



NOTICE OF MEETING

CABINET

TUESDAY, 26 FEBRUARY 2019 AT 9.00 AM

EXECUTIVE MEETING ROOM - THE GUILDHALL - FLOOR 3

Telephone enquiries to Joanne Wildsmith, Democratic Services Tel 9283 4057
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If any member of the public wishing to attend the meeting has access requirements, please notify the contact named above.

Membership

Councillor Gerald Vernon-Jackson CBE (Chair)	
Councillor Steve Pitt (Vice-Chair)	
Councillor Dave Ashmore	Councillor Jeanette Smith
Councillor Ben Dowling	Councillor Lynne Stagg
Councillor Suzy Horton	Councillor Matthew Winnington
Councillor Darren Sanders	Councillor Rob Wood

(NB This Agenda should be retained for future reference with the minutes of this meeting.)

Please note that the agenda, minutes and non-exempt reports are available to view online on the Portsmouth City Council website: www.portsmouth.gov.uk

Deputations by members of the public may be made on any item where a decision is going to be taken. The request should be made in writing to the contact officer (above) by 12 noon of the working day before the meeting, and must include the purpose of the deputation (for example, for or against the recommendations). Email requests are accepted.

A G E N D A

- 1 Apologies for Absence**
- 2 Declarations of Interests**
- 3 Record of Previous Decision Meeting - 5 February 2019 (Pages 5 - 20)**

A copy of the record of the previous decisions taken at Cabinet on 5 February 2019 are attached.

RECOMMENDED that the record of decisions of the Cabinet meeting of 5 February 2019 be approved as a correct record for signing by the Leader.
- 4 Leamington House and Horatia House Next Steps (Pages 21 - 56)**

The report by the Director of Housing, Neighbourhood and Building Services is to report to Cabinet the results of the feasibility work to strengthen, clad and install sprinklers into Leamington House and Horatia House and the options for the next steps.

RECOMMENDED that Cabinet:

- (1) Notes the results of the feasibility work to strengthen, clad and install sprinklers into Leamington House and Horatia House;**
- (2) Agrees that it is financially unviable to undertake the works to strengthen, clad and install sprinklers into Leamington House and Horatia House, and as a result;**
- (3) Agrees that on completion of the permanent rehousing of all households from Leamington House and Horatia House, the two blocks will be removed from charge, decommissioned and secured;**
- (4) Gives delegated approval to the Director of Housing, Neighbourhood and Building Services authority to incur costs to carry out decommissioning works of Leamington House and Horatia House and secure both blocks;**
- (5) Agrees that there is an opportunity for the sites to be redeveloped to create affordable/social housing and regeneration in this area of the City and requests the Regeneration Directorate working with the Housing Directorate to provide a report to Cabinet with an options appraisal for the demolition of Leamington House and Horatia House and redevelopment of the sites in consultation with the local and wider Somers town community and stakeholders;**
- (6) Notes the loss social housing units to the Housing Revenue Account and requests that the options appraisal for the development of the Leamington House and Horatia House sites includes the re-provision of a minimum of 272 social housing units to be held in the HRA.**

5 Residents' Parking Programme of Consultation Update (Pages 57 - 62)

The report by the Director of Regeneration updates members on progress on the Residents' Parking Programme of Consultation approved on 31 July 2018.

6 Board Composition of Portsmouth City Council companies

A report **will follow** from the City Solicitor. This will provide members with advice on the board composition of companies controlled by the Council.

7 Exclusion of Press and Public

“That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following item on the grounds that the report(s) contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972”.

The public interest in maintaining the exemption must outweigh the public interest in disclosing the information.

Under the Local Authorities (Executive Arrangements) (Meetings and

Access to Information) England Regulations 2012, regulation 5, the reasons for exemption of the listed item is shown below.

Members of the public may make representation as to why the item should be held in open session. A statement of the Council's response to representations received will be given at the meeting so that this can be taken into account when members decide whether or not to deal with the item under exempt business.

(NB The exempt/confidential committee papers on the agenda will contain information which is commercially, legally or personally sensitive and should not be divulged to third parties. Members are reminded of standing order restrictions on the disclosure of exempt information and are invited to return their exempt documentation to the Local Democracy Officer at the conclusion of the meeting for shredding.)

Item	Paragraphs
8. Ravelin Group of Companies (appendices)	3&5*
9. City Centre Regeneration (Heads of terms) (appendices)	3&5
10. MMD Review Update (appendices)	3&5

*Exemption Paragraph Numbers

3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)

5 - Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

8 Ravelin Group of Companies (Pages 63 - 88)

The report by the Director of Regeneration sets out the purpose and key objectives for Ravelin Hold Co and any incorporated subsidiaries.

(Appendices B & C contain exempt legal advice)

9 City Centre Regeneration (Heads of Terms) (Pages 89 - 108)

This report by the Director of Regeneration provides the Cabinet with a broad update on the regeneration of Portsmouth's City Centre; an item was previously deferred from Cabinet on 5 February 2019.

N.B. Appendices B (legal advice) and C (Heads of Terms) are exempt.

10 MMD Update Review (Pages 109 - 122)

The report by the Port Director and Director of Finance & Section 151 Officer is to consider the assessment of the available options for the use of the MMD site, based on a full options appraisal and financial evaluation (including risks) prepared over a 20 year period. Accordingly, to approve a preferred option.

Members of the public are permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting nor records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

Whilst every effort will be made to webcast this meeting, should technical or other difficulties occur, the meeting will continue without being webcast via the Council's website.

This meeting is webcast (videoed), viewable via the Council's livestream account at <https://livestream.com/accounts/14063785>

Agenda Item 3

CABINET

RECORD OF DECISIONS of the meeting of the Cabinet held on Tuesday, 5 February 2019 at 12.00 pm at the Guildhall, Portsmouth

Present

Councillor Gerald Vernon-Jackson CBE (in the Chair)

Councillors Steve Pitt
Dave Ashmore
Ben Dowling
Suzy Horton
Darren Sanders
Lynne Stagg
Matthew Winnington
Rob Wood

1. Apologies for Absence (AI 1)

Apologies had been submitted from Councillor Jeanette Smith.

2. Declarations of Interests (AI 2)

There were no declarations of interests.

3. Record of Previous Decision Meetings - 27 November and 4 December 2018 (AI 3)

The record of decisions for the meetings held on 27 November and 4 December 2018 were approved as correct records, to be signed by the Leader.

4. ECYP Scrutiny Panel's review into school attendance and part time timetables in Portsmouth (AI 4)

Mike Stoneman, Assistant Director, presented the response report on behalf of the Director of Children, Families and Education. The report by the Education, Children & Young People Scrutiny Panel and their findings were welcomed by Headteachers and work was already taking place to introduce new protocol for elected home education. Councillor Horton, as Cabinet Member for Education, thanked the panel for their work and endorsed the comments on attendance campaigns and she was grateful to schools for engaging in Phase 1 and Phase 2 was being planned focusing on ill-health. Mike Stoneman displayed some of the publicity material and reported that these had created debate on the subject. Councillor Gerald Vernon-Jackson also welcomed the work taking place with parents.

DECISIONS The Cabinet:

(1) Thanked the ECYP Scrutiny Committee for its work in undertaking the review

(2) Noted and supported the recommendations set out on pages 6 and 7 of the report, taking into account the policy and financial implications of the recommendations summarised on page 35 of the report (section 12).

5. Health and Care Portsmouth Operating Model (AI 5)

(An updated version of the report with legal comments had been published)

Innes Richens, Chief of Health and Care Portsmouth, presented the report which, like the NHS Long Term Plan, advocated strong integration of local government and health services. There is the need to form the model locally rather than wait for one to be imposed, thereby more formal arrangements were needed.

Councillor Matthew Winnington, as Cabinet Member for Health, Wellbeing and Social Care thanked those involved in working on these proposals across the CCG and City Council, and commended Portsmouth for leading the way on this integration regionally. This was also being discussed by the Health and Wellbeing Board and all partners had been very positive. Councillor Rob Wood, Cabinet Member for Children & Families, welcomed this approach which was important for the individuals transitioning from child to adult services.

Councillor Gerald Vernon-Jackson, as Leader, welcomed the paper but stressed the need to go further, fast, and he was inviting a cross-party approach in discussions with partner organisations. PCC would use the knowledge of its Chief Executive in taking this forward and maintaining Portsmouth's independent position. David Williams responded and made a further recommendation to assist with taking this forward, which was agreed.

DECISIONS The Cabinet:

(1) Support the establishment of a single operating model for Health & Care Portsmouth between PCC and CCG;

(2) Support the establishment of a sub-board on behalf of PCC and PCCG for its commissioning of adult and children's health, social care and public health services, with detail of this proposal to be addressed in a separate report to Governance, Audit and Standards Committee in March;

(3) Support the integration of PCCG and PCC functions into joint roles: Chief of Health & Care Portsmouth, Director of Children's Services and Director of Public Health; and a review of other enabling functions to assess the benefits of further integration to support delivery of the Health & Care Portsmouth operating model – specifically financial management, business intelligence, communications/engagement, community sector partnership development;

- (4) Direct the respective Accountable/Chief Executive Officers, working within their scheme of delegations and constitutional powers, review the management and staffing structures currently in place in order to align this capacity with the new Health & Care Portsmouth**
- (5) Agreed that the Chief Executive of PCC should work with the accountable officer of the CCG to consider further opportunities for integration, consistent with the NHS long term plan, and present such proposals to the health and wellbeing board at the earliest opportunity.**

6. Local Plan Update (AI 6)

Toby Ayling, Principal Planning Officer, presented the report on behalf of the Director of Regeneration. The report set out the government numbers for housing need, as well as reporting on the Tipner redevelopment options as part of the consultation on the Local Plan which linked to work taking place as part of the City Deal project. The report also set out the Super Peninsula option and the associated impact of land reclamation; there would be further consultation on this before a report back to Cabinet due in the summer.

Councillor Ben Dowling, Cabinet Member for Planning, Regeneration & Economic Development (PRED), stressed that this paper was seeking approval for a series of consultations to inform the revised Local Plan and to ensure that possible sites had been investigated to create evidence of this, but this was not a site allocations document. Paul Barton, Assistant Director Development, reiterated the Duty to Co-operate statutory obligation in these matters.

Councillor Gerald Vernon-Jackson, as Leader, commented on the imposed government figures being unrealistic and not based on local need. The inclusion of Tipner West was to expand whilst not cramming the city further. The Leader proposed that a cross-party working group be established for the Local Plan.

Councillor Darren Sanders, Cabinet Member for Housing, agreed that there is a gap in the imposed target figures and Portsmouth's ability to build this number of homes whilst keeping communities. He and Councillor Dowling referred to the Milton Neighbourhood Plan Team residents' group which independently liaised with the Planning Policy officers regarding the emerging Milton Neighbourhood Plan, which should not be in conflict with the Local Plan.

Councillor Matthew Winnington, as a PCC appointee on the Southern Inshore Fisheries and Conservation Authority, commented on the Super Peninsula, stressing the need to consult environmental bodies on its viability.

DECISIONS The Cabinet:

- (1) Approved the Portsmouth Local Plan consultation document, and supporting evidence base documents for 6 weeks of public consultation.**

(2) Approved the Tipner Strategic Development Area consultation document for 6 weeks of public consultation.

(3) Delegated authority to the Assistant Director City Development to modify and make editorial changes to the all consultation documents and supporting documents in consultation with the Cabinet Member for PRED (if required).

(4) Adopted the revised Local Development Scheme.

(5) Requested that a cross party working group be established.

7. PCC Budget and Council Tax 2019/20 and Medium Term Budget Forecast (AI 7)

Julian Pike, as Deputy Section 151 Officer, presented the report and the recommendations which would be referred to Council for approval.

Councillor Gerald Vernon-Jackson, as Leader, was pleased the report outlined the plans in place to address the overspend caused by pressures in Children's Social Care, which were being experienced nationally. There was more funding being allocated for Adults Social Care and he was grateful for the work of Financial Services so that the projection was that council will not have to spend any of reserves on these 2 areas of greatest pressure at the end of the financial year. Regarding the savings targets there had been a change to reduce this to £2.5m from £4m for the next few years.

RECOMMENDED to Council

1. That the following be approved in respect of the Council's Budget:
 - 1) The revised Revenue Estimates for the financial year 2018/19 and the Revenue Estimates for the financial year 2019/20 as set out in the General Fund Summary (Appendix A)
 - 2) The Portfolio Cash Limits for the Revised Budget for 2018/19 and Budget for 2019/20 as set out in Sections 7 and 9, respectively
 - 3) That the transfer to the Revenue Reserve for Capital in 2018/19 be reduced by £3.5m to offset overspendings within the current year and maintain General Reserves at levels consistent with maintaining the Councils financial resilience over the medium term
 - 4) That the Council's share of the of the £650m national allocation for Adults and Children's Social Care (confirmed for 2019/20 only) and amounting to £2.4m is allocated as follows:

- Adult Social Care - to meet the costs of Winter Pressures and contribute towards the cost of the increase in the National Living Wage (4.9%) for care providers - £1.4m
 - Children's Social Care (to contribute towards the costs of rising numbers of Looked After Children) - £1m
- 5) That a further £3.0m be added to the Children's Social Care Budget on an on-going basis, recognising the financial impact of the sustained rise in Looked After Children over the last 5 years amounting to over 40%
 - 6) The additional £1.6m received from the 75% Solent Business Rate Retention Pilot (currently guaranteed for 1 year only) be used to enable the Council to make a Revenue Contribution to the Capital Programme in 2019/20 to supplement the Capital Resources available in order to fund essential Capital Investment priorities
 - 7) Any underspendings for 2018/19 arising at the year-end outside of those made by Portfolios be transferred to Capital Resources in order to provide funding for known and potential future commitments in future years such as School Places, Sea Defences, enabling infrastructure for Regeneration and the Digital Strategy all necessary for the City's development and growth which have, as yet, insufficient funding
 - 8) Any variation to the Council's funding arising from the final Local Government Finance Settlement be accommodated by a transfer to or from General Reserves
 - 9) The S.151 Officer be given delegated authority to enter into the Solent¹ 75% Business Rates Retention Pilot agreement with the Department for Communities and Local Government
 - 10) The S.151 Officer be given delegated authority to make any necessary adjustments to Cash Limits within the overall approved Budget and Budget Forecasts
 - 11) That the level of Council Tax be increased by 2.99% for general purposes in accordance with the referendum threshold² for 2019/20 announced by Government (as calculated in recommendation 4 (d))
 - 12) That the level of Council Tax be increased by a further 1.5% beyond the referendum threshold (as calculated in recommendation 4 (d)) to take advantage of the flexibility offered

¹ Includes Isle of Wight Council, Portsmouth City Council and Southampton City Council

² Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £1,144,300 is passported direct to Adult Social Care

- 13) Managers be authorised to incur routine expenditure against the Cash Limits for 2019/20 as set out in Section 9
 - 14) That the savings requirement for 2020/21 be set at a minimum on-going sum of £2.5m
 - 15) That the S.151 Officer be given delegated authority to make transfers to and from reserves in order to ensure that they are maintained as necessary and in particular, adjusted when reserves are no longer required or need to be replenished
 - 16) Directors be instructed to start planning how the City Council will achieve the savings requirements shown in Section 10 and that this be incorporated into Service Business Plans
 - 17) The minimum level of General Reserves as at 31 March 2019 be maintained at £8.0m to reflect the known and expected budget and financial risks to the Council
 - 18) Members have had regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in Section 13.
2. That the following be **noted** in respect of the Council's Budget:
- 1) The Revenue Estimates 2019/20 as set out in Appendix A have been prepared on the basis of a 1.5% tax increase for the "Social Care Precept" (amounting to £1,144,300) and that this is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the current underlying budget deficit, the cost of the new National Living Wage and demographic pressures arising from a "living longer" population
 - 2) The decision on the amount at which to set the Adult Social Care precept will be critical for the Social Care and wider Health system in the City; in the event that the additional flexibility of the "Social Care Precept" and associated 1.5% tax increase (amounting to £762,900 for each 1%) is not taken, then equivalent savings will need to be made in Adult Social Care in 2019/20
 - 3) In general, due to the savings of £762,900 for each 1% reduction in order for the Budget 2019/20 to be approved
 - 4) The Revenue Forecast for 2020/21 onwards as set out in Section 10 and Appendix B

- 5) The estimated Savings Requirement of £7.5m for the 3 year period 2020/21 to 2022/23, for financial and service planning purposes, be phased as follows:

Financial Year	In Year Savings Requirement £m	Cumulative Saving £m
2020/21	2.5	2.5
2021/22	2.5	5.0
2022/23	2.5	7.5

- 6) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies will hold an uncommitted balance of £8.3m³ and will only be replenished in future from an approval to the transfer of any underspends, contributions from the Revenue Budget or transfers from other reserves which may no longer be required
- 7) The Council's share of the Council Tax element of the Collection Fund surplus for 2018/19 is estimated to be £1,573,500
- 8) The Council's share of the Business Rate element of the Collection Fund surplus for 2018/19 is estimated to be £837,500
- 9) The Retained Business Rate income⁴ for 2019/20 is based on the estimated Business Rate element of the Collection Fund surplus as at March 2018, the Non Domestic Rates poundage for 2019/20 and estimated rateable values for 2019/20 and has been determined at £66,700,841
3. That the S.151 Officer has determined that the Council Tax base for the financial year 2019/20 will be **57,075.4** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].
4. That the following amounts be now calculated by the Council for the financial year 2019/20 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

(a)	£481,710,889	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
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³ Including the net transfers from the reserve of £2.241m contained with the recommendations of the Capital Programme 2018/19 to 2023/24 report elsewhere on this agenda

⁴ Including the Portsmouth City Council element of the Collection Fund surplus of £837,539, S31 Grants of £6,848,028, the "Tariff" paid to Government of £2,544,842, and the contributions to the "Growth Pool" of £2,444,000, and from the "Growth Pool" of £1,630,000

(b)	£401,994,819	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£79,716,070	Being the amount by which the aggregate at 4 (a) above exceeds the aggregate at 4 (b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B(1) of the Act.
(d)	£1,396.68	Being the amount at 4(c) above (Item R), all divided by Item 3 above (Item T), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation Bands (Portsmouth City Council)

A £	B £	C £	D £	E £	F £	G £	H £
931.12	1,086.31	1,241.49	1,396.68	1,707.05	2,017.43	2,327.80	2,793.36

Being the amounts given by multiplying the amount at 4 (d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings in different valuation bands.

5. That it be noted that for the financial year 2019/20 the Hampshire Police & Crime Commissioner is consulting upon the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Police & Crime Commissioner)

A £	B £	C £	D £	E £	F £	G £	H £
134.31	156.69	179.08	201.46	246.23	291.00	335.77	402.92

6. That it be noted that for the financial year 2019/20 Hampshire Fire and Rescue Authority are recommended to approve the following amounts for the precept issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Fire & Rescue Authority)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
45.14	52.66	60.19	67.71	82.76	97.80	112.85	135.42

7. That having calculated the aggregate in each case of the amounts at 4(e), 5 and 6 above, the Council, in accordance with Sections 31A, 31B and 34 to 36 of the Local Government Finance Act 1992 as amended, hereby sets the following amounts as the amounts of Council Tax for the financial year 2019/20 for each of the categories of dwellings shown below:

Valuation Bands (Total Council Tax)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
1,110.57	1,295.66	1,480.76	1,665.85	2,036.04	2,406.23	2,776.42	3,331.70

8. The Council determines in accordance with Section 52ZB of the Local Government Finance Act 1992 that the Council's basic amount of Council Tax for 2019/20, which represents a 4.49% increase, is not excessive in accordance with the principles approved by the Secretary of State under Section 52ZC of the Act; and it be noted that:
- i. The 4.49% increase includes a 1.5% increase to support the delivery of Adult Social Care
 - ii. As the billing authority, the Council has not been notified by a major precepting authority (the Police and Crime Commissioner for Hampshire or the Hampshire Fire & Rescue Authority) that its relevant basic amount of Council Tax for 2019/20 is excessive and that the billing authority is not required to hold a referendum in accordance with Section 52ZK of the Local Government Finance Act 1992.
9. The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner and Hampshire Fire and Rescue Authority precepts.
10. That the Council Tax policy for Second Homes & Long Term Empty Properties discount scheme, aimed at bringing additional properties into productive use attached at Appendix C be approved
11. That the Council Tax Exemption Scheme for Care Leavers be approved and be implemented by way of a write-off procedure under the delegated powers of the S. 151 Officer in accordance with the scheme attached at Appendix D to be incorporated into the Council's Financial Rules.

8. Capital Programme 2018/19 onwards (AI 8)

Julian Pike, Deputy Section 151 Officer, presented the report, for which the recommendations would be referred to Council for approval, and he asked for 2 additional recommendations to be considered which related to the last item on the agenda for City Centre Regeneration. Michael Lawther, as City Solicitor, confirmed that these could be considered prior to a decision taking place on the later item.

Councillor Gerald Vernon-Jackson, as Leader, gave some of his highlights such as provision of additional school places and repairs to schools, investment in the Port to attract more cruise business, extra care sheltered accommodation (dementia specialism), investment in the Pyramids and also in homes for the homeless.

RECOMMENDED to Council

1. That the following be approved in respect of the Council's Capital Programme:
 - 1) The Revised Capital Programme 2018/19 to 2023/24 attached as Appendix 1 which includes all additions, deletions and amendments for slippage and re-phasing described in Sections 6 and 8 be approved
 - 2) The Section 151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council
 - 3) That the Section 151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the City Council in order to secure additional external capital funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)
 - 4) The following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2018/19 to 2023/24 and be financed from the available corporate capital resources:

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
Education			
	Maintained Schools - Urgent Conditions Project	1,600,000	1,770,000
	Additional Special School Places - Design	500,000	679,200
	Additional School Places in Mainstream Schools - Design	250,000	250,000

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
	Additional Secondary School Places - St Edmunds Catholic School - Grant	650,000	650,000
	Additional School Places - 2020/21	6,908,000	6,908,000
Culture, Leisure & Sport			
	Invest in Football Facilities including Changing Facilities	335,000	588,000
	Parks & Open Spaces Protection Measures to Prevent Incursion	50,000	50,000
	Pyramids Refurbishment	1,500,000	1,500,000
	Repair / Refurbishment of Southsea Splashpool	102,000	102,000
	World War 1 Memorial Plaques	45,000	45,000
	Contribution to Roof at Southsea Skatepark	10,000	10,000
	Contribution to Architectural Design to Enable Regeneration of the Guildhall	40,000	40,000
	Contribution to Architectural Design to Enable Regeneration of the Kings Theatre	40,000	40,000
	Provision of a Dog Exercise and Training Area	11,000	11,000
Environment & Community Safety			
	Air Quality Initiatives	150,000	150,000
	Air Quality Equipment & Monitoring Station	100,000	100,000
Health & Social Care			
	Older Persons Supported Living (Extra Care Housing)	4,600,000	9,730,000
	Kestrel Centre Relocation to Civic Offices	350,000	350,000
Housing & Property Services			
	Homes For Homeless	500,000	1,000,000
PRED			
	Brougham Road (Arts Centre) - External Repairs	300,000	300,000
	Public Realm - Improvements to Station Square & Isambard Brunel Road	250,000	250,000
Resources			
	Review of Revenues & Benefits Software Applications	188,000	188,000
	Landlord's Maintenance 2019/20	1,750,000	1,750,000
	The People's Network - Windows 10 Upgrade	350,000	350,000
Traffic & Transportation			
	Local Transport Plan 3	650,000	650,000
	Extension to Park & Ride Multi Story Car Park - Design	350,000	350,000
	Smart Cities: Intelligent Transport System Phase 2	200,000	200,000
	The Hard Interchange Auxiliary Works	300,000	300,000
Total Recommended Sum To Be Approved		22,079,000	28,311,200

- 5) Subject to a satisfactory financial appraisal approved by the Director of Finance & Section 151 Officer the following schemes as described in Section 10 be funded from Prudential Borrowing up to the amounts shown

	Total Prudential Borrowing £
Single Material Recycling Facility	4,838,400
Waste Collection Vehicle Replacement	4,125,000
Older Persons Supported Living (Extra Care Housing)	2,836,000
Homes For Homeless	500,000
Development of Cruise & Ferry Port	12,700,000
Passenger Boarding Bridge	5,000,000
Total Recommended Sum To Be Approved	29,999,400

- 6) That borrowing for a sum of £15m be approved in principle for Capital Investment into MMD Ltd but subject to the approval by Cabinet on their preferred option for the MMD site which is to be considered at a future meeting of the Cabinet
- 7) In the event that the Cabinet continue to operate MMD, that £15m be made available as a loan draw down facility subject to a satisfactory financial appraisal approved by the Director of Finance & Section 151 Officer, as outlined in Section 10, and provided at an interest rate consistent with State Aid rules
- 8) Subject to a satisfactory financial appraisal approved by the Director of Finance & Section 151 Officer the following schemes as described in Section 11 be funded from the MTRS Reserve

Scheme	Total MTRS Funding £
Enterprise Resource Planning (ERP) Software Replacement	1,000,000
Utilities & Energy Management 2019/20	1,050,000
Enable and Improve Mobile Working	191,000
Total Recommended Sum To Be Approved	2,241,000

- 9) The following schemes as described in Section 12 be funded from Earmarked Reserves

Scheme	Total Funding From Earmarked Reserves £
Enterprise Resource Planning (ERP) Software Replacement	1,000,000
Enable Mobile Working	182,000
Older Persons Supported Living (Extra Care Housing)	1,000,000
Total Recommended Sum To Be Approved	2,182,000

- 10) The following Schemes as described in Section 14 be included within the "Reserve List" of Capital Schemes to be considered once additional capital resources are identified

Future Priority Capital Schemes – Not in Priority Order
Additional School Places in Primary & Secondary Schools
Anti-Poverty Projects
Development of Performing Arts
Digital Strategy (incl. move to cloud based Information Technology systems)
Landlord's Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes

Park Life
Sea Defences
School condition (roofs, boilers, electrics, windows etc)
The Camber Quay Berth 4 Replacement

- 11) The Prudential Indicators described in Section 15 and set out in Appendix 3 be approved.
 - 12) That the S.151 Officer, in consultation with the Leader, be given delegated authority to borrow as necessary for the Joint Venture limited liability partnership which is established to deliver the City Centre re-development as described in the report to the Cabinet on 5th February 2019 entitled "City Centre Regeneration"
 - 13) That prior to any borrowing described in Recommendation 12 above, a full business case and financial appraisal is prepared that can satisfactorily demonstrate with good certainty that cost savings / additional income or value uplift of the development which will accrue directly to the Council will at least cover the cost of that borrowing on a sustained basis over the lifetime of the borrowing undertaken
2. That the following be noted in respect of the Council's Capital Programme:
- 1) The passported Capital Allocations (Ring-fenced Grants) as set out in Section 7
 - 2) That Cabinet Members, in consultation with the Section 151 Officer, have authority to vary Capital Schemes and their associated funding within their Portfolio in order to manage any potential overspending or funding shortfall or to respond to emerging priorities
 - 3) As outlined in Section 9 and Appendix 2 that the Director of Housing, Neighbourhood & Building Services will work with other Directors to further prioritise the schedule of identified Landlord's Maintenance works to ensure that those with the highest priority are undertaken up to the value of the £1.75m allocated
 - 4) As outlined in Section 13 and Appendix 2 the release of £444,200 from the Environment & Community Safety Portfolio Reserve towards a £380,000 scheme for the provision of Public Toilets (£200,000); Replacement of WC Hand Washing and Drying Units (£130,000) and a Food Waste Recycling Pilot (£114,200)

- 5) As outlined in Section 13 and Appendix 2 the release of £1m from the PRED Portfolio Reserve towards a £6m scheme for a new Passenger Boarding Bridge
- 6) The City Council note that Prudential Borrowing can only be used as a source of capital finance for Invest to Save Schemes as described in Sections 8 and 15

9. Exercise of Standing Order 58 (information item) (AI 9)

Michael Lawther, Deputy Chief Executive and City Solicitor, reported that this decision had received cross-party agreement. The claim could not be discussed in detail in a public meeting but had now been concluded favourably.

The Cabinet noted the urgent action taken under Standing Order 58.

10. Date of additional Cabinet meeting (information item) (AI 10)

The Cabinet noted the additional Cabinet meeting date of 26th February 2019 at 9am.

11. Procurement of a contractor of City Centre Regeneration (City Centre Road) (AI 11)

The Cabinet Members decided to discuss this item with the linked later item regarding the City Centre Regeneration and Heads of Terms.

Tristan Samuels, Director of Regeneration, presented the report which set out the urgent procurement requirements to provide the strategic road infrastructure. The framework would allow for the contractor to come on board to start work on the design.

DECISION - The Cabinet:

- (1) Agreed to the progression and conclusion of the procurement to secure the framework Contractor as outlined above.**
- (2) Delegated authority to the Director of Regeneration to allow contracts to be let up to the value of £1m within this framework with the successful contractor. In addition to this Delegated Authority was granted for contracts to be entered into between £1m and £5m to the Director of Regeneration following with the approval of Project Board, chaired by the Leader of the Council, and Section 151 Finance Officer. (Anything above this will necessitate further Cabinet approval.)**

12. Exclusion of Press and Public (AI 12)

DECISION - the Cabinet adopted the following motion for agenda item 13 City Centre Regeneration (appendices A-C only):

“That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following item on the grounds that the report(s) contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972”.

13. City Centre Regeneration (proposed Heads of Terms) (AI 13)

Tristan Samuels, Director of Regeneration, presented the report which focused on the specific land to develop the City Centre, proposing a joint venture approach.

Deputations are not minuted in full as the meeting is livestreamed (webcast) so can be viewed here:

<https://livestream.com/accounts/14063785/Full-Cabinet-05Feb2019/videos/186872628>

Deputations were heard from the following:

- i) Councillor Claire Udy, who was concerned by the joint venture proposals, which she felt were rushed and she had not been notified as a ward councillor
- ii) Cal Corkery was also concerned at the lack of consultation with local residents and he favoured development wholly owned by the council, wishing to see a high proportion of social housing on the site
- iii) Councillor Judith Smyth also favoured more clarity on affordable housing provision and a delay to allow more engagement to take place

Councillor Gerald Vernon-Jackson, Leader, addressed points raised in the deputations, stressing the difference of this site to those quoted in London, and the Tricorn site had been empty for many years in a gateway site for the city. Whilst he would like it to be developed wholly by the Council this was not possible as the land was not in PCC ownership. Delancey/DV4 have a 46 year lease on the site so the way forward was to work with the landowners, which would require external expertise for this joint venture and to secure the maximum affordable housing. The Leader therefore favoured a deferral to work to engage further with the public on the proposals. Tristan Samuels advised that this would cause some delay but his team would be able to provide indicative pictures of the proposed development.

Councillor Steve Pitt, Deputy Leader, advocated more reference to the emerging City Centre Masterplan and engagement with the local community, so also supported a short deferral.

Councillor Darren Sanders, Cabinet Member for Housing, also favoured a short deferral to allow more consultation locally on the vision of the scheme and the objectives of the City Centre Masterplan.

Councillor Matthew Winnington, stressed the importance of PCC involvement in development at this site to help shape this.

Councillor Ben Dowling, as Cabinet Member for PRED, had invited involvement of the PRED Spokespersons and ward councillors once the oversight had been brought to his attention. There would be extensive consultation locally going forward as the business case was prepared and believed that the joint venture would enable positive outcomes with a significant proportion of affordable housing. This was part of the wider public realm improvements for this part of the city.

The Cabinet Members therefore asked for a deferral until the next meeting to allow more work to take place to explain the vision of the scheme and headlines of the City Centre Masterplan.

DECISION - Consideration of this item was deferred with a report due back to a future Cabinet meeting.

The meeting concluded at 1.39 pm.

Councillor Gerald Vernon-Jackson CBE
Leader of the Council

Agenda Item 4

Title of meeting:	Cabinet Meeting
Date of meeting:	26 th February 2019
Subject:	Leamington House and Horatia House Next Steps
Report by:	Director of Housing, Neighbourhood and Building Services
Wards affected:	St Thomas Ward
Key decision:	Yes
Full Council decision:	No

1. Purpose of report

- 1.1. To report to Cabinet the results of the feasibility work to strengthen, clad and install sprinklers into Leamington House and Horatia House and the options for the next steps.

2. Recommendations

- 2.1. That the Cabinet:
 - 2.1.1 Notes the results of the feasibility work to strengthen, clad and install sprinklers into Leamington House and Horatia House
 - 2.1.2 Agrees that it is financially unviable to undertake the works to strengthen, clad and install sprinklers into Leamington House and Horatia House, and as a result
 - 2.1.3 Agrees that on completion of the permanent rehousing of all households from Leamington House and Horatia House, the two blocks will be removed from charge, decommissioned and secured.
 - 2.1.4 Gives delegated approval to the Director of Housing, Neighbourhood and Building Services authority to incur costs to carry out decommissioning works of Leamington House and Horatia House and secure both blocks.
 - 2.1.5 Agrees that there is an opportunity for the sites to be redeveloped to create affordable/social housing and regeneration in this area of the City and requests the Regeneration Directorate working with the Housing Directorate to provide a report to Cabinet with an options appraisal for the demolition of Leamington House and Horatia House and redevelopment of the sites in consultation with the local and wider Somers town community and stakeholders.

- 2.1.6 Notes the loss social housing units to the Housing Revenue Account and requests that the options appraisal for the development of the Leamington House and Horatia House sites includes the re-provision of a minimum of 272 social housing units to be held in the HRA.

3. Background

- 3.1 Leamington House and Horatia House were constructed in 1965. All the blocks are Bison Large Panel System (LPS) construction, each block is 18 storeys high and consisting of a total of 136 No. flats. There are 8 No. flats per storey, there are no flats on the ground floor and there are two escape stairwells per block.
- 3.2 Leamington House and Horatia House each consist on every floor of of 2 No. one bedroom flats, 2. No two bedroom flats and 4 No. three bedroom flats.
- 3.3 Throughout the evaluation process the City Council has worked in partnership with key agencies for example Hampshire Fire and Rescue service and engaged appropriate qualified independent experts including the British Research Establishment.

Cladding Removal

- 3.4 The only Council owned high rise blocks of flats identified with Aluminium Composite Material (ACM) cladding were Horatia House and Leamington House, following the Grenfell tragedy work commenced on 23 June 2017 to remove all cladding to both blocks. The cladding at Horatia House was completely removed by 1 December 2017 whilst the cladding at Leamington House was completely removed by 19 January 2018.

Feasibility to replace the Cladding

- 3.5 The original intention had been to remove the ACM cladding and replace with an appropriate alternative. On 7 August 2017 ECD Architects were appointed to undertake a feasibility study to investigate options for recladding the blocks.
- 3.6 As part of the feasibility study they appointed Wilde Carter Clack, who are a market leader within the UK with regard to refurbishment and cladding of high rise building, to undertake a structural survey of the blocks to assess the structural adequacy and performance of both blocks including the ability of the buildings to resist disproportionate collapse should they be subjected to an accidental loading arising from a 'severe' internal non-piped gas explosion with reference to the Building Research Establishment (BRE) published handbook for the structural assessment of LPS dwelling blocks 2012. The BRE were also commissioned separately to provide an independent assessment of the structural robustness of the blocks based on the structural survey data.
- 3.7 Additional measures were put into place to enable occupation whilst the cladding was removed and the feasibility was undertaken, these included

- 24/7 fire watch current in place has been briefed by the Council
 - 100% property survey undertaken to check property fire doors, compartmentation and identify any potential resident fire risks
- 3.8 The feasibility study focused on the recladding options and the costs of undertaking the work. The report included the structural work recommended to address the issues identified from the structural surveys. ECD Architects incorporated the structural report conclusions into the final feasibility study report that was issued to the Council on 26 March 2018 and published on the Council website on 2 July 2018. These can be found at www.portsmouth.gov.uk/ext/housing/leamington-house-and-horatia-house
- 3.9 The conclusion of the feasibility reports were that extensive major structural works within the properties were deemed necessary including strengthening of internal walls and floors throughout the buildings that can only be undertaken when both blocks are empty.
- 3.10 The existing measures to mitigate the risks associated with a non-piped gas explosion were enhanced where appropriate and included:
- Existing 24/7 fire watch was briefed and the service enhanced to operate a concierge arrangement managing both entrances to each block
 - No piped gas to either block, communal heating and hot water from separate communal boiler off site
 - Residents not permitted portable gas appliances as part of tenancy agreement
 - Resident information published regarding not bringing portable gas appliances into building (posters and letters)
 - Contractors instructed to not to undertake 'hot works'
 - 100% property survey undertaken to check property fire doors, compartmentation and identify any potential resident fire risks

Re-housing

- 3.11 A re-housing team was formed to manage the permanent rehousing of 252 occupied flats within both blocks. Residents were informed that they will be permanently rehoused on 5 June 2018 and rehousing commenced.
- 3.12 Households received a Statutory Home Loss Payment alongside additional support with removals as appropriate. All offers of alternative housing have been made on the basis of a permanent move, albeit that the residents could express a desire to return to the tower blocks depending on the decision for the future of the blocks.
- 3.13 There was one leaseholder in Leamington House and the Council bought back the lease in November 2018.

- 3.14 As of the 4th February 2018, 50 households remain in both blocks. Of the 50 households, 29 have accepted an offer (in the process of moving), 8 have been offered (viewing properties) and 13 are awaiting an offer.
- 3.15 Upon completion of the rehousing of all households from Leamington House and Horatia House, the two blocks will be removed from charge, decommissioned and secured. Decommissioning will include, decommissioning plant (lifts and boilers), physical security (hoarding site etc.), security monitoring (staff and cameras), temporary fire detection (advice required) and, further surveys prior to demolition (asbestos and structural).

Retaining the Blocks

- 3.16 Mace Cost Consultancy Ltd were engaged on 11 July 2018 to prepare a report detailing an outline budget estimate and project programme to refurbish both blocks including enablement works, structural repairs, building envelope works (cladding and window replacement), internal refurbishment, mechanical and electrical services including sprinklers and lift renewal, external works and all professional fees. The report would also highlight the financial and commercial risks associated with the project.
- 3.17 Wilde Carter Clack were also instructed to progress the recommendations from the March 2018 reports and develop the structural designs to enable cost estimates for the remedial strengthening work to the structure that is required to both blocks. They provided a summary report (Appendices 1) together with typical CAD design drawings, a structural specification suitable for cost estimating purposes, general method statements, work schedules and construction notes.
- 3.18 The summary report confirms that the extent of the structural design required to strengthen both blocks is extensive and depending on the specific defects identified in each block requires replacing of the floor screed, strengthening floor slabs, replacing external flank wall concrete outer panels to be tied to the existing structure and strengthening internal walls by fixing metal plates.
- 3.19 The summary report notes the buildings will remain Large Panel System (LPS) construction after the strengthening works and will still not comply with the requirements of the current building regulations, therefore specific risks as a result of this type of construction will remain. Piped gas will still not be permitted in the buildings and residents will need to continue to be managed to prohibit the use of bottled LPG or similar volatile bottled gas which could cause an explosion.
- 3.20 Mace Cost Consultancy Ltd submitted their final report 23 January 2019 (Appendices 2). The report concluded that the outline budget estimate forecasts for the refurbishment of both blocks is a total order of cost range of circa £81M - £86M including professional fees and contingency provisions but excluding inflation, financial impact of Brexit and the Council or Third Party Costs.

- 3.21 The report confirms that if the enabling works including further investigations, design and procurement, commenced once the blocks are empty, it is estimated that the works on site for this project could commence during 2021 and could be programmed to be completed by early of 2025 (approx. 42 months).
- 3.22 The report notes that the nature and complexity of the works together with the associated risks are likely to result in the capital cost for these works to exceed this estimate. The project constraints would almost certainly see the Council retain a significant accountability for cost and programme risk throughout the project lifecycle. Furthermore market testing through interaction with regional and national contractors has indicated that there is very low appetite to undertake works of this nature. The report concludes that the complexity of the works proposed together with the condition of the existing structure, that it is unlikely that the Council will be able to secure the appropriate warranties for the work and it will be commercially unviable.
- 3.23 The conclusions arising from both the Wilde Carter-Clack and Mace Cost Consultancy Ltd reports demonstrate the difficulty in practically strengthening the blocks. The estimated costs to carry out the full package of works are high with likelihood to increase and there is an associated commercial and financial risk for the Council.

Selling the blocks

- 3.24 Given the structural issues with Leamington House and Horatia House as outlined in the published reports (see 3.7) it is anticipated that there would be little interest in the blocks as they are, given the remedial works required it is unlikely to be commercially viable as an investment asset so officers do not believe that this is a realistic option. Specialist advice would need to be sought to determine a meaningful valuation.
- 3.25 Once the rehousing is complete the Council could demolish the blocks and sell the land sites to a third party. The Value of the land is likely to be worth £2m once the Council have incurred the estimated £5m to £6m in demolition costs. See 3.29 for the demolition estimated cost reference.
- 3.26 If the Council sold the land as is, it is anticipated that the value of the land will be a negative equivalent to the cost of demolition, therefore a negative £3m to £4m.

Option to demolish and redevelop the sites

- 3.27 Preliminary work undertaken by CGL Architects demonstrates that the development of Horatia House and Leamington House sites could provide 441 new dwellings on the site (Appendices 3).
- 3.28 Extensive consultation would need to take place with the wider Somers town Community and stakeholders to inform the options appraisal and then to take these options forward
- 3.29 The demolition of the blocks would require the engagement of specialists to determine a robust methodology that will enable the safe and effective

deconstruction/dismantling of the LPS structure. The Mace Cost Consultancy Ltd final report (Appendices 2) provides a preliminary indication of the demolition budget cost estimate.

4. Reasons for recommendations

- 4.1. To retain Leamington House and Horatia House requires strengthening works and cladding alongside a desire to install sprinkler systems. The feasibility reports and financial appraisal demonstrate that this option is practically difficult and financial unviable.
- 4.2. Selling the blocks to a third party does not deliver a return to the council
- 4.3. Demolishing the blocks and selling the land to a third party does not deliver a return to the council
- 4.4. The sites provide the council with an opportunity to explore the development and regeneration of the sites with a view to creating affordable/social housing. Preliminary work demonstrates the potential for the development of the Leamington House and Horatia House sites.
- 4.5. Consulting the community and stakeholders will be essential to inform the options appraisal and to take any of the options forward

5. Equality impact assessment

- 5.1. The Preliminary Equality Impact Assessment is contained in Appendices 4. A full impact assessment is not required for this report.

6. Legal implications

- 6.1 The report outlines the options with respect to the relevant sites. When the decision is made with respect to most preferred option it will be at that point the legal consequences will crystallise. This said the ultimate decision will most likely be a key decision.

7. Director of Finance's comments

- 7.1 As a result of the issues at Leamington and Horatio house the Council will see a fall in its annual rental income of £1.1m per annum. This is partially offset by an assumed loss of expense associated with maintenance of around £400,000, meaning a net loss of revenue of around £700,000 per annum. The works to strengthen these blocks will mean that the Council are unlikely to be able to start to let these properties until 2024 meaning there could be a potential loss of income of between £3.5m to £5.5m.

- 7.2 The Council additionally has already incurred £1.3m when it initially removed the cladding from the building in the wake of the Grenfell tragedy and the Council have applied to the Governments ACM Cladding Remediation fund to reclaim this money.
- 7.3 Additionally the Council have incurred nearly £1.6m in Statutory home loss payments to former residents of Leamington and Horatia House, as well as other costs associated with the re-housing these residents, and the opportunity cost of using the Council's housing stock to home these 252 households.
- 7.4 Following work carried out by Housing, Neighbourhood and Building Services looking at the cost of strengthening, re-cladding and fitting sprinklers in these block the cost has been estimated at £81m - £86m, this equates to a cost per unit of between £298,000 to £317,000. At this cost if the Council rented these properties at Social Rent, or even affordable rent they would not be able to meet the cost of borrowing associated with this and would be in breach of the prudential code as they would not be able to prove that this was affordable, sustainable or prudent.
- 7.5 Once modelled assuming a re-provision of the same tenure mix, socially rented the net present value of the refurbishment is between £16m to £20m losses once modelled over a 30 year period.
- 7.6 It has also been confirmed that even with this work carried out the super structure only has a remaining useful life of 30 years and therefore this level of investment cannot be justified from a financial point of view.

.....

Signed by:

Director of Housing, Neighbourhood and Building Services

Appendices:

Appendix 1 - Wilde Carter-Clack Report upon required structural works and future life (Summary Report)

Appendix 2 - Mace Cost Consultancy Ltd Final Report Refurbishment & Structural Remedial Proposals

Appendix 3 - Development Site

Appendix 4 - Preliminary EIA

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by

..... on

.....

Signed by:
Leader of the Council



Horatia and Leamington

Report upon required structural works and future life.

Job No. 5305

January 2019

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1.0	Introduction
2.0	Summary of the proposed strengthening works
3.0	Building Control
4.0	Pre-construction trials
5.0	Tests and inspection
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7.0	Programme
8.0	Risk

1. Introduction

Horatia and Leamington Houses are Large Panel System buildings which were constructed in the 1960's.

Following the removal of the over-cladding panels on the outside of the building, Portsmouth City Council requested that an appraisal of the buildings be carried out prior to replacing the cladding. Detailed intrusive investigations were therefore undertaken and samples of the concrete were taken to determine the current condition and the likely future life of the structure of the building.

It was determined that strengthening works would be necessary in order to extend the future life and make the building compliant with current recommendations for the strength of LPS buildings.

Documents which set out the structural works required to Horatia House and Leamington House were issued in the last week of November and at the beginning of December.

The documents were provided in order to obtain a sensible estimate of the cost of the structural works necessary in repair, protection and strengthening of the buildings to meet with the recommendations set out in the Building Research Establishment for the Assessment of Large Panel System Building which was published in 2012.

2. Summary of the proposed strengthening works

Horatia House

The works proposed for Horatia House are primarily limited to the flats which adjoin the flank walls and to the flank walls. There is some strengthening of certain walls at the top stories of the building.

The work to the slabs in these flank wall flats involves removing the existing concrete screed, which is on top of the precast structural slab, and replacing it with a new bonded reinforced concrete topping. This will increase the strength of the floor slab

On the outside of the flank walls, the existing outer concrete cladding panels will be removed to expose the inner concrete wall which is the structural load-bearing element. This flank wall is then strengthened and also tied to the slabs at each level by means of a steel framework which is erected against the outer face of the wall. This steel framework can then also be used to provide support for the new insulation and cladding on the flank wall elevations.

At upper levels, certain internal walls also need strengthening. This will be carried out by fixing metal plates to each face of the wall. These are then covered by a sheet of lining board.

Upon completion, the structural works will all be concealed.

The works proposed will strengthen the building so that it complies, by calculation, to the requirements set out in the Appraisal of LPS Buildings 2012 by the BRE. It will not however comply with the requirements of current Building Regulations.

Piped gas is not permitted in the building and future residents should be restricted from using bottled LPG or similar volatile bottled gases which could cause an explosion if released.

Leamington House

Leamington House has been found to have weaker concrete and therefore the structural strengthening works required are much more extensive.

All slabs within the building have to be extensively strengthened by removing, not only the existing screed, but also part of the precast slab. The existing slab is effectively used as a shutter for a new slab and beam construction and the concrete strength is provided by the new construction. Every one of the main slabs would be effectively re-cast so that adequate strength is assured.

The flank walls are strengthened by a steel frame in the same manner as Horatia House.

All the internal cross walls at every level are strengthened using plates bonded to each face which is then concealed by a lining sheet.

The new slab construction increases the weight of the building but it is considered that the foundations should be adequate to carry the increased load.

The works will strengthen the building so that it complies, by calculation; to the requirements set out in the Appraisal of LPS Buildings 2012 by the BRE. It will not however comply with the requirements of current Building Regulations.

Piped gas is not permitted and future residents should be restricted from using LPG or similar volatile gases.

3. Building Control

The proposed works will be subject to Building Control approval and it is proposed that, following the budget costing exercise, a meeting is held with Building Control to ensure that they are fully aware and in agreement with the proposals.

4. Pre-construction trials

Detailed on site testing of the proposed strengthening works needs to be carried out prior to completion of the final design in order to confirm the assumptions made in the scheme design. This will allow refinement and confirmation of the construction method and therefore cost of the work which will be repeated at each floor level up the building.

The work will include testing the bond between the new and existing concrete and techniques for removing the existing screed without damaging the structure.

5. Tests and inspection

Other investigations to be carried out prior to commencement include further concrete testing (the current testing was restricted by the availability of empty properties) and a structural inspection of every part of the building to ensure that there are no defects or other modifications which may inhibit or change the works. These checks will also confirm that all existing screeds are de-bonded as removal would be virtually impossible without significant damage to the existing slab if the insulation layer beneath the screed had been omitted.

6. Future Repairs

The tests on the concrete which form the structural elements of the building indicated some elevated levels of chlorides within the concrete.

Chlorides in concrete can speed the rate of corrosion of the steel reinforcement which then causes damage to the concrete. This corrosion requires there to be regular repairs carried out as eventually the reinforcement could corrode so badly that it will be weakened.

Coatings and other techniques can be used to reduce the rate at which corrosion occurs and if the concrete is kept dry the process of corrosion is very slow.

It is considered, based on the test information obtained, that corrosion will only occur in very local areas over the next 20 years and will not be detrimental to the structural integrity of the building. However, it is much harder to be certain of the behaviour over a 40 year time period and repairs may be necessary in order to maintain the structure.

7. Programme

It is not considered that the works can be carried out with any residents in occupation of any flats within the building.

The structural work specified requires a strict programme and sequence of operations in order to safely carry out the works. The works involve significant cutting into or close to structurally critical elements.

The sequence will be to strengthen each level working from the bottom storey upwards so that temporary propping required to support each floor has adequate support from the slab below. The works must ensure that no loss of support or restraint is allowed at any level as this may cause disproportionate collapse of the un-strengthened structure above.

The works will be carried out by hand using light percussive tools and continuous clearance will be required to ensure that there is no build-up of spoil which could overload the slabs. No machines or heavy mechanical plant will be allowed in the building.

The bonding of the new elements to the existing construction requires clean surfaces and therefore conditions not usually found on a construction site. There will need to be

extensive vacuuming and sheeting of areas to ensure that these clean surfaces can be achieved.

No LPG or solvents will be permitted in the building during demolition and strip out works or during the new construction.

8. Risk

The construction and financial risk of carrying out complex strengthening work to a 50-year-old LPS building is significantly greater than that involved in new build construction or normal building refurbishment. The work will be difficult and slow as it is all carried out by hand.

Physical risks include:

Unidentified defects in the building.

Difficulty in removing the existing screeds especially if any are bonded to the slab

Damage to the existing slab during screed removal

Structural cracking or movement uncovered or created during the works.

Difficulty in removing the Reema flank wall cladding panels

Failure of the new topping to adequately bond with the existing slab

Construction vibration causing damage to building elements or dry-pack packing under walls

Financial and programme risks include:

Work sequencing extending the programme

Difficulty in finding a contractor or specialist sub-contractors

Risk of delay/project cancellation due to construction difficulty or further building defects

Future risk

Building is only strengthened to Appraisal of LPS buildings Handbook BRE 2012 and not compliant with current Building Regulations.

Continuing risk and gas management to prevent an explosive or similar event which is higher than the special, reduced level permitted by design to Appraisal of LPS buildings Handbook BRE 2012 which may therefore cause disproportionate collapse. The report is based upon limited testing of the structure in empty flats and communal areas. Further testing and investigation may find other or further defects which may alter the conclusions reached or make execution of the works impractical. Extensive investigation of the buildings is recommended before any contract works are instructed.

Appendix 2

Mace Cost Consultancy Ltd Final Report

Outline Budget Estimate

Leamington & Horatia House - Refurbishment & Structural Remedial Proposals

for

Portsmouth City Council

Rev: 1 Date: 23rd January 2019

Page 35

Project Nr: 35340
Prepared by: Onesai Ndoro
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Reviewed: Oliver North



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Document Issue Sheet

Rev Nr.	Document	Issue Date	Parties Sent To	Prepared By	Checked By	Reviewed By
1	Outline Budget Estimate: Leamington & Horatia House - Refurbishment & Structural Remedial Proposals	23.01.19	Steve Groves	Onesai Ndoro / Oliver North	Sam Veck	Oliver North

Authorised by	
Date 23.01.19	

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- 0.0 Introduction
- 1.0 Executive Summary - Commercial Update
- 2.0 Executive Summary - Programme Update
- 3.0 Information Used
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- 5.0 Exclusions
- 6.0 Risks
- 7.0 Area Schedule

0.0 Introduction

- 0.1 The Outline Budget Estimate currently forecasts a total order of cost range of circa £81M - £86M including professional fees and contingency provisions but excluding VAT, Inflation and Portsmouth City Council (henceforth PCC) or Third Party Costs.
- 0.2 The information provided herein is based on a desktop undertaking by Mace following the receipt of the Wilde Carter Clack structural proposals issued on 27th November 2018 and 10th December 2018 outlined in Section 3 of this document. This Outline Budget Estimate seeks to provide an indicative cost and programme assessment of the proposals for means of the budgeting of construction costs only.
- 0.3 The basis of this Outline Budget Estimate can be found in Section 3,4,5,6 and 7 of this document. This includes a list of Assumptions, Exclusions & Risks. Please note the Exclusions to these figures.
- 0.4 The industry appetite for work of this nature and complexity, associated risk and public profile remains low. This has been validated following our regional and national supply chain interface. This poses a significant risk to the viability of the scheme commercially and in regards to programme and quality. As such, it is our opinion that the capital cost for these works is likely to exceed this estimate in order for PCC to secure a Principal Contractor appointment. Moreover, the project constraints would almost certainly see PCC retain a significant accountability for cost and programme risk throughout the project lifecycle.
- 0.5 The proposed structural solution generated by Wilde Carter Clack, whilst may be structurally viable, in our opinion is commercially unviable given the potential inability to construct the drawn proposals. Furthermore, given the nature and condition of the existing structure and proposed scope of works, it is our opinion that PCC would be unlikely to secure the appropriate warranties as desired for works of this nature and level of capital expenditure. In summary, it is our recommendation that deconstruction and new build option be implemented in lieu of the proposed refurbishment, which will likely represent a better value alternative to PCC.
- 0.6 The costs are a budget estimate of costs assuming procurement through a competitive single stage traditional procurement process for the Enablement Works, and a competitive two stage design and build tendering process as proposed by Portsmouth City Council for the Structural Repairs & Refurbishment works (henceforth 'Main Works'). Note, inflation and uncertainty pertaining to the impact of Brexit remain a risk to the project and is currently excluded. Construction indices and data indicates a potential circa 24% increase in construction cost to mid-point of the proposed construction programme (Q2, 2023). This could be in the region of circa £15m and represent an addition to all costs shown herein.

0.0 Introduction (cont'd).

0.7 Should PCC wish to continue further investigation into this option, we would highly recommend the following immediate actions;

- Further structural assessment, survey, design and modelling be carried out to validate the proposals currently tabled as referenced in Section 3 of this report.
- A full intrusive asbestos survey.
- A full condition survey of the MEP installations.
- Below ground investigations
- Trial works to determine methodology for proposed slab removal, external envelope fixing, foundation works etc.

It should be noted that due to the structural condition of the building the full extent of required surveys and investigations cannot be fully undertaken until the construction works have commenced.

0.8 The execution of the proposed works will require the buildings to be fully decanted and vacated. No persons can be in occupation in any form during the execution of any construction works or related activities. This includes the undertaking of surveys, testing, strip-out, preparatory works and pre-construction activities.

0.9 Following the completion of the enablement works undertaking and subsequent surveys, should the decision be made not to undertake the proposed main works or should it be found to be unviable, the costs associated therewith are not deemed wholly abortive as in our opinion a vast extent would be required to enable safe and effective deconstruction of the structures. Moreover, should a deconstruction option be investigated we would recommend supply chain engagement in the first instance to determine a robust methodology and associated costs, given the building characteristics and site constraints. At this stage we would anticipate a budget of £5m - £6m for these works subject to confirmation of scope, methodology and timing of proposed works.

1.0 Executive Summary - Commercial Update

- 1.1 The table below identifies a summary of the Outline Budget Costs. The Total Construction Cost includes adjustment for Main Contractors Preliminaries and On Costs. The Total Order of Cost includes all adjustments for professional fees, contingency but excludes adjustment for inflation.

	Order of Cost Estimate (£)
Leamington & Horatia Building Clearance & Enablement Works	1,680,000
Leamington & Horatia Structural Repairs & Refurbishment	60,200,000
Total Construction Cost	61,880,000
Professional Fees	10,940,000
Contingency	7,300,000
Inflation	Excluded
Total Order of Cost	80,120,000
Say	81,000,000
Cost Range (£)	£81m-£86m

Note:

- Inflation is currently excluded. Industry indices and data indicates a potential circa 24% increase in construction cost to mid-point of the proposed construction programme (Q2, 2023). This could be in the region of circa £15m and represent an addition to all costs shown herein. The impact of Brexit also remains subject to determination which is excluded.

2.0 Executive Summary - Programme Update

- 2.1 The table below identifies a summary of the outline estimated programme dates. The overall programme is forecast at circa 51 months. This equates to a forecast programme for Building Clearance and Enablement Works of 9 months and the Main Works of 42 months.

Building Clearance & Enablement Works Programme	
Forecast Commencement	2Q/19
Forecast Duration	9 months
Forecast Completion	1Q/20
Structural Repairs & Refurbishment	
Forecast Commencement	3Q/21
Forecast Duration	42 months
Forecast Completion	1Q/25

The above programme is subject to validation of proposed works methodology and sequencing with the appointed design team and Principal Contractor.

2.0 Executive Summary - Programme Update (Cont'd)

2.2 The key factors influencing the programme timescales are mainly due to the following;

- Screed reinforcement requirements to Horatia, and additional proposed hollow core slab reinforcement requirements to Leamington. The proposed floor by floor phasing methodology, driven by building structural constraints, generates an extended and inefficient programme duration due to works sequencing. This is a significant programme and cost risk and represent a critical path activity.
- Proposed requirement for false façade exoskeleton and associated groundwork's and connections to existing building. This is a significant undertaking and represents a significant programme and cost risk.

2.3 We would advise the following next steps to further investigate and validate the proposed durations;

- Seek expert advice on sequencing and construction timelines from specialist supply chain partners pertaining to key critical path structural activities following intrusive survey outputs.
- In addition to validating these timeframes and providing more information around sequencing, the proposal would need to be market tested with a suitably qualified Principal Contractor.
- Efficiencies can be further investigated to enable Leamington & Horatia to run concurrently but this would require further detailed investigation, survey outputs and supply chain interface.

3.0 Information Used

3.1 Information Used

Leamington House

- Wilde Carter Clack - Typical Tower Floor Plan - DWG No.S.101 Rev P1	Dec-18
- Wilde Carter Clack - Typical Residential Flat Floor Plan - DWG No.S.102 Rev P1	Dec-18
- Wilde Carter Clack - Ground Floor RC Beam Layout - DWG No.S.103 Rev P1	Dec-18
- Wilde Carter Clack - Typical Cross Wall Layout Plan - DWG No.S.104 Rev P1	Dec-18
- Wilde Carter Clack - Typical Flank Wall Elevation - DWG No.S.105 Rev P1	Dec-18
- Wilde Carter Clack - Sections Sheet 1 - DWG No. S.110 Rev P1	Dec-18
- Wilde Carter Clack - Sections Sheet 2 - DWG No. S.111 Rev P1	Dec-18
- Wilde Carter Clack - Sections Sheet 3 - DWG No. S.112 Rev P1	Dec-18
- Wilde Carter Clack - Sections Sheet 4 - DWG No. S.113 Rev P1	Dec-18
- Wilde Carter Clack - Details Sheet 1 - DWG No. S.115 Rev P1	Dec-18
- Wilde Carter Clack - Elevation Sheet 1- DWG No. S.120 Rev P1	Dec-18
- Wilde Carter Clack - Structural Specification Rev P2	Dec-18

Horatia House

- Wilde Carter Clack - Typical Tower Floor Plan - DWG No.S.01 Rev P2	Nov-18
- Wilde Carter Clack - Typical Residential Flat Floor Plan - DWG No.S.02 Rev P2	Nov-18
- Wilde Carter Clack - Ground Floor RC Beam Layout - DWG No.S.03 Rev P1	Nov-18
- Wilde Carter Clack - Typical Cross Wall Layout Plan - DWG No.S.04 Rev P1	Nov-18
- Wilde Carter Clack - Typical Flank Wall Elevation - DWG No.S.05 Rev P2	Nov-18
- Wilde Carter Clack - Sections Sheet 1 - DWG No. S.10 Rev P1	Nov-18
- Wilde Carter Clack - Sections Sheet 2 - DWG No. S.11 Rev P1	Nov-18
- Wilde Carter Clack - Sections Sheet 3 - DWG No. S.12 Rev P1	Nov-18
- Wilde Carter Clack - Sections Sheet 4 - DWG No. S.13 Rev P1	Nov-18
- Wilde Carter Clack - Details Sheet 1 - DWG No. S.15 Rev P1	Nov-18
- Wilde Carter Clack - Elevation Sheet 1- DWG No. S.20 Rev P1	Nov-18
- Wilde Carter Clack - Structural Specification Rev P1	Nov-18

4.0 Assumptions

Generally

- Decanting of existing buildings including any temporary moves to be executed and funded by PCC in advance of any works commencement.
- The buildings are to be fully vacated and decanted. No persons can be in occupation in any form during the execution of any construction works or related activities. This includes the undertaking of surveys, testing, strip-out, preparatory works or pre construction activities in their entirety.
- The existing structure can accommodate the proposed works and associated loads etc. No allowance has been made for substructure and/or structure enhancement, reinforcement, alteration, or upgrading over and above proposals included herein.
- Programme of 51 months for both phases, with both buildings being executed concurrently.

Building Clearance & Enablement Works

- Start on Site Q2 2019 for period of 9 months
- Works to be executed as a single contract with no sectional completion with the appointed Demolition / Specialist Contractor
- Single Stage Procurement Approach with Pre Qualified Tenderers.
- Demolition / Specialist Contractor Appointment via applicable framework or equivalent mechanism to ensure delivery of best value.
- Main Contractors OH&P of 10%
- Nominal allowance for asbestos removal included at £300k - subject to validation via intrusive survey.
- All waste produced as result of enablement works undertakings will be extracted from the building via existing lifts - these will be in poor condition as a result on completion with no works proposed thereto until their replacement as part of the main works.
- No scaffold required or associated hoists etc. for the proposed enablement works.
- No requirement for making good on completion of works other than where required to leave works in a safe condition only. This includes external areas.
- No permanent hoarding or site setup will be installed and retained as part of enablement works for the main works undertakings.

Structural Repairs & Refurbishment

- Start of Site Q3 2021 for period of 42 months
- Works to be executed as a single contract with no sectional completion.
- Works to be executed to both buildings concurrently.
- Two Stage Design & Build Procurement Approach.
- Main Contractor Appointment via applicable framework or equivalent mechanism to ensure delivery of best value.
- Main Contractors OH&P of 10%

4.0 Assumptions (cont'd)

- All proposed works to the external envelope can be undertaken from scaffolding and craneage. No provision for mast climbers, external lifts or haul cages.
- Existing screeds can be removed by hand only without detriment to the existing structure.
- Scaffold and associated hoists etc. are required for the proposed full duration of the project and all proposed works can be executed therefrom.
- Minor breaking out to existing foundation only to facilitate formation of new ground beam - no requirement for building underpinning.
- No requirement for upgrading below ground substructure to accommodate proposed building loads.
- Exoskeleton is formed to flank walls only with fixings at 500mm centres at each floor level.
- Provision of a tower crane required for each building for the duration of the project is required.
- Steel bracing to internal cross walls to be bolted to slab with resin anchors - no requirement for breaking out existing walls or bolting through entirety of slab.
- Slab adaptations (Leamington) have to be installed independently of the screed with curing allowed prior to screed installation.
- Building Overclad - assumed the existing cladding frame will be removed and a new frame installed, fixed to the existing external walls, to receive the new cladding. The new cladding will consist of frame, insulation and cladding which will be in the form of Rock panel FS-Extra or similar Class 0 system suitable for residential developments over 18m high.
- All windows to be removed in their entirety and replaced to match existing.
- No works to the roof are required as specified by PCC with exception of the over clad to the envelope parapet.
- MEP Infrastructure to be replaced, not retained and serviced.
- All MEP installations and appliances are electrically fed, with no gas provision servicing the building, with the exception of centralised boiler plant housed on the Ground Floor.
- Sprinkler coverage within the properties to include all areas, other than residential bathrooms or where the floor area is less than 5m². No requirement for coverage to communal areas on residential floors. Assumed sprinkler tanks will be housed externally within the site demise (location tbc).
- External Works - full reinstatement of existing hard and soft landscaping to the respective plot areas to match existing proposals only. No allowance for wholesale re-design/re-profiling.
- Street Furniture - assumed requirement to replace with new to match existing proposals. No provision for wholesale re-design/re-profiling.

5.0 Exclusions

Generally

- VAT
- Inflation
- Costs arising from a Section 106 and/or 278 agreements.
- Costs arising from Construction Infrastructure Levy.
- Monitoring costs; adjacent buildings, noise, dust, vibration, environmental audits, modelling, wind studies and the like.
- Local Authority charges, road closures, etc.
- Any necessary off-site reinforcement of services infrastructure including diversions, upgrades and wayleaves required by proposed works.
- Temporary accommodation
- Decanting of existing buildings including any temporary moves or requirements to facilitate early occupation.
- Effects of working condition restrictions, such as Environmental Management Plans.
- Renewable energy technologies as may be required by the Local Planning Authority (henceforth LPA).
- Works required to comply with Part 2B of the Building Regulations (Consequential Improvements)
- Portsmouth City Council, stakeholder and/or third party costs.
- Air rights, rights of light, boundary wall issues, over sailing rights/licences (or any third party compensation settlements).
- Revenue costs/occupation costs/running costs (outside the scope of the construction project).
- Removal, mitigation or treatment pertaining to contaminated materials. Nominal allowance included herein for asbestos removal subject to confirmation of requirement following intrusive survey.
- Ecological requirements and associated costs.
- BREEAM assessment costs and fees.
- Out of hours working - normal weekday working hours assumed.
- All works to the roof with the exception of the parapet over clad
- Legislative or regulatory policy changes including outputs following Grenfell Tower proceedings.
- Undertaking works whilst the building is occupied. Based on the scope it is assumed that no persons can be in occupation in any form during to execution of any construction related activities. This includes the undertaking of surveys, testing, strip-out, preparatory works or pre construction activities in the entirety.
- Substructure and/or structure enhancement, reinforcement, alterations to facilitate proposed works over and above provisions stated herein.

5.0 Exclusions (cont'd)

Enablement Works

- Requirement for installation of scaffolding or building wrap during enablement works execution. All works to be managed and contained within envelope of the existing structure.
- Requirement for temporary works, propping, structural enhancements/repairs etc. to facilitate the proposed enablement works in advance of structural works being undertaken as part of the main works.
- Requirement for craneage or other form of lifting equipment

Structural Repairs & Refurbishment

- Major Refurbishment/Remodel - no provision for enhancements to building envelope design/specification to address site location, constraints, stakeholders and adjacencies. Assumed like for like replacement with proposed alternative at base date of this report.
- Loose FF&E, IT and other tenant and/or client specialist items.
- Upgrading or enhancement of services infrastructure
- Reinstatement of central play park and associated works - by PCC.
- Additional cost associated with parallel working as the programme assumes sequential working floor by floor.
- Underpinning to existing structure to facilitate proposed works.
- Modifications to existing foundations to facilitate formation of new ground beam to receive flank wall steel frame over and above those included herein.
- Works to existing structural frame, slabs (other than screed) and external walls unless identified herein.

6.0 Risks

6.1 Generally

- Inflation & impact of Brexit.
- Legislative or regulatory policy changes including outputs following Grenfell Tower proceedings.
- Programme - subject to validation following confirmation of exacting project requirements.
- Building decant and resident relocation to meet programme requirements.
- The industry appetite for works of this nature and complexity, associated risk and public profile remains very low. This has been validated following our regional and national supply chain interface.
- Securing of a competitive tender from a competent Principal Contractor and supply chain.
- Buildability of Wilde Carter Clack drawn structural proposals - yet to be validated.
- Outputs of surveys and outputs not yet undertaken.
- Ability to undertake all required surveys and investigations prior to works commencement, this will likely see PCC retain significant risk accountability throughout the project lifecycle.
- Unavoidable damage caused in the execution of the proposed remedial works and associate cost and programme impact.
- Financial viability of proposal for Portsmouth City Council.

7.0 Area Schedule
Leamington House

Site footprint (m2): 3,600 External area (m2): 2,876

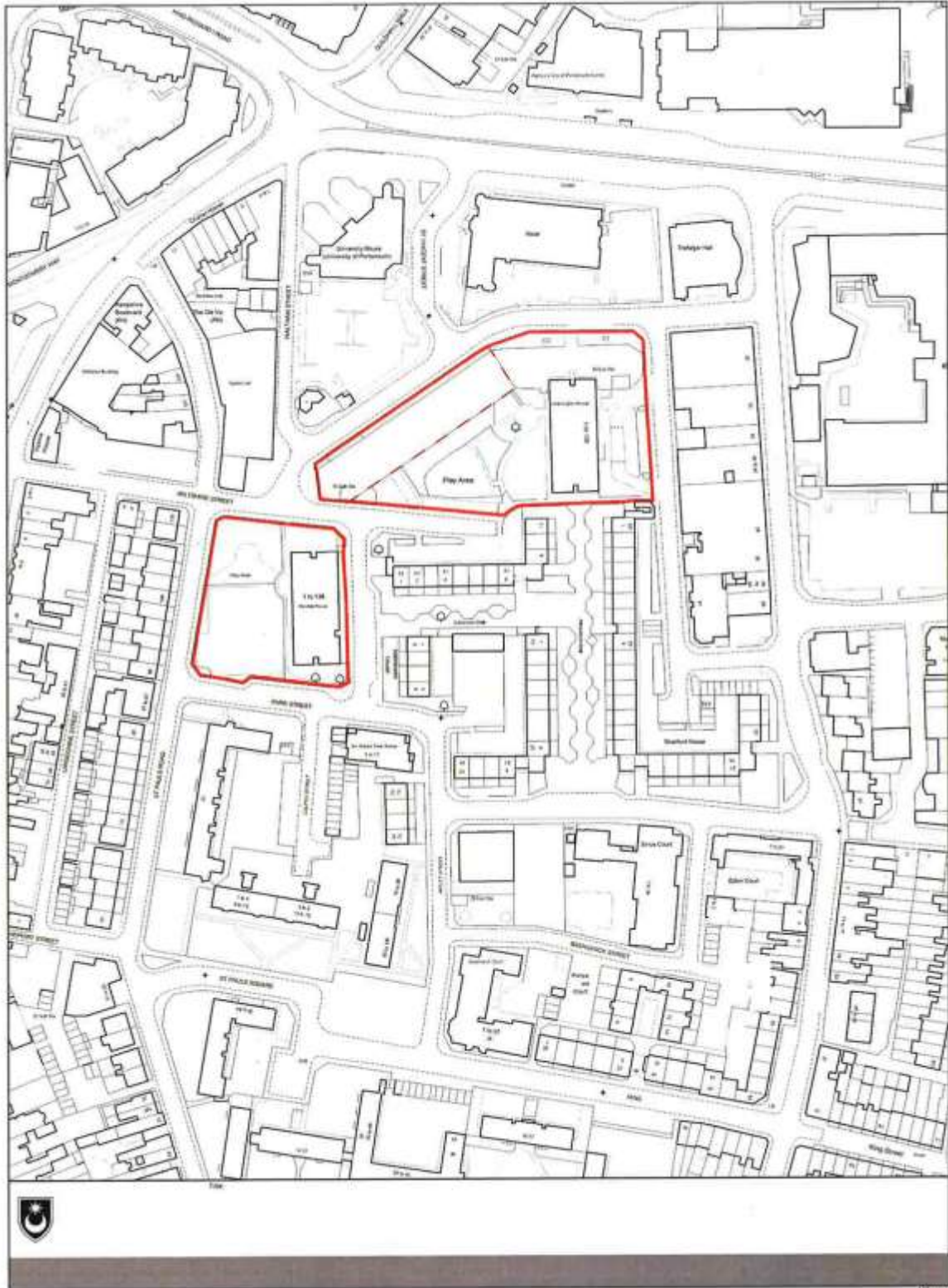
Functional Space (GIA)						Totals (m2)
Level	Dwelling Apartments	Communal	Offices	Plant	Other	
Ground	n/a	242	19	36	427	724
Level 01-18	10,098	2,040	n/a	136	n/a	12,274
Roof	n/a	n/a	n/a	n/a	n/a	0
Totals (m2)	10,098	2,282	19	172	427	12,998

Horatia House

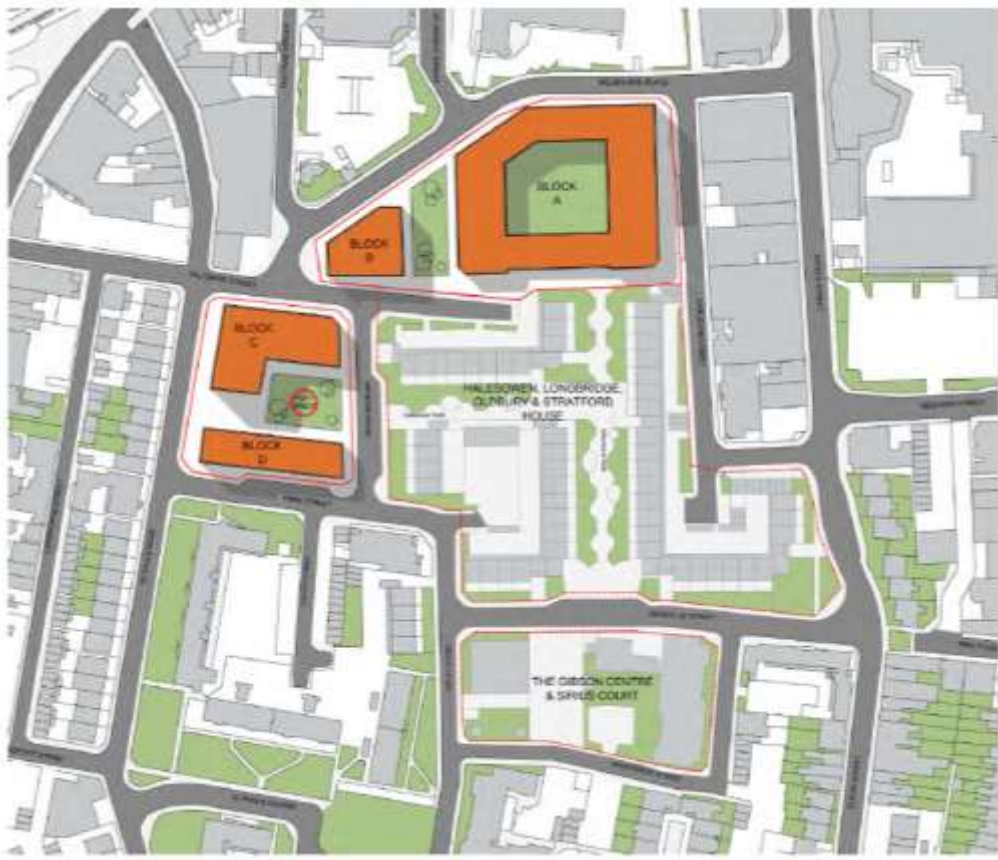
Site footprint (m2): 4,900 External area (m2): 4,176

Functional Space (GIA)						Totals (m2)
Level	Dwelling Apartments	Communal	Offices	Plant	Other	
Ground	n/a	242	19	36	427	724
Level 01-18	10,098	2,040	n/a	136	n/a	12,274
Roof	n/a	n/a	n/a	n/a	n/a	0
Totals (m2)	10,098	2,282	19	172	427	12,998

DEVELOPMENT SITE - HORATIA AND LEAMINGTON HOUSES



DEVELOP ON EXISTING SITE



- 441 new dwellings
- Minimum re-provision of 272 social housing units
- Cost of development £71m
- Cost per unit £161k

Appendix 4

Preliminary EIA

 Portsmouth Clinical Commissioning Group	 Portsmouth CITY COUNCIL
<h1>Equality Impact Assessment</h1>	
Preliminary assessment form 2018	
www.portsmouthccg.nhs.uk	www.portsmouth.gov.uk

The preliminary impact assessment is a quick and easy screening process. It should:

- identify those policies, projects, services, functions or strategies which require a full EIA by looking at:
 - negative, positive or no impact on any of the equality groups
 - How are going to mitigate or remove any potential negative impacts
 - opportunity to promote equality for the equality groups
 - data / feedback
- prioritise if and when a full EIA should be completed
- justify reasons for why a full EIA is not going to be completed

Directorate:

Service, function:

Title of policy, service, function, project or strategy (new or old) :

Type of policy, service, function, project or strategy:

- ☐ Existing
- ☐ New / proposed
- ☒ Changed

Q1 - What is the aim of your policy, service, function, project or strategy?

To determine the next steps in the Leamington House and Horatia House project

Q2 - Who is this policy, service, function, project or strategy going to benefit or have a detrimental effect on and how?

The buildings are part of the Housing Revenue Account which is a ring fenced account and accordingly the financial position of this account is impacted. The impact has been noted in the HRA budgets going forward.

Q3 - Thinking about each group below, does, or could the policy, service, function, project or strategy have a negative impact on members of the equality groups below?

Group	Negative	Positive / no impact	Unclear
Age	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Disability	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Race	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Sex	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Gender reassignment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Sexual orientation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Religion or belief	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pregnancy and maternity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Marriage & civil partnership	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other excluded groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Note:Other excluded groups examples includes,Homeless, rough sleeper and unpaid carers. Many forms of exclusion are linked to financial disadvantage. How will this change affect people on low incomes, in financial crisis or living in areas of greater deprivation?

If the answer is "negative" or "unclear" consider doing a full EIA

If there are any potential negative impacts on any of the protected characteristics, What have you put in place to mitigate or remove the negative impacts/barriers?

N/A None

Q4 - Does, or could the policy, service, function, project or strategy help to promote equality for members of the equality groups? e.g. A new service has been created for people with a disability to help them gain employment this would mean that this helps promote equality for the protected characteristic of disability only.

Group	Yes	No	Unclear
Age	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Disability	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Race	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Sex	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Gender reassignment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Sexual orientation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Religion or belief	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pregnancy or maternity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Marriage & civil partnership	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other excluded groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

If the answer is "no" or "unclear" consider doing a full EIA

Q5 - Do you have any feedback data from the equality groups that influences, affects or shapes this policy, service, function, project or strategy?

Please add in the text boxes below what feedback / meetings you have attended for each specific protected characteristic

Group	Positive or negative feedback
Age	N/A - no specific data collected
Disability	N/A - no specific data collected
Race	N/A - no specific data collected
Sex	N/A - no specific data collected

Gender reassignment	N/A - no specific data collected
Sexual orientation	N/A - no specific data collected
Religion or belief	N/A - no specific data collected
Pregnancy and maternity	N/A - no specific data collected
Marriage & civil partnership	N/A - no specific data collected
Other excluded groups	N/A - no specific data collected

Q6 - Using the assessments in questions 3, 4 and 5 should a full assessment be carried out on this policy, service, function or strategy?

☐ yes ☒ No

PCC staff-If you have to complete a full EIA please contact the Equalities and diversity team if you require help Tel: 023 9283 4789 or email: equalities@portsmouthcc.gov.uk

CCG staff-If you have to complete a full EIA please email: sehccg.equalityanddiveristy@nhs.net if you require help

Q7 - How have you come to this decision? Summarise your findings and conclusion below

The decision to rehouse the residents of Horatia and Leamington Houses has already been made and there is therefore no impact on the current residents of the buildings. This report does determine that it is not feasible to strengthen the blocks but does not make a decision as to the future of the blocks. That will be subject to further work to consider how best to develop the sites. The Regeneration Directorate will be asked by Cabinet to produce and options appraisal to demolish (upon completion of the rehousing of all households) the blocks and develop. The community will be consulted and a separate EIA as part of a development / regeneration work will be considered.

Q8 - Who was involved in the EIA?

Jo Bennett - Head of Business Growth, Relationships and Support

This EIA has been approved by: James Hill, Director of HNB

Contact number: 02392688606

Date: 6 February 2019

PCC staff-Please email a copy of your completed EIA to the Equality and diversity team. We will contact you with any comments or queries about your preliminary EIA.

Telephone: 023 9283 4789, Email: equalities@portsmouthcc.gov.uk

CCG staff-Please email a copy of your completed EIA to the Equality lead who will contact you with any comments or queries about your preliminary . Email: sehccg.equalityanddiversity@nhs.net

Title of meeting: Full Cabinet

Date of meeting: 26 February 2019

Subject: Residents' Parking Programme of Consultation Update

Report by: Tristan Samuels, Director of Regeneration

Wards affected: All

Key decision: No

Full Council decision: No

1. Purpose of report

- 1.1** The purpose of this report is to update Members on progress on the Residents' Parking Programme of Consultation approved on 31 July 2018.

Appendix A: Timescales in relation to Table 1 (Quarterly 2018 - 2020)

2. Recommendation

It is recommended that:

- (1) the progress made between August 2018 - February 2019 on the Residents' Parking Programme is noted;
- (2) the next areas for informal survey are reconfirmed, as per the approved Programme;
- (3) the anticipated Residents Parking Zone (RPZ) Programme timescales are noted (Appendix A)

3. Background

- 3.1** The Revised Residents' Parking Programme of Consultation was approved on 31 July 2018, following a change in Council administration in May 2018 and reflecting the new administration's priorities.
- 3.2.1** Between August 2018 and January 2019, 3 new RPZs were introduced and the review of 1 existing RPZ was completed, with the approved changes implemented (see Table 1 below).
- 3.2.2** 2 informal surveys have been undertaken (MD and ME zones), 1 informal survey is underway (HC zone), and 2 further informal surveys are being prepared for delivery in March (GB and MF zones).

3.3 This report represents an interim report on progress since 31 July 2018. In accordance with the approved Residents' Parking Programme of Consultation, a progress update report will be brought to Traffic & Transportation following completion of consultation on the potential MD Kings area parking zone, confirming the next priorities in the Residents' Parking Programme.

Table 1

Zone code	Zone name	Progress
JB	Landport	RPZ operating times amended 28 August 2018 Previous operation: 24 hours a day Free parking for non-permit holders: 2 hours New operation: 9am-6pm Free parking for non-permit holders: 1 hour
FH	Twyford Ave (north of Northern Parade)	RPZ implemented 19 November 2018 FH permit holders only 2-10pm
MB	Orchard Road area, Southsea	RPZ implemented 2 January 2019 MB permit holders only 4-6pm
MC	Bramble Road area, Southsea	RPZ implemented 2 January 2019 MC permit holders only 5-7pm
MD	Kings area, Southsea	Informal survey completed 30 November 2018 Update letter to residents w/c 28/01/2019 Statutory TRO consultation on proposed MD zone: February/March 2019 (prior to Purdah)
HC	Kendal Ave area, Baffins	Informal survey delivered February 2019 (ends 10/03) Update letter to residents May (after Purdah) Depending on informal survey results, statutory TRO consultation on RPZ proposals est. May 2019
ME	Haslemere Road area, Southsea	Informal survey completed 14 December 2018 Results and update letter to residents February 2019 Depending on informal survey results, formal consultation on proposed RPZ est. May/June 2019
GB	Alverstone Road area, Milton	Informal survey preparation underway, for distribution in March 2019
MF	Craneswater area, Southsea	Informal survey preparation underway, for distribution in March 2019

- 3.4** Residents Parking Zones are just one part of the solution and strategy to improve air quality and congestion within the city. Other initiatives such as the South East Hampshire Rapid Transit scheme are also being developed, providing further alternatives to the private car.

4. Reasons for recommendations

- 4.1** To acknowledge the progress of reviewing existing Residents' Parking Zones (RPZs) and surveying new areas, and how resources will be engaged for the coming months.

- 4.2** Timescales in relation to Table 1 are shown at Appendix A to this report.

- 4.3** As can be seen from their zone identifiers, both MD Kings and ME Haslemere Road areas are in Southsea, and immediately adjacent to the MB Orchard Road and MC Bramble Road RPZs that were approved on 25 October 2018 for commencement on 2 January 2019.

- 4.4** The decision to implement the MB and MC RPZs caused some concern for local people living in the adjacent areas of MD Kings and ME Haslemere Road. The high number of concerns received by ward councillors prompted the request for informal survey forms to be sent to ME Haslemere Road area as soon as possible, to coincide with the MD Kings area informal survey. This will not affect the statutory TRO consultation running order set out in the approved Programme.

- 4.5** Paragraph 4.1 of the Residents' Parking Programme of Consultation approved on 31 July 2018 allows for this:

If residents report issues with displacement parking from Residents' Parking Zones, they will be surveyed promptly to understand those issues.

- 4.6.1** Undertaking both informal surveys within the areas identified as GB and MF in March 2019 is achievable. However, subsequent statutory TRO consultations for these areas (should the informal survey results be positive) are unlikely to take place before October 2019, after the completion of statutory TRO consultations scheduled ahead of them within the RPZ Programme - i.e. HC and ME zones.

- 4.6.2** Informal surveys are far less time- and resource- intensive than the statutory TRO consultation process.

- 4.7** Additional staff are being sourced in order to achieve the ambitious timescales set out.

5. Equality impact assessment

- 5.1** An EIA is not required at this stage as the report does not put forward any proposals and therefore the recommendations do not have a disproportionate negative impact on any of the specific protected characteristics as described in the Equality Act 2010. Each subsequent new proposal will be subject to public consultation and a separate report that assesses any impact on the Equalities Groups.

6. Legal implications

- 6.1 As the recommendations do not propose any further action at this stage there are no legal implications. Any alterations or additions to the existing traffic regulations orders will require approval in the usual way.

7. Director of Finance's comments

- 7.1 Any additional costs associated with the roll out of the programme will be met from the On Street Parking revenue budget.

.....
Signed by:
Tristan Samuels
Director of Regeneration

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Residents' Parking update	PCC website - Traffic and Transportation cabinet meetings - 29 September 2016
Revised Residents' Parking Programme of Consultation	PCC website - Traffic and Transportation cabinet meetings - 31 July 2018

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by:

Appendix A: Residents' Parking Programme of Consultation - Timescales

I = Informal survey F= Formal TRO consultation

Purdah: 26 March to 2 May 2019

	Year Quarter	2018				2019			
		1	2	3	4	1	2	3	4
JB Landport			F						
FH Twyford Ave			I	F					
MB Orchard Road / MC Bramble Road RPZs				F					
MD Kings area					I	F			
HC Kendal Ave area						I	F		
ME Haslemere Rd area					I		F		
GB Alverstone Rd area extension						I		F	
MF Craneswater area						I		F	

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Agenda Item 8



Portsmouth
CITY COUNCIL

Title of meeting: Cabinet Meeting

Date of meeting: Cabinet 26th February 2019 &
Full Council 19th March 2019

Subject: Ravelin Group of Companies

Report by: Tristan Samuels - Director of Regeneration

Wards affected: All

Key decision: Yes/~~No~~

Full Council decision: Yes/~~No~~

1. Purpose of report

- 1.1. The decision to proceed with setting up the Ravelin Group of companies was taken by the Cabinet on the 9th June 2016, delegating responsibility to officers to carry out all necessary work to enable the companies to trade. This further Cabinet report ("the Report") builds on this previous decision and is focused on enabling Ravelin Group to commence trading.
- 1.2. Ravelin Group Limited ("Hold Co") the Council's holding development company and subsidiary Ravelin Property Limited ("Prop Co") have been established to support the delivery of Portsmouth City Council's corporate priorities and to help secure development in the City.
- 1.3. The Council's five corporate priorities have been set to be inclusive for all of the cities stakeholders. They seek to promote economic growth, inward investment and look to support the creation of balanced communities. These priorities are behind a raft of local plan policy documents and define the Council's vision for the future of Portsmouth. A golden strand that runs within all of these documents is the need for more affordable homes to meet the City's emerging housing need and supporting this will be one of Ravelin's priorities.
- 1.4. This Report sets out the purpose and key objectives for Hold Co and any incorporated subsidiaries (collectively referred to as the "Ravelin Group" within this report) within the appended business case (appendix A). This business case sets out how the Council will benefit from using the Ravelin Group, to deliver the

Council's own developments in line with the first five sites as agreed by Cabinet on 9th October 2018.

- 1.5. The Report asks members to consider the appointment of new directors to ensure that both company boards remain quorate.
- 1.6. The Report sets out how the Council as shareholder is able to exercise control over Hold Co who (via the business case) sets out how Hold Co's board will operate and manage Prop Co (and any future subsidiary companies).

2. Recommendations

That Cabinet approves the following recommendations:-

- 2.1. That the business case and purpose for Hold Co is approved, including delegating authority to the Director Regeneration and City Solicitor in consultation with the s.151 officer to create a new subsidiary company to support the delivery of HRA projects with development management and project management services.
- 2.2. To note that the need for the creation of a fit-for-purpose Board of Directors for each of the incorporated Ravelin companies based around an understanding of the skillsets required to support the company in both a commercial and local authority environment.
- 2.3. That new directors are appointed to Hold Co and Prop Co to ensure the companies can remain quorate and able to trade.

That Council approves the following recommendations:-

- 2.4. That authority is delegated to the Director of Finance and Section 151 Officer in consultation with the Leader of the Council, upon agreement of the business justification case's for each of the proposed development sites, to:-
 - 2.4.1. make changes to the budgetary framework as necessary, and
 - 2.4.2. To borrow as required for Ravelin Group development purposes, subject to a robust financial appraisal approved by the Director of Finance & S151 Officer that demonstrates the delivery of the best return to Portsmouth City Council and has proper regard to the following:
 - The relevant capital and revenue costs and income resulting from the investment over the whole life of the development.
 - The extent to which the investment is expected to deliver a secure ongoing income stream.

- The level of expected return on the investment.
- The payback period of the capital investment.
- The tax status and transactional tax events associated with any land transfers or activity of the companies.

3. Background

- 3.1. In 2016 the Council agreed to establish Ravelin Group Ltd with a range of subsidiary companies in order to deliver development for the Council. It was designed to be structured as a "contracting authority" as doing so allows the Council to award a works or services contract to it without competition under the Public Contracts Regulations 2015 ("the Regulations"). Subsidiaries of Hold Co. may also be structured in such a way as to meet the so-called 'Teckal exemption' allowing Hold Co. to award works or services contracts directly to other subsidiaries.
- 3.2. The original decision was focused on Ravelin Group supporting the development of Dunsbury Park, however after further consultation with the executive team, this work was not required. The intention to use Ravelin Group for a variety of development work was always clear and it was noted that Ravelin Group had a place in supporting the Council's ambitious development programme.
- 3.3. Initial legal advice sought concludes the operating model for subsidiary companies can also be structured in such a way so as to avoid being a contracting authority under the Regulations. This would result in the company not being bound by the procurement rules contained in the Regulations and being a distinct entity from the Council therefore operating to its own objectives and producing its own annual business plan.
- 3.4. Hold Co's business case (appendix A) has been constructed to follow the council's priorities and to deliver good quality housing for both sale and rent that meets identified housing need of the City, through the development of council owned property. Ravelin Group will also generate additional revenue for the council which will support other under pressure frontline Council services.
- 3.5. The Cabinet report dated the 9th June 2016 delegated authority to the City Solicitor and the S151 Officer to take all the necessary steps to enable Hold Co and Prop Co to become an operational and viable commercial entity so that it can begin to develop and meet the needs of Portsmouth.

4. Ravelin's Purpose

- 4.1. Ravelin Group will deliver sustainable growth in a commercial manner through the development of Council owned (and other) lands. Through its development, it will prioritise the creation of balanced communities, delivering a range of homes people can afford (in line with City's housing need) and other products to enable economic growth in and around the City of Portsmouth.
- 4.2. All profits generated will be paid back to the Council as dividends.
 - 4.2.1. Additional revenue produced from assets and services will be used to fund, sustain and improve council run services
 - 4.2.2. Capital profits from development schemes will be paid as dividends to the Council to be invested into future projects, including building further homes that local people can afford.

5. Reasons for recommendations

- 5.1. Ravelin Group will work in line with the approved business case and by submitting annual business cases for approval in future years.
- 5.2. The business case will consider short, medium and long term objectives and where a clear commercial case can be demonstrated. The Business case objectives will include but not be limited to the following:
 - 5.2.1. Ravelin Group recognises that the need for affordable sub-market rents will largely be met within the HRA and thus Ravelin Group will work with the HRA to support and deliver these new homes on behalf of the HRA, where appropriate.
 - 5.2.2. The Council will expect Ravelin Group to develop new homes that people can afford to support low income working families, like homes for key workers to rent and shared ownership products to buy in and around Portsmouth, in line with the city's housing need.
 - 5.2.3. Ravelin Group will support the Economic Growth and Inward investment ambitions of the city with its development pipeline. By creating new jobs in property development and offering apprenticeships and training opportunities all with the aim of deriving long term benefits for the City.
 - 5.2.4. Work with Portsmouth City Council employees through Service Level Agreement (SLA) wherever possible.

- 5.2.5. Work with the Councils procurement, property and economic growth teams to support the delivery of a range of social value outcomes, as defined by the Council's policies.

6. GOVERNANCE

- 6.1. The Council is currently reviewing the overall governance arrangements for all of its wholly owned companies. The report will consider advice relating to best practice for the membership operation of company boards as well as political balance and representation on company boards ensuring that they are constructed in such a way that director's legal responsibilities for acting in the best interests of the company can be properly performed. Any recommendations flowing from that review will be reflected into the Ravelin Board structure in the future. Pending the outcome of that review, the current arrangements are described below.

The Shareholder

- 6.2. The Council is the sole shareholder of Hold Co, who in turn is the sole shareholder of Prop Co and any future property company's setup under Hold co - collectively ("Ravelin Group").
- 6.3. As such, the Council controls the Ravelin Group through the appointment and removal of directors and statutory rights. Details of the mechanism for such control, are expressed within the Shareholders Agreement.
- 6.4. The Shareholder has strategic control over the of Ravelin Group through the following:-
- 6.4.1. The right to approve business plan(s) for Ravelin Hold co.
- 6.4.2. The ability for certain express listed decision ("Reserved Matters¹") which must be referred back to the Council acting as shareholder rather than the discretion of the board of directors.
- 6.5. The level of control attributed to Ravelin Property and future Ravelin subsidiary companies by the Council as shareholder will vary depending on how it is structured, details will be listed in the annual business cases for Ravelin Hold co.
- 6.6. In summary, the Cabinet approves the business plan and the board of directors have the remit to implement the business plan (subject to reserved matters).

¹ Reserved matters are located in schedule 1 of the shareholder agreement in appendix E.

- 6.7. There are a number of options for how the shareholder function can be exercised and these are to be explored in a separate governance paper to follow.

Current Board Structure

- 6.8. Upon incorporation of Ravelin Hold Co on 6 January 2017 and Ravelin Property on 9 January 2017 the following Directors were appointed and continue to hold appointment:-

6.8.1. Ravelin Hold Co

- Michael Lawther
- Cllr Luke Stubbs
- Julian Pike

6.8.2. Ravelin Property

- Owen Buckwell (no longer employed by PCC)
- Nick Haverly (no longer employed by PCC)
- Tom Southall

- 6.9. Legal advice (see confidential appendix C) concludes that in order to mitigate against conflicts of interest in respect of directors and statutory roles some changes should be considered and as such, when Cabinet is asked to consider new Directorship for all of the Ravelin companies it should firstly consider the below:-

- Michael Lawther (acting as Monitoring Officer for the Council) is conflicted and should resign from the directorship.
- Owen Buckwell and Nick Haverly are no longer employed by the Council and in line with the shareholders agreement are being removed from registration at Companies House.

- 6.10. While there is no set template for a new companies board composition, the Cabinet should consider the following when appointing new Directors to both the Ravelin Group Ltd and the Ravelin Property Ltd:-

- The separate objectives and functions of both companies.
- The appropriate size for each of the boards.
- The appropriate mix of skills and experience needed to lead a successful enterprise.

- The need to demonstrate sufficient control where this is required i.e. for Teckal compliance.
- The potential for conflicts which could hinder the effective operation of the board (or the Council).

7. Production of a Business case for Ravelin

- 7.1. All the necessary considerations in establishing and operating Ravelin Group and Ravelin Property will need to be set out in a sufficiently detailed business case.
- 7.2. This should assume the Council incurs additional capital expenditure in making loan advances to Ravelin Group and subsequently Ravelin Property by way of a loan facility agreement. The interest charges on the loan advances will need to be sufficient over the life of Ravelin's own business plans (and agreed loan period) to at least meet the Council's financing and administrative costs in borrowing money to make these advances.
- 7.3. The Council is able to loan sums to Ravelin provided they are compliant with State aid rules i.e. not using the provision of soft loans at less than the market value. There are a number of principles which can be applied to justify a transaction as not constituting unlawful aid. This includes the market economy operator principle. To meet this in relation to any loans - these must match the comparable rate. The loan facility agreement(s) should ensure that the level of protection afforded to the Council is the same as a private investor would demand. The alternative of directly sourcing external private finance would be significantly more challenging, time consuming and would pass significant influence and potentially control over Ravelin's business activities and decisions to the lenders.
- 7.4. Cabinet has agreed that the development of the first five development sites should consider the use of Ravelin either working with the HRA or as a developer of affordable housing to ensure that a range of housing products are delivered through its development pipeline.

8. Options Considered

- 8.1. The Council has considered a number of options to develop a mix of new affordable homes in the City. These include:-

Developing within the Housing Revenue Account

- 8.2. Previously the amount of money that could be borrowed by the HRA was restricted by Limit of Indebtedness this has now been rescinded which means the HRA can

be more ambitious in its development plans. However it is constrained by the prudential code so any developments it is involved in must generate enough income for them to be Sustainable, Affordable and Prudent.

- 8.3. The Council could choose to carry out developments in the HRA using HRA borrowing and 1-for-1 receipts from Right-to-Buy sales however there are limitations to the type of homes it is allowed to deliver. The current law and Government policy does restricts the HRA to only hold homes that are defined as either provided at social rent or affordable rent pursuant to section 74(1) of the Local Government and Housing Act 1989.
- 8.4. There is a clear need for these property types and while the HRA could self-deliver there are benefits in the creation of mixed tenure developments and Ravelin can help support the HRA through the use of its development management services, smoother procurement and allow the HRA to benefit from the buying gain that come with a larger pipeline of projects. Receipts from sales would be recycled to generate additional affordable housing within the HRA and could support other services limited to those provided to HRA tenants.

Develop through the Council

- 8.5. The Council has the ability to build homes for sale on a commercial basis through powers given to it through the Localism Act. However the act states if it wishes to trade on a Commercial basis it must do this through a Company. The Council could therefore build social housing through the General fund but any properties built for commercial sale must be delivered through a Company.
- 8.6. When the Council develops through the Company it receives income via dividends which can be used for Revenue and Capital purposes which gives the Council the flexibility that it wouldn't have if it were to develop in its own right.
- 8.7. Developing in a Company also means that it may have the ability to do so outside of the procurement rules (if the company is structured as a 'Teckal' company') which the Council are legally bound to however the need for robust checks and balances and best value remain. Ravelin Group b(y procuring more commercially) y be able to benefit from some procurement and time savings as it can be more nimble and compete with the private sector, however no saving for this has been factored into the financial business case.
- 8.8. The company's board could in future appoint Non-Executive Directors with a housing development background with specialist knowledge to help maximise the returns of the company whilst also ensuring the amount of affordable housing is maximised, these are not skills that we currently have enough of in the Council. Any

changes along this line would be considered in a separate review of governance paper to follow.

- 8.9. Any profits earned by the Company will be subject to Corporation Tax so careful tax planning will be required. Any profits generated by the Council would not be subject to Corporation Tax.
- 8.10. Developing through the Company would give the Council greater flexibility to invest the dividends it gets back from Ravelin Group in any Services and Capital Projects that it develops.

9. Equality impact assessment

- 9.1 The Council's Public Sector Equality Duty has been taken into account as part of the Council's proposals contained in this report, but it is considered that each development scheme proposed to be developed through the use of Ravelin Group Companies may require an individual Equality Impact Assessment ("EIA"). This report does not propose any particular scheme for a development and therefore an EIA is not required at this time.

10. Legal implications

- 10.1. Ravelin Hold Co and Ravelin Property have been incorporated pursuant to the decision of the Cabinet on the 9th June 2016. On the 9th October 2018, the Cabinet approved in principle the redevelopment of the first five sites for the purposes of housing delivery through Ravelin Group companies.
- 10.2. This report makes recommendations relating to the decision-making and management of Ravelin Group companies, based on external legal advice provided by Bevan Brittan, contained in the Appendix C and on a Counsel opinion, contained in appendix B which in summary is reflected in the main body of this report.
- 10.3. The report also seeks approval of the business case for Ravelin Hold Co, which raises a number of complex legal issues relating to the Council's housing development rights, its ability to trade on a commercial basis, as well as public procurement, state aid, companies, employment and pensions, and taxation. These issues have been advised on in detail by Bevan Brittan. The Council has also obtained a Counsel opinion on the specific issue of the Council's housing development powers. The proposed business case contained at Appendix A fully reflects that legal advice. The main legal points relevant to the matters covered within the business case are set out briefly below.
- 10.4. The Council possesses the power to carry out development activity directly, without the need to do so through a company. The rationale for using a separate wholly owned vehicle for the development is for that activity to be undertaken on a commercial basis by a private entity, which could be structured as a 'non-contracting' authority and therefore not be subject to the public procurement law. Where the

purpose of the development activity is to trade and make profit, there is a legal requirement to do so through a company.

- 10.5. Pursuant to Part 2 of the Housing Act 1985, the Council has the power in respect of the provision of housing, either through construction or conversion. And by virtue of section 9(3)(a) of the Housing Act 1985, the Council possess a power to develop housing for sale or rental. This is not confined to the land the Council already own. Section 17(1) gives the Council a power to acquire land (including houses and other buildings) with the intention of developing housing.
- 10.6. However, the Council's disposal of housing outside of the HRA is limited to a conveyance of a freehold or the grant of a lease for a term of more than 21 years (section 74(5) of the Local Government and Housing Act 1989 and section 115 of the Housing Act 1985). Such disposal would not require consent of the Secretary of State if it is "for a consideration equal to its market value" (The General Housing Consents 2013).
- 10.7. The Council does not however possess a power to let housing on periodic tenancies for terms of less than 21 years outside of the Housing Revenue Account ("HRA").
- 10.8. The Council, through the use of its investment power or general competence power (in the Localism Act 2011) may provide private housing (i.e. non-social) housing outside of the HRA and the provisions of the Housing Act 1985. However, again, the use of a company to hold stock for non-social rent would enable the Council to operate and to manage such non-social housing stock on a commercial basis, including the ability to offer assured short hold tenancies outside of the HRA, and would enable the Council to trade for profit.
- 10.9. As referred to within the main body of the report, the Council may structure its subsidiary companies to satisfy the so-called 'Teckal' exemption from having to comply with the Public Contracts Regulations 2015, which require public works or services contracts above relevant EU thresholds are subject to strict advertising and competitive procurement process. This would permit the Council to awards public contracts for services or works directly to its subsidiary companies that are so-structured. Equally, the Council may also decide to structure any of its subsidiary companies as a 'non-contracting' authority allowing any such companies to operate outside of the public procurement law.
- 10.10. In order to comply with the state aid rules, the Council must ensure that any investment it makes into its Ravelin subsidiary companies is strictly on market terms, including loans offered to Ravelin companies, as well as the support services that it will need to provide to them. Disposal (whether through sale or long term leases) are also required to be on market terms to mitigate contravention of state aid rules and for the Council to satisfy its duty to obtain best value on land disposals (pursuant to section 123(1), Local Government Act 1972).

11. Director of Finance's comments

11.1. The Director of Finance Comments are included within the Business Case in appendix A.

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Appendices:

Appendix A - Business Case for Ravelin Holdings Ltd

Appendix B - Confidential - Counsel Opinion

Appendix C - Confidential - Legal Advice from Bevan Brittan - Board Composition

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by:

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Appendix A - Financial Business Case Ravelin Property Limited

1. Background

- 1.1 The City Council are looking to set up an arms-length development company that will deliver housing within the City and surrounding areas.
- 1.2. Ravelin Group will deliver sustainable growth in a commercial manner through the development of Council owned (and other) lands. Through its development, it will prioritise the creation of balanced communities, delivering a range of homes people can afford (in line with City's housing need) and other products to enable economic growth in and around the City of Portsmouth.
- 1.3. All profits generated will be paid back to the Council in the form of Dividends.
 - 1.3.1. The revenue income source will be used to fund, sustain and improve council run services.
 - 1.3.2. Capital profits from development schemes could be paid as dividends to the Council to be invested into future projects, including building further homes that local people can afford by Ravelin.
- 1.4. The Business case objectives will include but not be limited to the following:
 - 1.4.1. Ravelin Group recognises that the need for affordable sub-market rents will largely be met within the HRA and thus Ravelin Group will work with the HRA to support and deliver these new homes on behalf of the HRA, where appropriate.
 - 1.4.2. The Council will expect Ravelin Group to develop new homes that people can afford to support low income working families, like homes for key workers to rent and shared ownership products to buy in and around Portsmouth, in line with the city's housing need.
 - 1.4.3. Ravelin Group will support the Economic Growth and Inward investment ambitions of the city with its development pipeline. By creating new jobs in property development and offering apprenticeships and training opportunities all with the aim of deriving long term benefits for the City.
 - 1.4.4. Work with Portsmouth City Council employees through Service Level Agreement (SLA) wherever possible.

1.4.5. Work with the Councils procurement, property and economic growth teams to support the delivery of a range of social value outcomes, as defined by the Council's policies.

1.5. The Council, through its Strategic Development Team (but not limited to) will identify land within the Council ownership and consider options for development that will be tested through the Councils current cross directorate clearance process Development Programme Enabling Board (DPEB) to identify if any alternative land uses should be considered .

1.6. The Strategic Development team will work with relevant Council departments and members to design developments that meet the Council core principles and accommodation strategies.

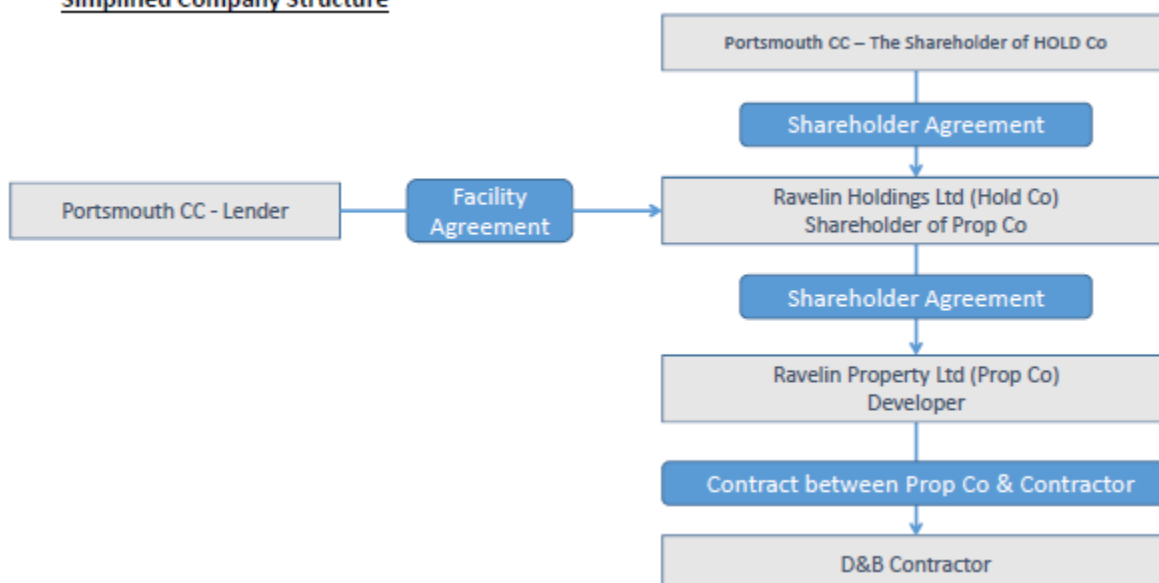
1.7. Once agreed by DPEB and with Cabinet member support the Council will commission Ravelin to deliver these developments in a staged manner as noted in appendix D.

2. Structure and Roles

2.1 The Diagram below sets out the proposed company structure for the Development Company.

Figure 1 - Outline Structure

Simplified Company Structure



2.2 The Council has two main role's within the delivery structure both allow it control the vehicle:

2.2.1 the first is as the 100% shareholder, this relationship will be governed by a shareholders agreement that allows the Council to set out any reserved matters that will allow the Council to exercise a certain amount of Control of the company, this could be linked to future lending and the type and nature of future developments, and the distribution or reinvestment of profits.

2.2.2 The other role the Council will have is as the primary lender to Ravelin via a facility agreement. Within this agreement the Council can attach conditions to any lending that it may give to Ravelin. This could be in its simplest form that no lending will be granted until a business justification case is presented to the Council. This will ensure that the Council's risk is kept to a minimum.

2.3 Ravelin Holdings Ltd will be the Company that has legal title of the land and properties built by its subordinate Company Ravelin Property Ltd. It will be responsible for all land assembly and sales, where required.

2.4 Ravelin Property Ltd will be the company that contracts with companies to carry out works, to deliver new homes and will be responsible for the delivery of developments. Ravelin Property Ltd will invoice its Parent company whilst delivering the developments.

2.5 Subject to independent legal advice, Hold Co may see fit to setup a further subsidiary Prop Co or DevMan Co specifically to provide to Development Management service to the HRA on sites like Southsea Community Centre where no land transfer is required.

3. Taxation

3.1 As Ravelin will be trading as a Commercial entity it will need to bear in mind the taxation regime within the UK, something that the City Council has previously not had to consider. The main issues are of Corporation Tax and Value Added Tax (VAT).

Corporation Tax

3.2 Any profits made by the Company will be subject to Corporation tax at 19% (Reducing to 17% from April 2020). The Council will need to ensure that it plans its operations so that it is most tax effective. The Council may need to seek specialist advice before it starts trading as this experience is not held currently within the Council.

VAT

- 3.3 The Council will seek specialist taxation advice as part of the due diligence process prior to trading.
- 3.4 In order for the Ravelin to be able to recover VAT that it incurs on its expenditure it will need to ensure that it registers for VAT. The sale of new homes is zero rated which means that it should be able to recover 100% of its VAT on purchases.

Income Tax

- 3.5 Ravelin will operate in a way that any employees that it has are employed on a Service Level agreement between the Council and the Company and therefore will be employed by the City Council, no Income tax will be paid by the Company itself. However the supply of staff by the Council will be a vatable supply of staff and therefore VAT will be payable on this supply.

4. Working Capital

- 4.1 The Council will need to ensure that the Company has enough Working Capital to operate. This could mean that a mixture of equity and debt funding is required in the early part of the company's history is required. The Company will not start to see any income until it starts to sell properties. This could mean that the Council will need to lend for a year or more before Ravelin is able to repay its loans. As soon as the company starts to borrow from the Council it will need to be able to pay the interest Payments on this, this could mean that initially the Council needs to invest equity finance in the company to ensure that it can meet it borrowing requirement and other out goings initially.
- 4.2 A Cash flow forecast will need to constructed to ensure that this initial equity investment is enough for the company to be able to meet its working capital obligations, whilst also ensuring that the Council are not tying up money that could be used elsewhere earning a higher return.

5. Operating Costs

- 5.1 The Ravelin Board will primarily be made up of a mixture of Council employees and other external property specialists. To this aim the company will not require its own premises but the cost of premises will be charged to it via an agreed hourly rate for Council employees through a Service level agreement with the Company.

5.2 The Company is likely to require support primarily from Finance, Legal and Procurement and a large amount of support from the Strategic Projects team will be required. It will also require support from Architects and planning consultants.

5.3 These costs will be dependent on the level of activity carried out by it.

6. Board Composition

6.1 Refer to the main paper and cost

6.2 The Council will need to recruit 2 to 3 non-executive directors who have experience of delivering housing so as to ensure that the board has a sufficient level of skill in order to be able to deliver viable schemes, this could cost up to £30,000 per annum.

7. PCC Support

7.1 Legal

7.1.1 The initial support from legal will be in incorporating the company and setting up the various legal instruments as set out but not limited to figure 1 above in the company structure.

7.1.2 Much of this advice will need to be commissioned from specialist companies in the first year and could cost as much as £150,000.

7.1.3 Ongoing support will be required to support the contract between Ravelin Property Ltd and the construction companies, the land assembly for various developments and for the sales of the units built amongst other things. This support could cost £100,000 ongoing.

7.2 Finance

7.2.1 Finance support will be required in the form of preparing the initial business case for developments and the initial business case for incorporation.

7.2.2 Ongoing the Council will provide transactional accounting services for Ravelin as well as Payroll. The Council will also prepare the companies statutory return and accounts. The Council will also file all Corporation Tax and VAT returns.

7.2.3 There may also be other advice from a cash flow and taxation point of view, this could cost as much as £75,000 per annum.

7.3 Procurement

7.3.1 It is envisaged that after incorporation the Council will offer Procurement and Commercial advice and support to the company when engaging with construction companies as well as other strategic advice. This is envisaged to cost around £50,000 per annum but is dependent on the number and size of developments.

7.4 Strategic Developments Team

7.4.1 The Strategic Developments team will work with Ravelin to identify potential development sites and will assist with the design of schemes on behalf of Ravelin, as well as facilitating the relationship between Ravelin and the support services, this could cost around £250,000 per annum however this rather depends on the number of schemes that come forward.

8. Relationship with the Housing Revenue Account

8.1 The budget delivered by the Government in the autumn of 2018 came with an announcement that the borrowing cap that was previously in place for the HRA had been abolished. That meant that Councils are now able to borrow in line with the prudential code, which ensures that any borrowing should be affordable, sustainable and prudent.

8.2 This means that if that the Council must ensure that any borrowing it takes on will generate a revenue stream that will meet the ongoing cost of servicing its debt and maintaining the asset, that the scheme is viable. A viability assessment this is backed up by a set of assumptions which are not always predictable i.e. the Governments policy to freeze rents¹ in social housing.

¹ The HRA is now in the final year of the Welfare reform act that mandated that the Council had to reduce all housing rents by 1% a year for four years. The latest guidance is that once this ends the HRA will be able to set rents at CPI +1% for the following five years. What happens to rental growth after that time period is uncertain.

- 8.3 The Council also needs to consider the effect the reinvigoration of the right to buy scheme and how the receipts could be used by Ravelin.
- 8.4 It also is worth bearing in mind that Ravelin would not have the benefit of using 1-for-1 receipts if it were to build Social Housing and therefore this is another reason why the Council may wish to consider a commercial arrangement with the HRA to enable the delivery of both social rented and private for sale housing on HRA land.
- 8.5 It is noted that the HRA can deliver private housing so long as any proceeds are then reinvested into the HRA. The HRA however are unable to provide products such as part rent part buy which would fall into the suite of affordable products based on the Governments definition.²
- 8.6 Any transfer of HRA land will be based on a current use and follow the principles of a Red Book valuation.

9. The Developments

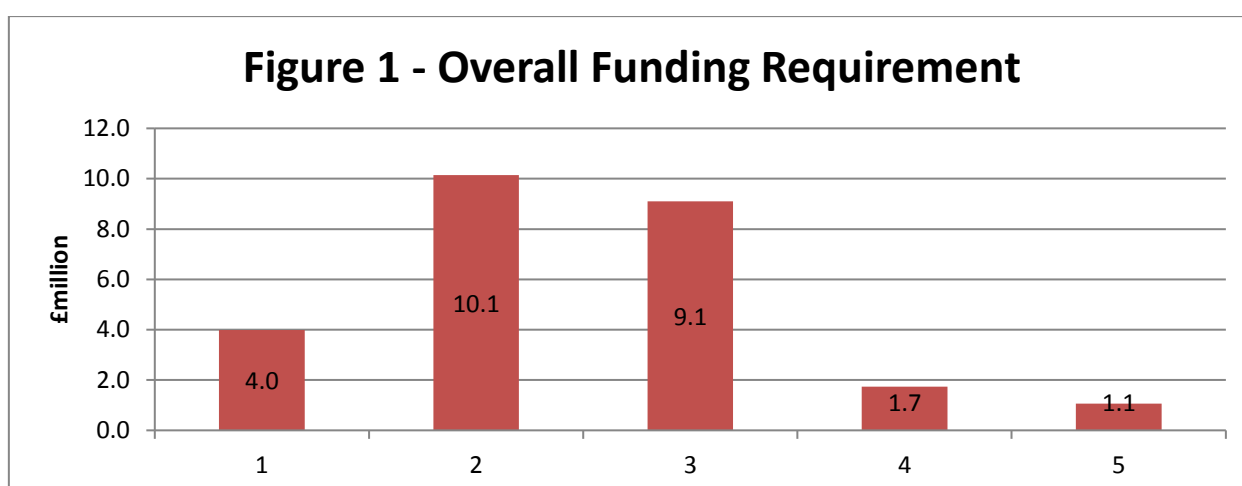
- 9.1 Initially Ravelin will be working on the first five development sites in their role as a developer, partner and/or development manager with the HRA.
- 9.2 For the purposes of this first financial business case to establish the budgets for Ravelin, the size of development and mix of tenure to be developed is as set out in the previous Cabinet report for the Five Sites. This report was heard in October 2018 and contained indicative unit numbers which will change once the team has completed the detailed design and the schemes have been considered and agreed by the planning committee.
- 9.3 Based on these development sizes and the proposed tenure mix the overall return on investment is around 15% (or £4.8m), excluding operating costs and Corporation Tax. This return does not include the cost of operating costs and Corporation Tax once these are taken into account the return is around 5% (or £1.7m) as a proportion of Gross Sales (see table 1 below).

² See legal advice

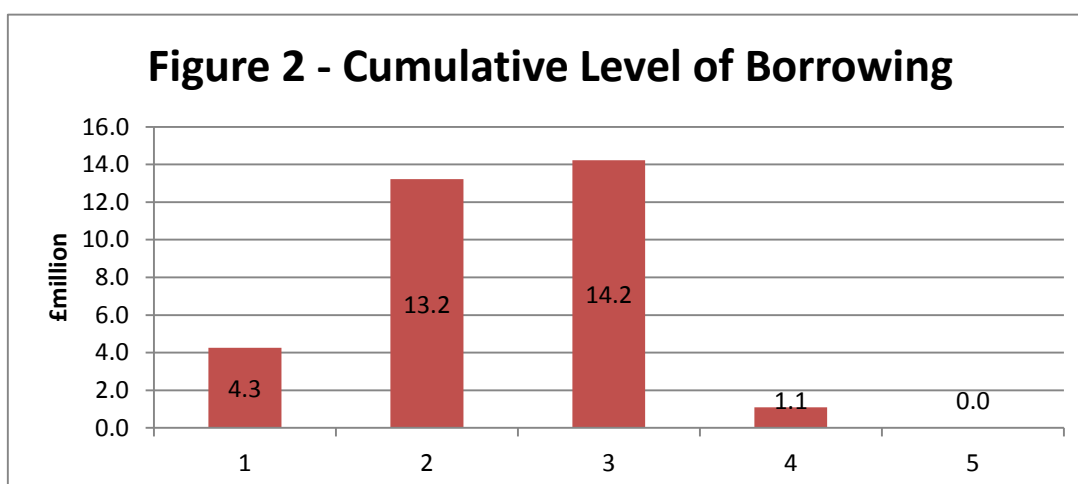
Table 1 - Return on Development Investment

Activity	Planned Expenditure	% Return
Land Costs	£1,837,000	
Construction Costs	£22,319,000	
Interest on Borrowing	£3,664,000	
Property Sales	(£32,674,000)	
Development Profit	(£4,854,000)	15%
Operating Costs	£2,500,000	
Corporation Tax	£660,000	
Total Return	(£1,694,000)	5%

- 9.4 As stated in paragraph 1.3 all profits generated are paid back to the Council as dividends to support Council run services or reinvested into future capital projects.
- 9.5 For the purpose of budget modelling the business case assumes that all of the developments in this appraisal will be built within the first three years with completed units being sold within a year of completion of construction. This means that the Ravelin will have a £4m cash funding requirement in year 1, £10.1m in year two and £9.1m in year 3. This includes the cost of construction, operating costs and borrowing.

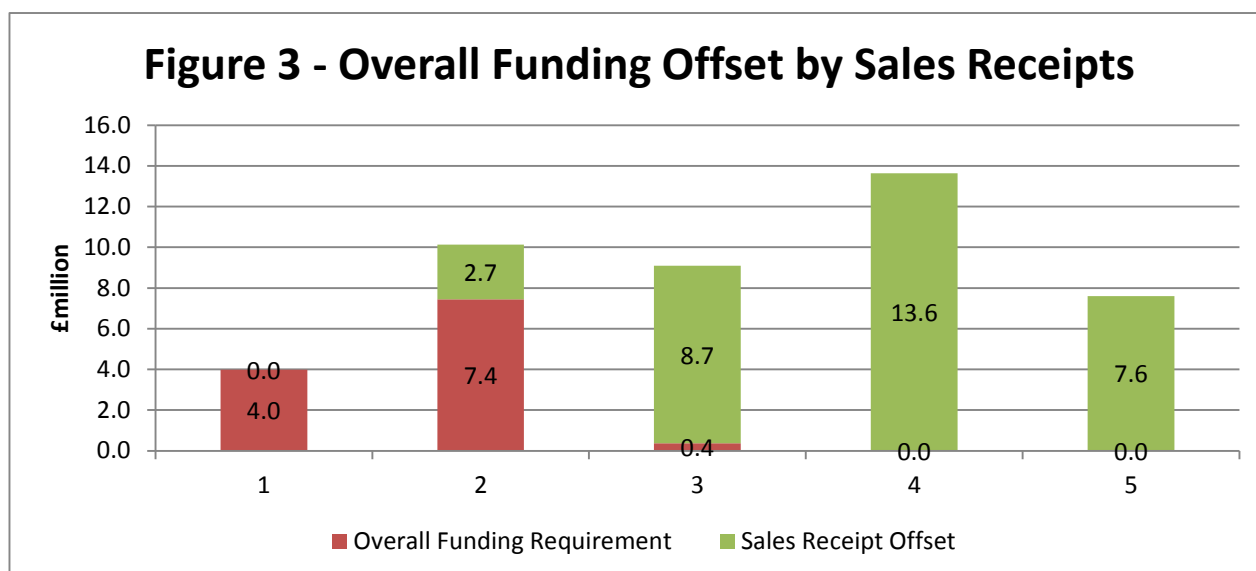


- 9.6 Ravelin would hope to start selling private properties off plan but for the purpose of this financial business it has been assumed that receipts will not be received until after completion. This suggests that average borrowing requirement will be £4.3m in year 1, £13.2m in year 2 and £14.2m in year 3. In reality the company would seek to reduce its reliance on borrowing by maximising its working capital management.



9.7 The maximum amount the Council would need to lend Ravelin in a year would be somewhere around £14m, this lending would be secured against the Land and Work in progress and would be dependent on the size and phasing of developments.

9.8 Figure 3 below shows the net cash flows for years 1 - 5 and shows that year's one and two are where the Companies net outflows are greater than their income.



10. Profit and Loss Account

10.1 Based on the 5 development sites a forecast profit and loss account has been constructed for the first 5 years of operation. This shows that Ravelin could make a profit of £3.5m after taking account of all borrowing costs, operating costs and

taxation. Loss relief from Corporation Tax has not been taken into account at this time and is subject to independent tax advice.

Table 2 - Forecast Profit and Loss Account

<u>Ravelin Forecast Profit & Loss Account Years 1-5</u>	Year					
	1	2	3	4	5	Total
Sales of Property	£0	(£2,695,000)	(£8,729,400)	(£13,642,000)	(£7,607,600)	(£32,674,000)
Income from Building Operations	£0	£0	£0	£0	£0	£0
Cost of Sales						
Construction Costs	£1,923,075	£11,159,715	£9,236,640	£0	£0	£22,319,431
Operating Costs	£500,000	£500,000	£500,000	£500,000	£500,000	£2,500,000
Impairment	£0	£0	£0	£0	£0	£0
Interest Borrowing	£216,854	£810,333	£1,305,928	£1,331,378	£0	£3,664,494
Total Costs	£2,639,929	£12,470,049	£11,042,569	£1,831,378	£500,000	£28,483,925
Gross Margin (positive)/negative	£1,923,075	£8,464,715	£507,240	(£13,642,000)	(£7,607,600)	(£10,354,569)
Net Margin Before Tax (positive)/negative	£2,639,929	£9,775,049	£2,313,169	(£11,810,622)	(£7,107,600)	(£4,190,075)
Cumulative Deficit / (Surplus)	£2,639,929	£12,414,978	£14,728,146	£2,917,525	(£4,190,075)	
Taxation (19% - reducing to 17% 2020)	£0	£0	£0	£0	£659,514	£659,514
Net Margin After Tax (positive)/negative	£2,639,929	£9,775,049	£2,313,169	(£11,810,622)	(£6,448,086)	(£3,530,561)

- 10.2 The exact amount of operating costs is also not yet known and more work would need to be done to ensure that this is properly quantified. The majority of this cost is actually in the form of recharges back to the local authority as detailed earlier in the report.

11. Financial Impact to the Council

Land Holdings

- 11.1 The Council is a significant land owner and has, in the past, moth balled sites that were not financially viable because they were looked at as community or social housing projects. The use of the Ravelin will give the Council the ability to offer homes for sale.
- 11.2 The Council has land holdings in both the GF and the HRA, with a mix of both considered in this report. For the purpose of this business case and in line with current Council financial guidance, it has been assumed that the capital receipts from any land transfers will be held centrally by the Council. The use of these receipts will be decided by the S151 officer.

- 11.3 Any land disposed of to Ravelin must be transferred at the current market value. Valuations are carried out based on current use and in line with the principles of a Red Book Valuation and not at a discount that would give it an advantage over the market.
- 11.4 In the cases where a development is via a joint venture (or similar commercial structure) between the HRA and Ravelin. Ravelin will pay a residual land value which will be a proportion of the land based on the mix of tenure within that development. As a rough example, in the case where a development has 30% affordable Housing, Ravelin will pay a land value for the 70% that contains the Market sale units. If applicable the HRA would pay a value in line with the 30% but only in the instances where it is not already the land owner.
- 11.5 The developments considered in this business case would provide the Council with a capital receipt of nearly £2m, however a formal valuation of the land involved needs to be undertaken prior to any sale to Ravelin.

Income from Lending

- 11.6 The facility agreement that governs how the Council lends money to Ravelin and on what terms is a key document that supports the financial case for setting Ravelin up.
- 11.7 Under the proposed model, in this business case, the Council will lend Ravelin money at a Commercial rate of 5.09% at the time of writing this report, whilst the cost of City Council borrowing will is around 2.57%, this means that the Council will benefit from an income stream from the Company.
- 11.8 Based on the developments in this report the Council would generate £1.3m in net interest earned on lending to Ravelin over the next two years. The income has the effect of reducing the amount of corporation tax that the Ravelin needs to pay as well as giving the Council a return on its investment prior to any sales.

Table 3 - Income from Lending

	Borrowing Cost	Income from Ravelin	Net Income from Lending Activities
Arundel Street	£176,628	(£349,820)	(£173,192)
Hambrook Street	£118,661	(£235,013)	(£116,352)
Doyle Avenue	£165,539	(£327,858)	(£162,319)
Museum Road	£865,138	(£1,713,444)	(£848,306)
Total	£1,325,966	(£2,276,316)	(£1,300,169)

- 11.9 Initially the Company will need to be able to service this debt through some form of working capital loan or equity investment. The exact amount is not yet known and this rather depends on the speed at which the operations of the company start. This will need to be modelled in detail so as to optimise the amount of equity funding required to meet these obligations.

12. How will Projects be brought forward?

- 12.1 On a project by project basis Ravelin Property (or any further company subsidiary incorporated) will submit a business justification case (BJC) in 3 key stages. This allows the S151 officer to scrutinise and review these BJC's as the project develops to better manage the risks and ensure the direction of travel remains within the agreed Ravelin Group business case as signed off by Cabinet.
- 12.2 This approach allows the S151 officer to fund progress with the early feasibility works in a controlled manner and ensures that capital funding and land only pass to Ravelin at the appropriate time with some conditionality and claw back in place.
- 12.3 Ravelin Property will be funded in the form of a commercial loan in line with state aid rules and the land offered for development under a long lease or agreement to lease.

Example:-

Stage 0 (Options)

- Officers from Strategic Developments (or other departments) will identify land within the Council ownership and consider options for development.
- Options for development will be tested through the Councils current cross directorate clearance process Development Programme Enabling Board (DPEB) to identify if any alternative land uses should be considered.

- Following approval by DPEB and agreement with the relevant Cabinet Member, Ravelin can be instructed to take forward a specific project.
- Note there is an option for Ravelin to be instructed to bring options forward to DPEB but this will be on client request only.

Stage 1 (Concept & early design - RIBA 1-2)

- Ravelin applies to the Council to bring forward a project (or group of projects) and it is agreed that these will be funded.
- Ravelin application to include - high level costings for this stage of work.
- Project Board & S151 officer review - if in agreement a loan on commercial terms to support the design and feasibility work (stage 1) is approved.
- Ravelin proceeds to complete stage 1.
- Once Stage 1 is complete Ravelin presents to the client project board & S151 officer.
- The Board needs to formally agree that Stage 1 is accepted and that Ravelin should progress to stage 2.

Stage 2 (Planning & Design development, procurement soft marketing - Riba 3-4)

- Ravelin applies stage 2 costs and an agreement to lease the land subject to conditions including the planning decision.
- Ravelin confirms costs for stage 2 and reviews estimates costs for the whole development project, including land transfer costs etc.
- Council agrees loan on commercial terms to support stage 2.
- Council agrees conditional Agreement to Lease.
- Ravelin secures planning and demonstrates preferred procurement route.
- Council confirms that it is supportive of the approved planning.
- Council confirms that the conditionality of the AFL has been met and the land can transfer (note this stage can take place later but prior to construction is preferred).

Stage 3 (delivery)

- Council agrees loan on commercial terms to support the projects delivery as per the approved planning.
- Conditionality is cleared and the transfer of land to Ravelin is completed to facilitate the development.
- Ravelin completes the project.

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Title of meeting: Cabinet Meeting

Date of meeting: 26th February 2019

Subject: City Centre Regeneration

Report by: Director of Regeneration

Wards affected: Charles Dickens

Key decision: Yes/~~No~~

Full Council decision: ~~Yes~~/No

1. Purpose of report

- 1.1. To provide the Cabinet with a broad update on the regeneration of Portsmouth's City Centre.
- 1.2. To seek approval for officers to undertake the necessary next steps in relation to revitalising the long under used Tricorn site (partly under a lease to the Delancey Group) together with other adjoining Council and Delancey Group owned land assets. A plan showing land owned by Portsmouth City Council and Delancey is attached at appendix A.
- 1.3. The report proposes that the Council and DV4 Limited (a Delancey Group owned vehicle) enter into a limited liability partnership ("LLP") on an equal 50/50 basis. The LLP will assemble land, design and co-develop the sites in line with the Council's aspirations for the regeneration of this area and to revitalise Commercial Road.
- 1.4. The recommendations in this report should be seen as part of the wider Cultural Regeneration of the City Centre and are therefore aligned with other key work streams such as the refreshing of the City Centre masterplan, the delivery of key infrastructure to support economic growth and the revitalisation of Commercial Road.

2. Recommendations

It is recommended that Cabinet:

- 2.1. Note the work to date on the various workstreams that are being aligned to bring about the successful culturally-led regeneration of Portsmouth City Centre.

- 2.2. Agree the Heads of Terms for the proposed joint venture LLP between Portsmouth City Council and DV4 Limited.
- 2.3. Delegate authority to the Director of Finance and Information Services, the Head of Legal and the Director of Regeneration to negotiate and enter into the joint venture LLP in line with the agreed Heads of Terms.
- 2.4. Delegate authority to the Director of Regeneration the management of spend on project related works against the capital budgets for the City Centre Regeneration. Spend will include negotiations and agreement of contracts, to consult on design options and develop a feasibility study in conjunction with residents and stakeholders and to ensure that the joint venture is fundable and delivers economic and commercial benefits for the Council as well as the wider regeneration benefits for the city as a whole.
- 2.5. Delegate authority to the Director of Regeneration to work with the developers, the community and other stakeholders to co-design and implement a worthwhile temporary use strategy for the City Centre, with a particular focus on the Tricorn site.
- 2.6. Delegate authority to the Director of Regeneration to create a consultation space within the City Centre to encourage ongoing open and transparent communication with all members of the community.
- 2.7. Note that:
 - i) The S.151 Officer, in consultation with the Leader, has delegated authority to borrow as necessary for the Joint Venture limited liability partnership which is established to deliver the City Centre re-development as approved in the report to the Council consider on 12th February 2019.
 - ii) Prior to any borrowing described above, a full business case and financial appraisal is prepared that can satisfactorily demonstrate with good certainty that cost savings / additional income or value uplift of the development that will accrue directly to the Council will at least cover the cost of that borrowing on a sustained basis over the lifetime of the borrowing undertaken.

3. Background

Wider Context

- 3.1. Portsmouth is a bustling island city on the south coast, with a population of approximately 215,000 living within an area of 15.5 square miles (40.15 sq. km). The city boomed in the 19th and 20th centuries although its importance as a port and strong associations with the Royal Navy predate this. Indeed, the presence of the Royal Navy and the dockyard has long shaped the city's economy and image, acting as a catalyst to create a network of defence

and related industries, as well as a naval heritage based tourist industry. Portsmouth is one of the world's great port cities.

- 3.2. Today, Portsmouth is multi-faceted, with huge strengths, assets and opportunities, and big ambitions.

Portsmouth City Council's Priorities

- 3.3. Recently the council has set out new priorities so stakeholders can see our aims and aspirations for the city and understand the areas we will be focusing on in the coming months (see a copy in appendix D).

Current Workstreams

- 3.4. The regeneration of Portsmouth's City Centre is essential for the city's success and to this end the Council has a number of comprehensive work streams ongoing, the list includes (but is not limited to) the following:-
- The redevelopment of the old Tricorn site, as is the main focus of this report.
 - The provision of much needed road infrastructure to support economic growth in the City.
 - The planning of the area through the refreshing of the City Centre Masterplan.
 - Working with partners to bring renewed retail and leisure offers to Commercial Road and the Cascades shopping centre.
 - Investing in high quality public realm around Portsmouth & Southsea train station.
 - Expanding the range and quality of stalls at the City Centre Market.
 - Introducing new street food options to the area.
- 3.5. All these workstreams are contributing towards a vibrant, economically successful and business led high street which is aligned with the Portsmouth's Corporate Plan.
- 3.6. To be successful the regeneration of the City Centre needs to:
- Improve the image of the city and promote the opportunities and potential it offers.
 - Support business and long-term economic growth in the city centre by encouraging key sector growth that supports the resurgence of the existing City Centre & Commercial Road.
 - Support the development of the visitor economy
 - Strengthen the retail opportunities available for residents and visitors by embracing changes to the traditional high street model to create an environment that is fit for future purposes.
 - Build more high quality private and affordable homes, bringing forward much needed homes for the city, including a range of affordable housing products to support growth in the City; striving to exceed the planning requirement for the provision of affordable housing.
 - To create new jobs both during the construction period but also dedicating some space in the designs to employment zones. The Council is looking to improve educational attainment and skills whilst raising aspirations.

- Provide a city centre that is focussed on sustainable transport and active travel to promote improved health and reduce the reliance on cars. This includes a new City Centre Road and working towards the provision of much needed sustainable travel infrastructure such as bus stops, cycle parking and cycle share schemes.
- Address the concerns around air quality and ensure that any changes to the highway network and wider development are geared towards improving air quality.

3.7. There is a unique opportunity now to supercharge the culturally-led regeneration of Portsmouth. If successfully implemented, this strategy will help deliver a thriving city of sub-regional significance however this requires residents and other stakeholders to engage with the Council in the process.

4. Next Steps

- 4.1. The Tricorn site and others in the City Centre have not progressed for some time due to market factors. There is confidence that by consulting with residents and stakeholders to co-create and develop new plans for the area, once they are developed the increased activity will bring people back to Commercial Road and surrounding areas.
- 4.2. To ensure the future of the city centre, a development of significant scale is required to act as catalyst. Agreeing the Heads of Terms allows the Council and developer to start this process of engagement.
- 4.3. Any proposal must deliver outcomes in line with community engagement, the Local Plan and the council's aspirations for culturally-led regeneration. The Council also aspires to deliver a high level of affordable housing (above the levels required under current Portsmouth planning policies), whilst retaining a viable commercial project.
- 4.4. On this basis the Council is looking to progress the two projects, the first is the regeneration of the Tricorn site and lands around it, and secondly to bring forward active worthwhile uses in the short term. Delegated authority is being sort to enable officers to develop plans to a feasibility level based on the consultation with the residents, stakeholders and the market knowledge of the development partner. Once feasibility options are completed these will be returned to Cabinet for their consideration and determination.

5. Communications and Engagement

- 5.1. Meaningful communication and engagement with the stakeholders of the city and further afield is essential for work to be successful. The Council is therefore developing an ongoing programme of engagement with residents, businesses and the local community to shape the plans for reinvigorating the city centre.
- 5.2. This will involve asking for views on a range of subjects including:
 - Immediate worthwhile (temporary) uses for the Tricorn and wider site

- Support the development of the city centre markets
- New attractions for existing shopping areas
- Improving the physical environment of existing shopping areas, e.g. benches, paving etc.
- What to include in any future city centre developments
- Publically accessible space
- Transport links

5.3 The Council is aware not everyone will be able to attend consultation events and thus it plans to create a new High Street presence (shop front) on Commercial Road that will allow interested parties to drop in, to view and discuss plans when it suits them. Further details will be announced once the venue is agreed.

5.4 Working with Delancey, a full communication and engagement strategy will be developed. Initial plans include:

- Key Stakeholders are contacted and the sourcing of local knowledge is prioritised from the outset, to ensure firm foundations are set for the consultation and for the plans from the start
- A dedicated information and consultation website is created, with dedicated email address for those looking to get more information
- Bespoke meetings for community stakeholders, businesses and political groups
- Regular updates for key stakeholders, including councillors
- Informative and accessible public information exhibitions and workshops, held at relevant locations at key points throughout the consultation process, and a joined up approach taken when other developers are consulting in the interest of any wider masterplans
- Regular and correctly timed media briefings about development plans as well as the engagement activity
- Comprehensive and regularly updated FAQs documents with key information
- Ensuring that Charles Dickens ward councillors are involved at the earliest possible juncture and ensure that the public consultation is designed in partnership with them. Link up with existing structures such as community groups, residents associations and neighbourhood forums
- Establishing a cross party approach with all elected members
- Consider establishing other working panels that can advise the team
- Partner and collaborate with business and cultural communities across Portsmouth ensuring the project meets local ambitions in the short and long term in an innovative, relevant and value adding way; setting up the partnerships and relationships beyond the 'red line' of the site that can then grow and thrive

5.5 Residents who live locally to the City Centre should by now have received a letter (see appendix F) from the Council setting out the current workstreams and the opportunities to engage in the work. Should anyone have not received this, they can register online to ensure that they are kept informed: www.portsmouth.gov.uk/city-centre-email

6. Reasons for Recommendations

Background to the Tricorn site

- 6.1 City Centres and High Streets across the UK are struggling. Traditional retail models built around property ownership are under threat and Portsmouth is no different. The Council is aware of these trends and is prepared to take action to shape the future of the City, including through direct intervention.
- 6.2 Portsmouth City Council has a long held strategic ambition (dating back to the late 1990s) to deliver a comprehensive mixed-use, regeneration of the Northern end of the City Centre.
- 6.3 In 2004 Centros Portsmouth Limited Partnership (a Delancey owned SPV) purchased the remaining 50% leasehold interest in the former Tricorn site and simultaneously entered into a Development Agreement with the City Council to deliver a retail led mixed use redevelopment of the Northern Quarter area.
- 6.4 To enable the comprehensive redevelopment the City Council promoted and secured compulsory purchase powers by the Portsmouth City Council (Northern Quarter Redevelopment, Portsmouth) Compulsory Purchase Order 2006. The order expired in December 2010.
- 6.5 The property recession in 2009, led to significant financial difficulty in the viability of re-development proposals. This coupled with the amount of money already invested, meant that the Delancey group took the decision to hold their Portsmouth assets until such time as they believed delivery of a new scheme was achievable.
- 6.6 Today Delancey hold the remainder of a 99 year leasehold interest in the former Tricorn site (47 years) with the City Council owning the freehold of the site. Assets held by both parties are identified on plan 1 in appendix A.
- 6.7 The opportunity to take control of the development is here and through partnership working, the Council can deliver its new vision for the City Centre.
- 6.8 The land to the north of the city centre consists of island sites isolated from commercial road and the surrounding residential community by the public highway. These busy roads are barriers to any large scale regeneration activities in the area. By realigning the highway and diverting the majority of traffic away from the developable areas, links between these sites to the fabric of the City will start to create a vastly improved footprint for development. The Contractor for the Road design and build was agreed at the Cabinet meeting on 5th February 2019.

Current Work to Date

- 6.9 The Council have approached Delancey to revive their interest. Delancey have confirmed that they do not wish to sell their interest, and would like to develop their sites in conjunction with the City Council. They have confirmed that they are in a position to work in partnership with the City Council to develop plans for the northern end of the City Centre.

- 6.10 By engaging with Delancey on their proposal for a JV, the Council will have significant leverage in bringing forward solutions to the key issues that are affecting the City, namely:
- Economic growth and ensuring that any development is looking to the future to embrace the changes to the 'traditional' high street and deliver an environment that is fit for purpose.
 - To bring forward much needed homes for the city, including a range of affordable housing products to support growth in the City.
 - To create new jobs both during the construction period but also dedicating some space in the designs to employment zones.
- 6.11 The Council's legal advisors have proposed that both parties engage by way of a LLP on a 50/50 basis to develop sites to the north of the Cascades centre.
- 6.12 Officers were asked to explore these discussions further and present back to Cabinet on what a partnership that benefits both parties could look like.
- 6.13 Having instructed Pinsent Masons to advise on the proposed LLP (see confidential appendix B for the legal advice note) and the ability for the Council to proceed with the transaction to ensure the Council has the powers to invest and participate in the LLP and is compliant with the Public Contract Regulations, officers have entered into a period of negotiation with the Delancey Group to establish if some common ground exists and the result of this is the proposed joint venture heads of terms, agreed subject to Cabinet approval (see confidential appendix C for a copy of the agreed heads of terms).

7. Equality Impact Assessment

- 7.1. Not required at this stage of works.

8. Legal implications

- 8.1. Section 1 of the Localism Act 2011 provides local authorities a general power of competence, *i.e.* "power to do anything that individuals generally may do". This is providing (s.4 (2), 2011 Act) the authority must do so through a company.
- 8.2. LLPs are formed under and governed by the Limited Liability Partnerships Act 2000 and so do not fall within the legal definition of a company. The point has been tested via the High Court with external legal advice concluding the Council are entitled to rely on it and form an LLP provided the dominant purpose in forming the LLP is not commercial [whilst there may be commercial elements].
- 8.3. External legal advice has been sought as to the mechanism to include within the proposed LLP heads of terms to ensure the above tests are met.

- 8.4. In terms of the proposed procurement process external legal advice concludes the exemption - a "negotiated procedure without prior publication" may be able to be relied upon. Noting the potential risks attached to said route, procurement should be engaged from the outset to ensure the relevant criteria points as noted within the legal advice are met.

9. Director of Finance's Comments

- 9.1. The obligations of the parties are set out within the Heads of Terms in the appendices but a full financial appraisal and business case for entering into this agreement cannot be completed at this time.
- 9.2. The financial appraisal and business case for the JV will remain under constant review and in the event that the development is deemed to be unviable, the Council will not undertake any borrowing in order to provide equity for the JV and all assets within the JV will be distributed back to the parties pro rata to the Members interests, the intention from the outset is that this will be on a 50/50 basis.
- 9.3. Under the Heads of Terms the Council will transfer land holdings that it currently holds into the JV and the DV4 will also transfer their land holdings. The exact value of the land holdings are not currently known and will be subject to a proper land valuation prior to transfer.
- 9.4. Under these arrangements the JV will then undertake a feasibility of the site, seek planning permission, possibly acquire additional properties and undertake development works. None of these amounts are currently known.
- 9.5. The LLP will also be responsible for identifying third party funding for the agreement and will seek "meanwhile uses" for the land. The Heads of Terms state that any income earned by the JV will be reinvested into the development, but Members will have the opportunity to determine otherwise.
- 9.6. Any required compulsory purchase orders will be paid for by the JV and the DV4 will underwrite 50% of the total cost. A historic CPO Indemnity Agreement between the parties under which DV4 owe a sum of money to the Council exists. That sum has been agreed but not the mechanism for the payment.
- 9.7. The payment of this outstanding amount needs to be dealt with as part of this transaction although it may not be relevant to the joint venture finance arrangements. This will be considered as part of the overall JV arrangement.
- 9.8. The City Centre Road project part of which will serve the site has been developed at the expense of the Council. There will be costs for the joint venture to pay as proposed in this agreement but this is specifically in relation to the delivery of infrastructure where it relates to any redline of the planning application. It is proposed that this will be captured as part of a s.278 agreement.

- 9.9. Only once the JV documents, which will include operational and procurement policies, have been formulated will a Business Plan and Budget be prepared.
- 9.10. The Council and its partner DV4 will provide 50% each of the funding required to acquire the Initial properties which may be a mixture of both land and Cash; this is to ensure that both parties have contributed 50% each. There is a potential risk that an inequality will arise overtime given the fluctuating nature of the value of land. Consideration will need to be given to this.
- 9.11. Both parties will jointly fund the working capital required for the formulation of a business plan on 50/50 basis, the cost of this business plan is currently unknown.
- 9.12. The Heads of Terms also set out that where there is an equity investment by one partner that is greater than the other then a greater share of any profits will be made to that party, although the underlying principle of the agreement is that this should not occur.
- 9.13. Profits will be distributed based on the share of interest within the partnership. No distribution of profits will be made without the repayment of third party debt. The repayment of which will be decided upon after taking account of the agreed waterfall. The details of which are not included within the Heads of Terms and will need to be agreed between the parties.
- 9.14. The investment by the Council will be in the form of land holdings; equity and debt funding, the amounts and proportions are not currently known and will need to be subject to a full financial appraisal which will need to be carried out when the business plan is formulated.

.....
Signed by:

Appendices:

Appendix A - Landownership Drawing
Appendix B - **Confidential** - Pinsent Masons Legal advice
Appendix C - **Confidential** - Agreed Heads of Terms
Appendix D - Councils Plan
Appendix E - Timeline
Appendix F - Letter to Local Community

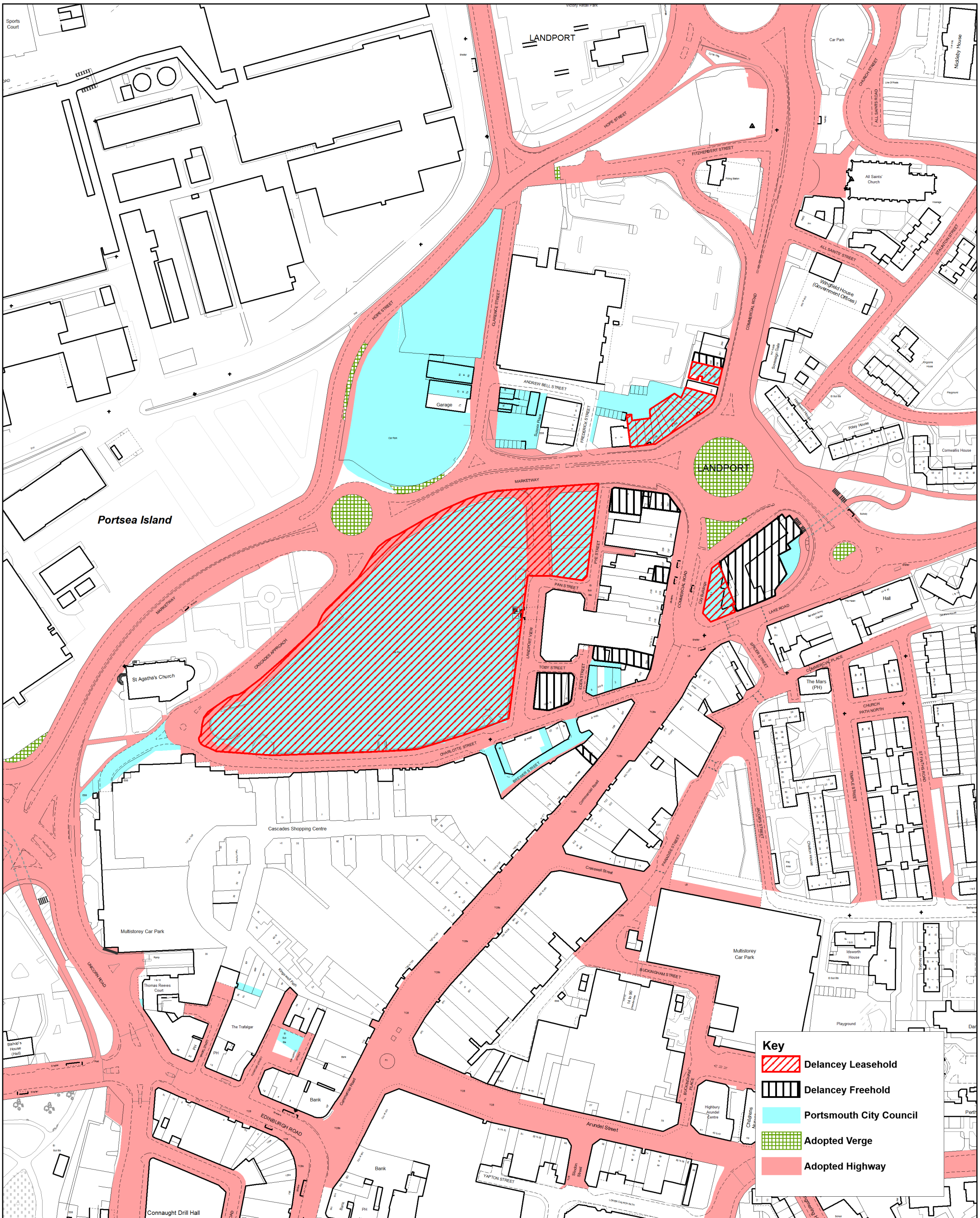
Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
Signed by:



Key

Delancey Leasehold

Delancey Freehold

Portsmouth City Council

Adopted Verge

Adopted Highway

Title: **City Centre Plan
Portsmouth**



Prepared for:
Prepared by: **Geographic Information Service**

Org No:
Scale: **1:2000**
Date: **14/02/2019**



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Portsmouth
CITY COUNCIL

Council plan

Working together:
putting people at the heart ❤️

Our shared aim is to:
"Make Portsmouth
a place that is fairer
for everyone: a city
where the council
works together with
thriving communities
to put people at the
heart of everything
we do."

Our five priorities

Make Portsmouth a city that works together, enabling communities to thrive and people to live healthy, safe and independent lives.

- Working with our partners and communities to make sure the right support is available at the right time, giving people choice and control so they are empowered to live their lives
- Protecting, supporting and safeguarding the most vulnerable children and adults in our communities
- Working with the NHS and other partners to put people at the centre of joined up health and social care services
- Embracing the use of modern technologies for the benefit of local people
- Supporting and encouraging healthy lifestyles in all our communities, reducing health inequalities in our city
- Creating dialogue and forging alliances with the voluntary sector to help build resilient communities where people support themselves and each other
- Working with partners to tackle the causes and effects of homelessness in the city
- Exploring initiatives to ensure older people and those with disabilities have access to appropriate transport

Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit.

- Putting cultural and creative industries at the heart of regeneration, developing new cultural focal points and experiences and working towards a bid for UK City of Culture
- Strengthening the city's position as a centre of excellence for marine industries and tech industries
- Taking a 'Portsmouth first' approach to property investments
- Encouraging businesses to invest in the city, supporting sustainable growth
- Encouraging the development of a skilled workforce, including supporting apprenticeships, so local people benefit from opportunities created by regeneration
- Making sure there are more good quality homes that local people can afford, including more council homes
- Investing in major infrastructure to unlock the city's potential, benefitting the people of Portsmouth now and in the future
- Promoting, protecting and enhancing our heritage
- Growing the city's visitor economy by developing Portsmouth into a major European city break destination where people come to enjoy world class events and attractions

Make our city cleaner, safer and greener.

- Making sure public spaces are greener, more sustainable, and well-maintained
- Encouraging people to keep Portsmouth clean, and taking action where necessary to tackle problems like litter and dog fouling
- Keeping weekly rubbish and fortnightly recycling collections
- Working to increase recycling and cut plastic waste
- Improving air quality by tackling congestion and parking issues, and by encouraging more people to walk, cycle and use public transport, including park and ride
- Encouraging road safety across Portsmouth
- Working with our partners to keep the city safe, including having more community wardens and using licensing to create a safer evening and late-night economy
- Engaging with communities and the Environment Agency so the Eastern Solent Coastal Partnership can build new sea defences, protecting the city from flooding

Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures.

- Working with schools and academies through Portsmouth Educational Partnership, making sure our children and young people get a high-quality rounded education that prepares them for the future
- Working with our partners to make sure our young people (14-19) have great links to future career and employment opportunities
- Recruiting and retaining 'Proud to be Portsmouth' teachers by supporting professional and career development
- Improving and expanding provision for special educational needs and disabilities
- Promoting positive emotional health for children and young people, including mental health awareness and anti-bullying programmes
- Making sure children and young people have access to a wide range of cultural and sporting activities and facilities, enhancing their quality of life
- Promoting positive physical health and encouraging physical activity
- Working with our partners to improve support for families in the city, with a focus on helping vulnerable families to function well
- Improving early years provision, so parents have access to high quality childcare

Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do.

- Working together with our partners to build strong, resilient and thriving communities
- Working across directorates, using restorative practices to work with staff and managers and strengthen relationships
- Being innovative in our approach to service delivery and taking a creative approach to generating income, so we can support local communities despite financial challenges
- Consulting and engaging in dialogue with communities, and using that feedback to shape our services and inform improvements
- Making sure equalities principles underpin everything we do
- Ensuring our staff are paid The Living Wage*
- Working to ensure we have a modern, flexible, highly skilled, supported and motivated workforce to provide services that meet the needs of our residents

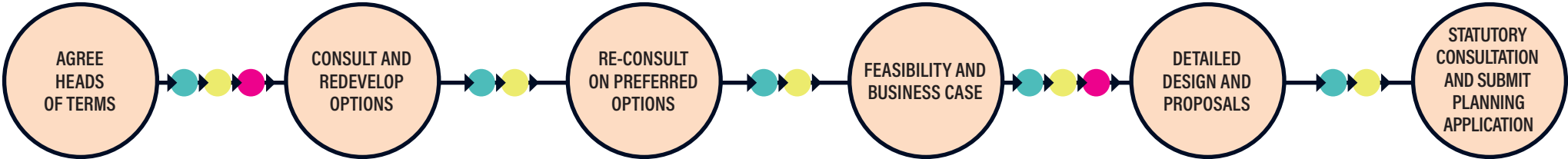
**as laid down by the Living Wage Foundation*



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CITY CENTRE REGEN PROCESS FLOW

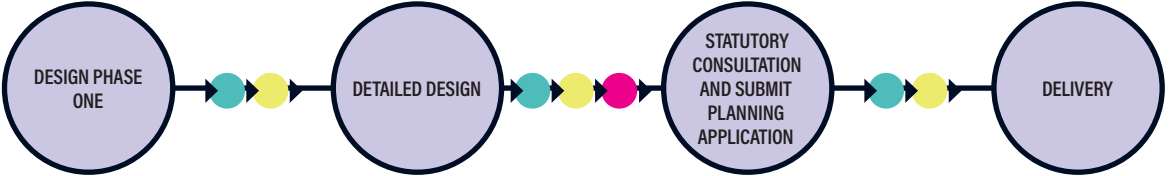
TRICORN REGENERATION



COMMERCIAL ROAD IMPROVEMENT



CITY CENTRE ROAD



- ENGAGEMENT WITH RESIDENTS AND STAKEHOLDERS
- REVIEW BY OFFICERS
- COUNCIL DECISION

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Strategic Developments

Floor 4
Civic Offices
Guildhall Square
Portsmouth
PO1 2NE

Email: citycentre@portsmouthcc.gov.uk

Date: February 2019

Dear Resident / Business

We are writing to update you on plans to improve Portsmouth city centre.

We are particularly interested in developing and shaping the Commercial Road shopping area.

This letter is really to give you an overview of what we are working on and ask that when we contact you with more information you get involved and tell us what you think. We would like to create the city centre everyone wants and we can't do that without your involvement.

Nationally, high streets are changing. We are looking to build a sustainable long-term strategy to make sure our high street flourishes.

We are combining a range of projects to help breathe new life into the city centre and to benefit the local community and businesses.

Our goal is to create a thriving city centre. We will achieve this by making improvements across the existing shopping area as well as regenerating the former Tricorn Centre site.

We want any new developments to complement the existing Commercial Road shopping area meaning existing businesses will benefit from the extra footfall attracted. We also want to make improvements to Commercial Road to bring the whole area up to the same high standard and we want to get started on this work as soon as possible by introducing some improvements now.

In other cities temporary facilities have been successfully used to transform shopping areas and city centres into a vibrant mix of business, culture, retail and leisure. We want to do the same in Portsmouth.

We will be talking to all of the relevant leaseholders and businesses in the area to achieve all of this, and have begun conversations with development company Delancey whose client fund holds the lease for the Tricorn site.

Alongside this there are also ongoing plans to improve the city centre road layout and we are developing a masterplan for the entire city centre.

For all of these things we will need your help. We want to work with residents, businesses and the local community to develop these plans and will be keeping you updated on how and when you can get involved.

We'll write to you again when we have more information.

If you'd like to sign up for email updates please go to www.portsmouth.gov.uk/city-centre-email

Yours faithfully,

Natascha McIntyre Hall
Assistant Director Strategic Developments
Portsmouth City Council



Title of meeting:	Cabinet
Subject:	MMD Site - Strategic Review of Options
Date of meeting:	26 February 2019
Report by:	Director of Finance & Information Technology (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Purpose of report

- 1.1 To consider the assessment of the available options for the use of the MMD site, based on a full options appraisal and financial evaluation (including risks) prepared over a 20 year period. Accordingly, to approve a preferred option.

2. Recommendations

2.1 It is recommended that:

1. The Cabinet adopt Option 2 as their preferred option.
2. The Cabinet agree that a loan facility of £15m be provided to MMD (subject to recommendations 3, 4 and 5 below) for the necessary Capital Investment required to deliver a return of £19.3m over the 5 year period 2019/20 to 2023/24, which was approved in principle by City Council on 12 February 2019.
3. The Council loan is provided at a rate consistent with State Aid rules.
4. Any draw down on the loan facility by MMD is subject to the following:
 - a) The 20 Year Business Plan demonstrates the continuing viability of MMD and that the continued operation of MMD continues to deliver the best financial return compared with all other viable alternatives.
 - b) The Capital Investment is necessary either for the sustainability of existing income streams or for the generation of additional income.

- c) The proposed Capital Investment itself represents the most favourable return when assessed against the balance of:
 - i) The financial return on a Net Present Value basis and over the whole life of the asset created versus other potential options for the same outcome.
 - ii) The relative risk of each alternative option.
- 5. Continued parent company support and the availability of the loan facility is subject to the annual review and approval of a satisfactory 3 Year Business Plan and 20 Year Future Forecast which must demonstrate to the shareholders satisfaction that:
 - i) The assumptions that underpin the 3 Year Business Plan are robust with a more than reasonable chance of being achievable.
 - ii) That the 3 Year Business Plan is prepared to illustrate the financial effect of reasonable optimistic and reasonable pessimistic scenarios in order that the Shareholder is aware of the reasonable range of risk associated with the "Base Case" Business Plan.
 - iii) Recognising the exposure of the company to cyclical trade factors and adverse weather, that the overall 3 to 5 Year financial results of the Company provide an overall net return to the Shareholder over the period taking into account all returns received by the Shareholder through rents, dues and all other profit elements of services provided by the Shareholder (including the Portsmouth International Port).
- 6. The Council keeps under review the returns that would reasonably be expected to be achieved from alternative uses of the site, undertaking a formal review at the earlier of every 3 years or failure to achieve the financial performance set out in recommendation 5 above.

3. Context

- 3.1 MMD is currently loss making following the loss of its largest customer but is now progressing through a transition phase, with a new management team and an evolving strategy of diversification. To survive, the company needs to adapt to a changing shipping market which is becoming increasingly containerised on larger vessels as well as diversifying its customer base. To adapt to these changing circumstances, a £15m investment is required over the next 10 years in the site and equipment. Prior to considering such an investment, a comprehensive review of all alternative options for the use of the site has been undertaken to evaluate whether the continued operation of MMD will deliver the best commercial return for the site for the level of risk involved. Additionally, the Council has commissioned an independent

expert review of MMD's Business Plan to provide confidence that the evaluation of the continued operation of MMD is robustly based.

- 3.2 The defining financial consideration for the Council is the total return to the Shareholder (often referred to as the "net benefit"). This takes into account all other income streams to the Council derived as a direct consequence of operating MMD, net of all costs in deriving that income and is described below:

MMD Profit / Loss

- + Net Income to Port (from port dues etc.)
- + Net Income to PCC (from rent and interest on loans and leases etc.)
- +/- Dividend / Financial Support
- PCC Capital Financing Costs
- +/- Increase / reduction in the investment value of MMD (i.e. capital gain / loss)

= Total Return to Shareholder (Portsmouth City Council)

Accordingly, MMD's profit / loss is not the same as return to PCC, rather it is one component of the overall return to which other income streams and costs are added. It follows therefore that an MMD loss does not necessarily translate into a negative return for PCC.

4. Background to MMD

- 4.1 MMD has not performed to expectation in previous years, which resulted in the company making losses in 4 of the last 5 years (although in 2 of those years, there has been an overall net return to the Shareholder arising from all income streams directly arising from MMD to the Council). The reasons for these losses can be summarised as follows:

- Legacy agreements (with remaining length of term heavily favouring shippers over MMD operations);
- Insufficient marketing and focus on attracting trade;
- Focus on fresh produce which yielded too much exposure to downturn in fruit and vegetable demand and supply;
- An inefficient labour force;
- Congestion on site leading to inefficiencies and upward pressure on costs;
- Slowness to react to changes in the market place; and
- Low profit margins in a number of key contracts.

- 4.2 Traditionally the facility at MMD has been a single commodity hub. This has meant that it has been exposed to the vagaries of the harvest of fruits around the world which are volatile and subject to influence from external factors such as climate and natural disasters. Inevitably this has an impact on the quantity of product being trans-shipped and therefore volume of business transacted by MMD. This produces uncertainty regarding the revenue earning potential of the business and introduces volatility into the planning process. Partially as a result of these uncertainties shippers are unable / reluctant to enter into long term deals and / or offer guaranteed throughput volumes. The result of this is that historically the MMD model has existed with variable revenue income.
- 4.3 MMD's variable revenue income is challenging for MMD because many of the costs associated with running the terminal are fixed. This is because there is a level of staffing and equipment required to keep the terminal viable and these costs are incurred irrespective of throughput. Ideally there would be a natural equilibrium between revenues and costs (i.e. both move in reasonable proportion which each other), to provide reasonable stability in returns. Historically this is how ports operated and only hired labour when it was required. However, in the current employment climate this casual labour approach is not possible or desirable.
- 4.4 As a responsible employer MMD needs a workforce that is health and safety trained, skilled in the activities they are asked to perform, reliable, motivated and loyal, whilst being flexible enough to match their working patterns to the demands of the customers' ship schedules. The vast majority of workers are looking for job security. The use of contracted hours is an attempt to partially replicate the casual labour system. However, with a contracted hours approach inevitably cost is incurred when there is little or no work, and therefore, no revenue to match against cost.
- 4.5 Being a single commodity facility does not provide long term sustainability for MMD unless it is underpinned by stable medium to long term contracts which provide for minimum guarantees of income. Ultimately the terminal operated by MMD is a resource which in its broadest terms has the capability to take goods off and put goods onto ships. The provision of temperature controlled storage facilities offers MMD a unique selling point, and together with its geographical location and transportation links, provides an attractive destination for shippers bringing goods to the south of the country and further afield. The major urban conurbations London and Birmingham are within comfortable reach of Portsmouth.
- 4.6 Restricting what goods are handled through the terminal is, in the view of the management team, a strategy which carries significant risk unless it is backed by stable contracts with minimum guarantees or alternatively high margin contracts. More recently, the strategic focus of MMD is now to attract a broader base of commodities through the facility, with the advantages that the reliance on produce is reduced and longer term deals can be established with shippers whose demand is not subject to natural variation such as MHI Vestas with wind blades.

5 Current Trading Position

- 5.1 In 2018 MMD's largest customer reluctantly transferred its operations from Portsmouth to Dover as MMD was unable to accommodate their request to alter their arrival and departure schedules without it seriously impacting on other customers. Whilst a large contract, it was a low profit margin contract on terms which were operationally problematic. It has had the effect of moving the business from profit in 2016/17 to loss making but has provided the opportunity to reconsider MMD's previous strategy and embark on a more diversified strategy with higher margin customers. Additionally, MMD has seen a reduction in fruit volumes in 2018/19 but this has been partially offset by the introduction of £2m of new business. MMD is currently trading at a £5.8m loss for 2018/19 but £0.5m of this relates to the one off "write down" of assets (as opposed to trading losses) which are being demolished to make way for new additional container based business. This loss equates to an overall negative return to PCC as Shareholder of £3.7m. With the successful new trade that has recently been acquired and reasonable assumptions of new business currently under discussion, the prospects for 2019/20 are for a loss of £1m, but which represents a net positive return to the Shareholder of £1m after all other net income streams and costs are taken into account. The forecast loss in 2019/20 is significantly lower than in 2018/19 with new business including MHI Vestas and Ferryspeed. MMD is expected to return to profit in 2020/21 and improving in future years, but this will be subject to further capital investment.
- 5.2 Whilst diversification is a desirable risk management strategy for the business, at the macro level produce is a necessity rather than a luxury item which carries a low elasticity of demand and therefore provides a stable and enduring market. Also, Portsmouth has some natural economic advantages due to its deep water and geographical position. Accordingly, if customer service levels are high and prices competitive, produce can still form an important part of the core business provided that they are backed by appropriately risk mitigating contracts. The business plan seeks to embrace a mix of the traditional produce business but gradually reducing the business's reliance on this source of income by the gradual introduction of other revenue streams.
- 5.3 The container market is forecast to grow by 4.9% p.a., and local emerging sectors create new cargo opportunities for MMD. There is a demonstrated demand for a mixed commodity facility and MMD has been successful in attracting a number of project cargoes and one off shipments, together with longer term activities. These are important to the long term viability of the terminal. However, these revenue streams are not sufficient in themselves to make the facility profitable, and the management team are seeking to attract high volume carriers in addition to the diversification strategy to develop a mix of business that will make the facility profitable in the short to medium term. These new deals, which are likely to be sourced from new/existing/prior customers, need to be structured so as to work for all parties. Although business volumes are desirable, they have to be secured on the correct terms for all parties, and MMD will need to be selective in its choices of business opportunities going forward.

- 5.4 The company has significantly increased its focus on attracting new trade, and is actively marketing the company as open for general cargo in addition to fresh produce. An 'Open Day' held in January 2018 attended by around 30 shipping agents stimulated potential enquiries relating to dry bulks, offshore vessel mobilisation, project cargoes, warehousing, yacht shipping, aggregates and forest products. Attendees included shipping agents and freight forwarders as well as cargo interests including fertilizer importers and aggregate importers. Since the event MMD's commercial team has received further enquiries in relation to a number of opportunities including the development of a roadstone terminal; a dry powder facility for cement and other cementitious products; agribulks including grain exports; and container feeder services. Whilst some of these enquiries need further investigation the event demonstrated the potential for new revenue opportunities away from MMD's core fresh produce business.
- 5.5 MMD's increased focus on attracting new trade has resulted in the company securing a 10 year deal for the transshipment of wind turbine blades. In January 2019 MMD secured a minimum 12 month contract with international shipping giant Seatrade, for a reefer service from the Caribbean and South America. MMD has also signed a contract with an operator for a new twice weekly container service to the Channel Islands, which will expand to a thrice weekly service in Spring 2019. MMD has also become the port of choice for a company which exports luxury yachts, providing 15 to 17 calls per year. A number of project cargoes have also been secured as a result of the more open marketing of the business.

6. Governance & Senior Management

- 6.1 The Council is currently reviewing the overall Governance arrangements for all of its wholly owned companies. The report will consider advice relating to best practice for the membership operation of company boards as well as political balance and representation on company boards ensuring that they are constructed in such a way that directors' legal responsibilities for acting in the best interests of the company can be properly performed. Any recommendations flowing from that review will be reflected into the MMD Board structure in the future. Pending the outcome of that review, the current arrangements are described below.
- 6.2 Recent restructuring has strengthened the Board and Senior Management Team at MMD. The Board is made up of executive and non-executive directors with significant experience in the commercial port & logistics sector, local government, and finance.

Executive Directors:

Mike Sellers, Managing Director of MMD and Port Director at Portsmouth International Port (PIP), has over 20 years' experience in the Port sector. Formally Port Manager at ABP in Grimsby & Immingham, his experience includes overseeing significant capital investment such as the £130m Immingham Renewables Terminal.

Steve Williams, MMD's Operations Director, is an experienced Port Senior Manager and was General Manager of the Humber International Terminal, handling over 14 million tonnes of cargo per annum.

Mike Lane is MMD's Finance Director / Company Secretary. He is an ACMA qualified finance professional with over 30 years' experience in the logistics industry. He has overseen major projects in the UK and Internationally.

Non-Executive Directors:

Chris Ward, Portsmouth City Council's Director of Finance & Information Technology (Section 151 Officer), is MMD's longest standing Board Member, and brings a wealth of financial and commercial expertise to the company.

Councillors Ben Dowling (Liberal Democrat Cabinet Member for Planning, Regeneration & Economic Development) and Donna Jones (Conservative Leader). Their local and political experience provides valuable insight in both local and national government strategy and direction, bringing environmental and political context to decision making and providing cross-party transparency.

Board Advisors:

Ian Palacio, Business Development Manager at PIP, has spent the last twenty years in Operational and Commercial roles with ABP Southampton. He has successfully delivered new customers to the portfolio at Southampton, and has extensive Port knowledge on the South Coast. Whilst not on the MMD Board, he plays a significant role in attracting new business to the company.

7 Risk Management

- 7.1 The formal risk management process in place at MMD has a number of identified risk categories each with their own defined process. Risks are listed on a risk register, which was produced by the management team and an independent consultant. The risk matrix forms part of the overall strategic review of the site and its operations, and is integrated with the quality program at MMD.
- 7.2 Risks are divided into two major sub-sets; Operational Risks and Financial Risks. Operational Risks and risk assessments deal with the physical wellbeing of staff, safe working practices and the correct usage of the company's physical resources. Financial Risks revolve around the cost impact of certain scenarios. The strategic goal is to eliminate risks where identified, or where total elimination is not possible, to ensure that the risk is mitigated so as to result in the minimum risk of physical or financial harm.
- 7.3 The Operations Director carries the overall responsibility for Health and Safety at MMD, and Health and Safety risks are reviewed and monitored at each Board Meeting. The company employs a Compliance Manager who is responsible for the

co-ordination and review of Operational Risk processes. Financial Risks are reviewed by the Finance Director. The senior management team review risks on an annual basis, with the assistance of external industry risk experts in specific fields such as insurance. The involvement of third party experts gives the management team greater confidence that the risk mitigation factors in place at MMD achieve industry standard as a minimum.

- 7.4 The identification of risk and responsibility for the creation of appropriate risk management processes is a devolved responsibility to the individual area of management accountability. However the management team take responsibility for ensuring that risks are identified, eliminated where possible or where this is not possible, mitigated.
- 7.5 MMD's risk assessments are "live" and are subject to review in the following circumstances:
- Incident / accident
 - Change in operation
 - Change in management
 - Change in equipment or introduction of new equipment
 - Change in process
 - New process or risk identified
- 7.6 The relevance and efficacy of risk assessments remains a task to which the management team at MMD are fully committed, and regardless of triggers, all assessments are reviewed not less than annually.

8 Branding & Marketing

- 8.1 MMD is undergoing significant change and has a real opportunity, subject to investment, to become a more significant player in the shipping industry. To capitalise on this renewed position the company is at an appropriate stage to reflect MMD's new direction by creating a brand identity relevant to the industry it operates in and the business it wants to become.
- 8.2 Portsmouth International Port, which has an impressive reputation as a commercially successful port and identified by the DfT as one of the UK's major ports, complements MMD. There are shared director roles, and the Port also provides support with business development, governance, finance, HR and marketing, all of which provide significant benefits and assist the business plan objective to diversify and grow the company.
- 8.3 Following insight from potential customers, shipping industry figures, and supply chain partners, this association was not directly obvious. Through appropriate branding MMD could inherit the strength of Portsmouth's reputation as a famous maritime and marine city. It would be a wasted opportunity not to trade on this significance.

- 8.4 For MMD to thrive and survive it will need to improve its reputation and profile, because it has the location, equipment and expertise to provide an excellent service for its customers. There are serious strengths from a motivated workforce, enthusiastic about the future who have the ability to drive forward change.
- 8.5 MMD's identity should suggest a modern, strong competitor, which operates a number of strands in the shipping and ports industry. To reflect this an authentic, appropriate and professional brand – which also complements its sister site Portsmouth International Port, is critical to drive forward the aspiration to become a serious industry player and an asset for the city and the wider region.

9. Options Appraisal

- 9.1 As part of the evaluation that follows, the Council has sought independent expert assessment of the prospects for MMD's business and the business plan projections (see Exempt Appendix A and Exempt Appendix E).
- 9.2 The Council has carried out a review of alternative uses of the site where MMD operate, to identify whether or not there is a realistic prospect that a better financial return could be obtained at lower risk from alternative uses.
- 9.3 The long list of options identified included closure of MMD, sale, continued MMD operations, use by cruise and ferries, housing, retail and leisure. The Planning Authority was asked what development it would likely permit on the site (see Exempt Appendix D). The Planning Authority took a number of factors into account such as national policy, local policy, economic, environmental and social considerations. The outcome of the advice received by the Planning Authority meant a number of options were ruled out including housing, retail, and leisure. In summary this was because of the economic importance to the City and the region of maintaining deep water, and the location of the MMD site materially impacts on the viability of a number of options. Exempt Appendix D contains the detail of the information from the Planning Authority.
- 9.4 One of the options considered was sale of the business. The Council has previously explored selling the business and encountered difficulties in securing a buyer. However, the Council would keep this option open if a further buyer was identified. Another option was the sale of the site alone. A key disadvantage of this option is that the Council would lose control of a site which has strategic value to the port and the wider city council. However, it is an option that PCC would consider if the right buyer came along.
- 9.5 A summary of the financial appraisal is set out in Exempt Appendix C. Each option has been modelled on a Net Present Value (NPV) basis over 20 years. NPV is a recognised method of comparing options which have differing cost profiles and differing income streams for future years. The method provides a comparison of costs (both capital and revenue) on a like for like basis by bringing the total financial effect of each option back to a single comparative value. The appraisal also seeks

to evaluate the relative risk of each option to enable a balanced judgement to be made on both risk and reward.

9.6 The short list of options identified are summarised below:

- **Option 1: Do minimal.** This option involves putting MMD into liquidation and MMD customs agency staff transferring to PCC. MMD assets would be sold and no operations would take place on the MMD site.
- **Option 2: Retain MMD.** This option is based on MMD's business plan. This includes ongoing capital investment into MMD of c£50m over the next 20 years. Not all of this would need to be financed by loans from the City Council, because MMD would look to retain a proportion of their profits and reinvest in capital infrastructure, and would look to lease a number of assets such as cranes from PCC.
- **Option 3: Rent site for industrial use.** This option would involve putting MMD into liquidation and MMD customs agency staff transferring to PCC. Some of the assets used by MMD would be sold, and the site would be rented out. Tenants would finance any investment needed and in return would be given a rent free period.
- **Option 4: Expand Cruise & Ferry Port.** This option would involve putting MMD into liquidation and MMD customs agency staff transferring to PCC. Some of the assets used by MMD would be sold, and the site would be used by the Cruise & Ferry Port.
- **Option 5: Expand Cruise & Ferry Port. Use Flathouse Quay (FHQ) for non-fruit cargo.** This is similar to option 4. The main difference is part of the site would be used for cruise, and part of the site would be used for non-fruit cargo such as aggregates, cement, agribulks, and project cargos.

9.7 The options appraisal has identified that in both financial and risk terms, the best option by a considerable margin, is to retain MMD. The overall return to the Shareholder over the next 20 years is expected to be £70m at today's value, being 5 times greater than the next best alternative for a similar level of risk.

9.8 A sensitivity analysis has been undertaken to understand a range of possible alternative financial scenarios in relation to the retain MMD option. The pessimistic scenario assumes MMD's income would be 10% lower than in the expected scenario. Under this scenario the best option in financial terms is still to retain MMD.

9.9 A scenario has also been modelled that looks at the return to PCC if MMD's profit / loss was zero. Under this scenario the best option in financial terms remains as retain MMD.

9.10 Importantly, the retain MMD option in both the two downside scenarios has a lower risk profile than the next best alternative.

9.11 Within the overall financial evaluation of continuing to operate MMD (and included within the NPV evaluation), is the requirement for an overall £50m of capital investment over the next 20 years. This will enable the company to improve the quality of its offering, become more efficient, meet the needs of customers moving to containerisation, and allow MMD to diversify its operations into general cargo. Not all of this would need to be financed by loans from the City Council, because MMD would look to retain a proportion of their profits and reinvest in capital infrastructure, and would look to lease a number of assets such as cranes from PCC. This report recommends that a loan facility of £15m is provided to MMD for the necessary Capital Investment required over the next 10 years but subject to strict criteria for its release. The necessary capital investment includes:

- Replacement of vehicles, plant and equipment including quay tugs, trailers, reach stackers and refrigeration equipment;
- IT hardware and software;
- Re-designing and improving the terminal to make operations more efficient and effective; and
- Investment to enable MMD to diversify its operations into general cargo.

The business plan also identifies the need to invest in new cranes at MMD, which would be leased from PCC.

9.12 The investment in MMD will have a residual value, and would be of use for some of the alternative options. This means that should MMD not realise its business plan, and in future an alternative option became financially better for the Council to pursue, a proportion of the recommended investment in MMD remains of value to the Council.

9.13 Other aspects of the overall evaluation including the strategic fit, financial evaluation, key risks and opportunities of the recommended option to retain MMD, is summarised in the below table:

Strategic Fit	Financial Evaluation	Risk	Opportunity
The site where MMD operates continues to be used as a deep facility, which is currently an important requirement of the planning authority.	MMD's 20 year plan sees the company move into profit in 2020/21, generate an average net profit of £1.8m p.a. over the next 5 years; £2.2m p.a. over the next 20 years.	<p>The overall risk of the MMD operation has been assessed as medium.</p> <p>MMD's strategy will provide a better spread of cargo mix at MMD, which will de-risk the reliance on palletised fruit.</p>	<p>Attract additional container / feeder services.</p> <p>Attract general cargo in addition to more fresh produce.</p> <p>Re-design the terminal to make operations more</p>

<p>MMD's planned investment meets the needs of the fresh produce market, by providing facilities to meet the needs of customers moving to containerisation.</p> <p>Planned investment also meets market demand for more capacity on the south coast for general cargo.</p>	<p>This translates to a NPV to PCC of nearly 5 times greater than the best alternative use of the MMD site.</p>	<p>The largest risk is MMD isn't able to retain and attract custom. However, the profitability of MMD would need to reduce by a considerable amount before retaining MMD was not financially the best option.</p> <p>Capital investment at MMD has been assessed as low risk because of the non-specialised nature of much of the investment, and some of the investment, such as equipment, could be sold.</p>	<p>efficient and effective.</p>
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- 9.14 Further analysis of MMD's Strengths, Weaknesses, Opportunities and Threats is provided in Exempt Appendix B.
- 9.15 A leading Accountancy & Business Advice Firm has provided input into the options appraisal financial model throughout the duration of this project including checking the integrity of a draft version of the net present value calculations. Their comments and observations, where relevant, have been included in the options appraisal model and are reflected in the net present value figures contained at Exempt Appendix C.

10. Reasons for recommendations

- 10.1 All viable alternative uses of the MMD site have been evaluated and continued operations and investment in MMD provides the greatest return for similar levels of risk to the alternatives. On balance, there is a good, commercially justified case for the Council to make further investment in MMD to enable diversification of MMD's existing operations while increasing capacity and responsiveness to changes in the market. It is reasonable to conclude that this provides the best prospects to deliver commercially attractive returns to the Council over a medium to long term basis. By contrast, given the nature of MMD's site, there is no alternative use which could be expected to deliver more attractive returns to the Council.

- 10.2 An independent expert assessment has identified that a private entity would provide investment into MMD based upon the MMD Business Plan (see Exempt Appendix A and Exempt Appendix E).

11. Equality impact assessment

- 11.1 An equality impact assessment is not required as the recommendation does not have a negative impact on any of the protected characteristics as described in the Equality Act 2010. The capital investment is in MMD's business, and it is not for any service that could impact on customers from an equality perspective.

12. Legal implications

- 12.1 Article 107(1) of the Treaty on the Functioning of the European Union (TFEU), provides a general ban on state aid. State aid is assistance (in any form whatever) given by public bodies to selected undertakings (who are engaged in economic activity), which could distort competition and affect trade between EU member states.
- 12.2 If a measure constitutes state aid, there may be a requirement to notify it to the European Commission for approval prior to its implementation, in accordance with Article 108(3) of the TFEU.
- 12.3 However, economic transactions in the form of investment in a private undertaking carried out by a public body which do not confer an advantage on the undertaking, do not constitute aid if they are carried out in line with normal market conditions, and in accordance with so-called 'Market Economy Operator (MEO) Principle'. In order to satisfy the MEO Principle, the Council must assess whether, by making the proposed investment based on the MMD Business Plan, it will act as a private investor would, in similar circumstances.
- 12.4 If the proposed loan investment in MMD is based on genuinely commercial terms, and the Council is investing in a way that a rational private investor would, then it is not providing state aid prohibited under Article 107(1) of the TFEU, and therefore it can be exempted from prior EU Commission approval. In order to satisfy the MEO Principle, the Council's loan investment in MMD must be on terms that would be acceptable to a genuine private investor. This means MMD would not be receiving an advantage from the Council that it would not have otherwise obtained on the market.
- 12.5 Investment proposals relying on the MEO Principle justification should be supported by at least one independent report from a reputable source confirming that the terms and conditions would be acceptable to a market investor. The Council has commissioned an independent expert assessment of the proposed investment in MMD, which has confirmed that a private entity would provide such investment based upon MMD Business Plan. The independent expert considers that MMD's Business Plan to be a compelling case for investment.

12.6 It is considered that the MEO Principle, based on the proposals set out in this report, would be satisfied.

12.7 However, the Council must ensure that:

- Conditions are attached to the loan facility to enable it to check that the Business Plan is on track;
- It continually reviews the progress of the implementation of the Business Plan to check that it continues to present an attractive investment that a rational private investor in the Council's position would be prepared to make;
- It puts in place adequate regular reporting controls to facilitate such reviews;
- It regularly reviews its investment and re-visits the alternative options.

13. Director of Finance's comments

13.1 The financial implications associated with the options appraised are contained within the body and Exempt Appendices of this report.

Exempt Appendices

Exempt Appendix A: Summary of independent expert assessment of MMD

Exempt Appendix B: SWOT Analysis of MMD

Exempt Appendix C: Review of alternative uses of the MMD site

Exempt Appendix D: Information Provided by the Planning Authority

Exempt Appendix E: Independent expert assessment of MMD

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Signed by (Director)

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location