had been – and in some cases remain – underdeveloped.

4.1.3 When PIP was being created the Council had had a number of drivers and ambitions, which it is appropriate to re-state:

- a) The Council had – and still has – an ambitious growth agenda and it wanted a long-term delivery vehicle it could work with that did not have to be recreated every time a new project or idea needed execution
- b) It wanted to drive forward the development and delivery of the Fletton Quays scheme, but it had in mind a potential pipeline of projects in line with this long-term thinking
- c) It wanted the ability for schemes to provide a catalyst for regeneration, providing the full potential range of development options from housing through to leisure through to employment space; PIP would blend these as appropriate to deliver the right scheme for a given development site
- d) The Council wanted to make a fair return based on its investments

4.1.4 Perhaps expressed at its simplest, PIP was intended to work at arms-length from the Council taking away some regeneration and development challenges that the Council wanted to address and fix them. PIP was to work across a range of challenging sites and was intentionally created with a flexible and adaptable structure in order to do so. This underlying ethos remains as valid and relevant to the city and Council today as it was then.

4.1.5 PIP is a Limited Liability Partnership (LLP), with the Council owning 50% and the other 50% being owned by its partner. As an LLP it does not have Articles of Association like a Limited Company (as is the case with Argon Direct Services), and instead is governed by a Members Agreement serving roughly the same purpose. (As five years has gone by it is recommended that this is refreshed and updated to reflect the practical operational experience of the Partnership operations, whilst preserving the core protections for the Council.)

4.1.6 PIP is managed strategically by a board, with representatives on it from both the Council and its partner. They are called 'representatives' because LLPs have these instead of the Directors a Limited Company has, but their role – and their obligations – are essentially the same. The Council's current representatives are Cllr John Holdich and Cllr Peter Hiller.

4.1.7 One of the key design principles the Council wanted to achieve when PIP was created was clear, active involvement in how PIP operates. This led to both its 50% ownership and board representation, and also the method by which the board makes decisions: all decisions must be by consensus. If either party disagrees with a proposed course, it cannot proceed. It was hoped – and this has been the case in practice – that this would lead to a culture of strong alignment in thinking to 'get the job done' and a willingness to compromise and be adaptable.

- 4.1.8 Day to day, PIP is managed by a very small internal team that appoints the necessary external advisors (such as lawyers, accountants and valuers) and technical consultants (architects, engineers, and project managers) necessary to deliver projects and further the business. This was a deliberate choice, as rather than carrying a large headcount, it can flex to bring in experts and support as the needs and priorities of the business change.
- 4.1.9 PIP delivers projects through Special Purpose Vehicle companies (SPVs). This is a normal corporate practice and is part of a risk management approach. These SPVs are 100% owned by PIP LLP, and managed in the same way as outlined above. Fletton Quays was delivered by PIP (Fletton Quays) Limited accordingly.
- 4.1.10 PIP can raise money in a number of ways for funding project delivery. Both the Council and its partner have the ability to make investments into the business (on the same terms for fairness) and like other businesses PIP has the option to raise money from banks and other institutions. Historically, it has been funded by investments from both partners. The Council's investments and returns from Fletton Quays are detailed in the exempt annex; it has had all such investment and associated interest repaid.
- 4.1.11 Medesham Homes (the Council's housing delivery partnership with Cross Keys Homes that was created after PIP) is architecturally (and deliberately) very similar to PIP's structure. The key distinction is purpose: whilst both have a development focus and both have the ability to deliver housing, Medesham's primary purpose is delivering housing of all types and especially affordable housing; where PIP delivers housing, it would normally be so-called market-housing or as part of a wider, mixed-use scheme. The two vehicles serve different, but complementary purposes, and are quite capable of working together if appropriate. For example, Medesham could deliver the housing part of a PIP scheme if both partnerships' boards agreed this was the best course of action.

4.2 The Fletton Quays Project

4.2.1 Fletton Quays has been PIP's first project. It is a site with a long-history, both in terms of its position in the city as the first railway station site and a key transport hub until the middle of the last century, and also in terms of a target for and long-desired regeneration site. It is not the intention to retrace this history here or the complexities that contributed to the site being long-moribund and semi-derelict, but it is worth noting some of the constraints:

- The Felixstowe to Nuneaton / Birmingham to Stansted railway line to the south
- The River Nene and some associated flood risk to the north
- Two Grade II listed derelict former railway buildings
- A range of contamination commensurate with its former use as a station
- A 132kv high-voltage cable running directly through the centre of the site
- Only one vehicular transport connection to the highway network

4.2.2 Designing a deliverable scheme that would address and mitigate against these constraints was PIP's task during 2015. The ultimate scheme would comprise a landmark Hilton hotel, a range of riverside apartments, two high-quality office developments (one of which would sympathetically incorporate the larger Listed Grade II railway shed), some small retail occupants scattered across the development and a gin and whisky distillery and visitor centre. The timeline for the scheme's development has been (in broad terms):

1. PIP created: January 2015
2. Council sells its land on Fletton Quays to PIP: July 2015
3. Submission of outline planning application: September 2015
4. Planning consent achieved: December 2015
5. Work began on the groundworks for Plot 5 (now Sand Martin House):
6. Weston begin construction of apartments of Plot 3: Autumn 2017
7. First occupants move into Plot 3: June 2019

4.2.3 It is anticipated construction of the Hilton hotel and associated apartment block on Plot 1 (the former Bridge House site) will commence in Q1 of 2020, with the new office block opposite it that will house the relocated passport office following in Q3. The planning application for Plot 4 – the Grade II listed Goods Shed – is being prepared by Nene Distillery Ltd and should be submitted later in the spring. The Council is progressing separately, as landowner outside of PIP, with the marketing of the mill site for redevelopment.

4.2.4 It is important to note that PIP has broadly three options for how it takes a scheme forward:

1. Designing a scheme, obtaining consent and potentially installing infrastructure before selling parts or the whole on to one or more third-parties to ensure physical delivery
2. Taking a consented scheme in whole or part through to delivery itself, by being the party that builds out, with a view to selling the completed assets on at that point
3. Doing the planning and construction, and retaining parts or the whole of a scheme longer-term for the income this delivers (for example, if an office was developed)

4.2.5 Which approach adopted will vary by scheme and by each partner's risk appetite at a given time. For Fletton Quays, as PIP's first scheme, it was felt that the first option was the most prudent, and it is this method – working with a range of what PIP terms 'delivery partners' – that has seen the scheme built out. For example, Bride Hall Developments were the developer for Plot 5, and will be for the new passport office on Plot 2.

4.3 **The Partnership's Future Work**

4.3.1 PIP took on a challenging first site in Fletton Quays to test 'proof of concept'. The site has already transformed this part of the city and will continue to do so as it completes over the next couple of years. It is not inappropriate to refer to the site as a landmark development for the city, and proof that the approach the Council has taken with PIP was successful.

4.3.2 The original rationale for PIP was not about simply Fletton Quays but rather (if that scheme worked) using the same approach whenever it was appropriate to help address regeneration and related challenges in the city. With PIP now a proven model, tried and tested, it is appropriate for the Council to revisit this original intent and extend the use of PIP for future schemes. Councillors will be aware, for example, that this is the approach being taken for regenerating Northminster.

4.3.3 Like Northminster, any future projects will come through the Council's governance in the usual way through (most likely) a CMDN prior to proceeding. Where the Council is interacting with PIP over a land asset, it will do this having taken external advice on valuations to ensure that the Council is receiving a fair and externally-verified value. Should the Council choose to make a financial investment in a future PIP scheme – which it is important to stress it is never obligated to do – then it will take appropriate advice at the time. These would, of course, be discussed in the relevant CMDN and be open to scrutiny in the usual way.

4.3.4 Each of these future schemes will provide the range of direct and indirect benefits to the Council that has emerged from Fletton Quays and is inherent in the design of the joint venture:

- a) Design influence: a strong involvement in the scheme development through the Council's equal-control participation of the Board of PIP, giving it a wider influence than is achievable through (for example) its separate role as Local Planning Authority or would be contractually practical in a development agreement.
- b) Fair access to profit: whilst the Council's involvement in PIP remains primarily for the delivery of regeneration and delivering the economic and social benefits of this to the city, it is recognised that where PIP makes a profit – as happened in Fletton Quays – the Council shares in that profit in a fair manner (with the percentage of profit received directly relating to the Council's percentage of the total investment in a scheme)
- c) Managed exposure to risk: the Council is not compelled to make investments in PIP schemes; this is a choice. The Council can choose to take more or less risk, and see

more or less of any ultimate profit. At any time, the Council's total exposure is clear and unambiguous in a given scheme.

- d) Business rates and Council Tax: like any other developer delivering schemes within the Council's unitary area, the schemes PIP delivers generate new business rates and council tax income that can support the Council's financial position.

5. ANTICIPATED OUTCOMES OR IMPACT

- 5.1 That the Council recognise the success of the Peterborough Investment Partnership and its first scheme, Fletton Quays, and continue to work with it to deliver further growth and investment into the city. As the Council published its investment prospectus for the city, there will be opportunities for working with PIP as a vehicle for either wholly or partly supporting the delivery of the ambition within this on key schemes (as, for example, with the Northminster area that has already been mentioned).

6. REASON FOR THE RECOMMENDATION

- 6.1 The Council remains committed to being a direct and proactive participant in the delivery of the city's ambitious growth agenda. PIP was created as a mechanism by which it could take that agenda forward and is now a proven success. As the Council looks at how it can continue to shape and drive the city's growth in a challenging financial climate, the benefits to continuing to use this partnership make it clear that PIP should continue to be used for taking significant regeneration schemes, like Fletton Quays and Northminster, forward.

7. ALTERNATIVE OPTIONS CONSIDERED

- 7.1 There are alternatives to the Council continuing to use PIP as its primary regeneration vehicle
 - a) **A new wholly-owned company:** Building on its experiences with Aragon, the Council could create a new wholly-owned company for regeneration (revisiting, perhaps, some of the intentions for Opportunity Peterborough when it was originally created), commissioning a range of activity from this new company. This has a number of disadvantages, not least that it would be starting from scratch with this approach and therefore needing to spend significant time and financial resource (at time of fiscal constraint) in building a delivery capability in an unproven model.
 - b) **A new public-private JV partnership or company:** Whilst the Council could create a new arrangement similar to PIP for future schemes, or even scheme by scheme having a different vehicle each time, this would be resource intensive and ignore the Council's original intent of being able to re-use success rather than recreate a set up each time. It was a sensible and resource-effective intent and solution to reuse PIP rather than reinvent the wheel, and this rationale remains valid today.
 - c) **Leave it to the private sector to drive growth:** The Council accepts that much growth is delivered by the private sector without its direct involvement in delivery. However, the Council has for over a decade now been an *active* participant with a deliberate agenda in shaping the city, from its investment in public realm and infrastructure, through to its commitment to the university and the wide-ranging benefits it will bring, through to its current leading role in co-ordinating a vision for Station Quarter and beyond. The Council's desire for an active role does not align to stepping back in this way.

The rationale for creating PIP remains valid; moreover, PIP has proven itself capable of leading large-scale regeneration, managing the risks and providing a financial return. For all of these reasons, the alternative options are not recommended.

8. IMPLICATIONS

Financial Implications

8.1 This report provides a progress update, and as such there are no immediate financial implications.

Legal Implications

8.2 This report provides a progress update, and as such there are no immediate legal implications.

Equalities Implications

8.3 This report provides a progress update, and as such there are no equalities implications.

Carbon Impact Assessment

8.4 This report provides a progress update, and as such there are no direct carbon impact implications.

9. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

9.1 None.

10. APPENDICES

10.1 Appendix 1 - Exempt