



# ASSET

## DELIVERING SUCCESSFUL PARTNERSHIPS

### THE PROPERTY PARTNERSHIP HANDBOOK

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David has been working in the field of PFI, in the NHS and Department of Health Private Finance Unit, since 1995. David's earlier career was spent in the Manpower Services Commission and Nat West.

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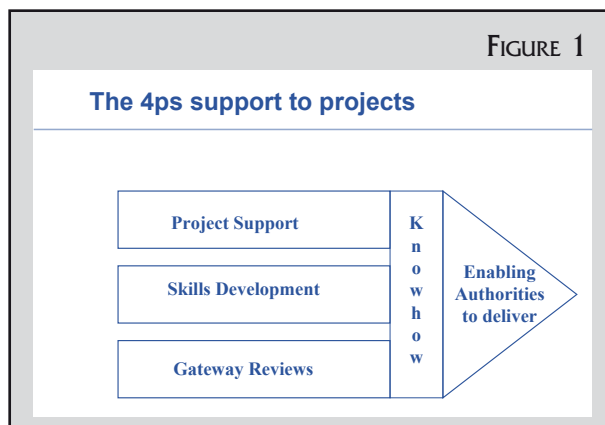
# DELIVERING SUCCESSFUL PARTNERSHIPS

## THE PROPERTY PARTNERSHIP HANDBOOK

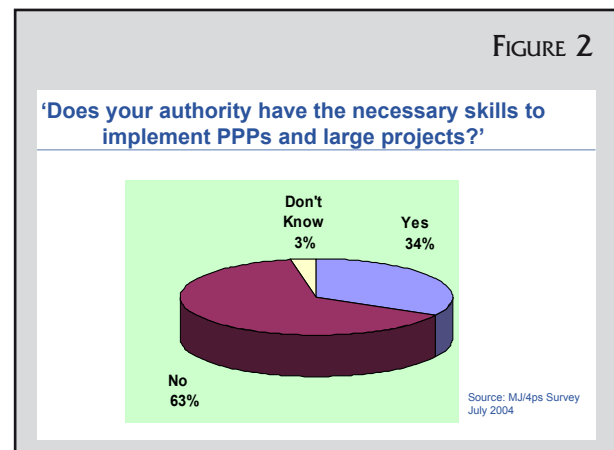
### INTRODUCTION

This paper deals with 4Ps, what it is and what we do, and is a preview of a new publication The Property Partnership Handbook which becomes available in mid 2007.

4Ps is part of local government, centrally funded through the Rate Support Grant. We are local government's critical friend in project delivery and have supported many local government PFI and PPP schemes. We have extensive experience of structuring successful schemes in both property and across the whole range of project delivery for social services, highways, street lighting, housing, schools for the future and so on. Our three main areas of activity are in project advisory and transactor support, the area I am involved in, skills development and gateway reviews. 4Ps offers a range of skills-based training courses for project teams delivering complex local authority projects. We are involved in delivering Gateway Reviews on behalf of the OGC throughout local authorities. All these services are free except we do make a small charge to cover our costs in skills training. We can also deliver a range of knowledge-based courses on, for example, competitive dialogue and negotiation skills. These are popular and well received. So if anyone is interested get in touch.



We work with local government, with service providers, the private sector and also with central government, a wide remit in terms of our scale of operations. It all comes together as project support when we work alongside projects teams to help delivery, not to replace technical and professional advisors but to supplement the project team. Nothing we do replaces the need for professional advice, skills development and Gateway Reviews (Figure 1). Our aim is also to disseminate know-how around the system so that if legislative change affects your project you have easy access to that. This all enables authorities to deliver projects quicker and better and more cheaply, we are very much outcome driven.



The survey results in Figure 2 above are now nearly three years old but still represent a fair picture of how authorities rate themselves as deliverers of large projects. 34% considered they had the necessary skills, 63% did not and 3% didn't know. This may not reflect actual ability to deliver projects, some people do tend to judge themselves more harshly than others, but it does give a realistic view of the market place we operate in.

This paper will deal with the following topics.

- The Property Partnership Handbook
- Understanding the drivers for successful project delivery
- What are the funding options
- What are the forms of partnership
- Recognising success
- Vision for the future.

## THE HANDBOOK

The Handbook focuses on operational property rather than regeneration schemes. There will be more volumes of the Handbook dealing with regeneration that will explore a much more complex area of projects and project structures.

Why do we need another guide? In developing this guide we were aware that there are already many other publications and lots of literature on this subject and we needed to find a unique place within it. To persuade ourselves that this was worthwhile we tried to estimate the scale of the opportunity. Our figure was about £46 billion.

There are a number of external pressures and benefits in this area. The comprehensive spending review (CSR07) was to be announced in July but is now delayed to October having become caught up in the Tony Blair/Gordon Brown transition. This gives a further opportunity to try to affect the outcome and seek a recognition that some of these projects do need to be genuinely pump-primed but that the financial model will deliver benefits after year 5, 10 or 15. Spending to save is a project-inhibiting factor. Hopefully there may be an opportunity to get something into the spending review this year that might facilitate that opportunity.

Part of the preparation for this handbook was a number of site visits and it was clear that some projects were working well and delivering. But others were having a difficult time, not necessarily because of a lack of will to deliver, but because external factors affecting the nature of the project. However, while there may be some struggling going on, there is also a huge amount of momentum and a willingness to develop successful projects that will deal with the asset base of the authorities.

The development of the market relative to other sectors suggests that practical guidance on options will be timely. There are a number of models around that might work but no single model. The market is constantly moving and we thought it would be a good idea to give councils pointers on the decision making process, types of partnership and contract and the best type of funding model for you. 4Ps and Deloitte are jointly developing the handbook.

The purpose of the Handbook is:

- A response to a recognised need
- To bring clarity to the question 'How do we do this?' Asset management plans provide the catalyst to do something to engage and develop projects to drive better value out of the assets
- We recommended responses to common issues. For example discussions with authorities reveal a number of common problems, i.e. Who leads the project? Should it be property driven? Should it be service driven? Where are the drivers?
- To give direction to achieving value for money
- To ensure commercial robustness of decision making
- It will be a mix of diagnostics, toolkits and guidance. The handbook will take readers through a series of structured workshops to facilitate a conclusion; it will be a working book.
- The Handbook will be focussed on practitioners and designed to engage a corporate audience. We will

try to engage chief executives and interest them in your problems.

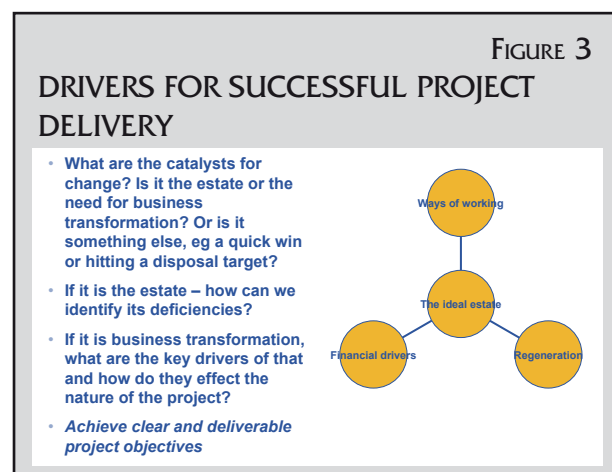
## DRIVERS FOR SUCCESSFUL PROJECT DELIVERY

The first thing to do is to understand and analyse the operating for example

- The sustainability agenda. This is very important for all new developments, for example what does that tell you about how easy it will be to refurbish existing accommodation?
- What does the property market look like locally? What are its characteristics? Is there high heritage value? What is the overall quality?
- What is the corporate agenda in your local authority? Does property impact on that agenda? Are those two things essentially harmonious or is there tension?
- What is the track record of your authority in delivering major change? Is it good, bad or indifferent? What is the influence and affect of that baggage?
- The local economy. What does the local property market look like? Is it buoyant? What is the prediction over the short, medium and long term?

The handbook does not attempt to deal with regeneration-related issues. That is for another volume. We only consider operational property. If you link major business change, a major property project and a regeneration initiative clearly you are building a much more complicated project. In recent meetings with the DCLG I was told they have a disposal target for local authorities of £24m by 2011. This is equivalent of about 25% of the operational estate, a substantial target. This target may become an artificial driver for your project.

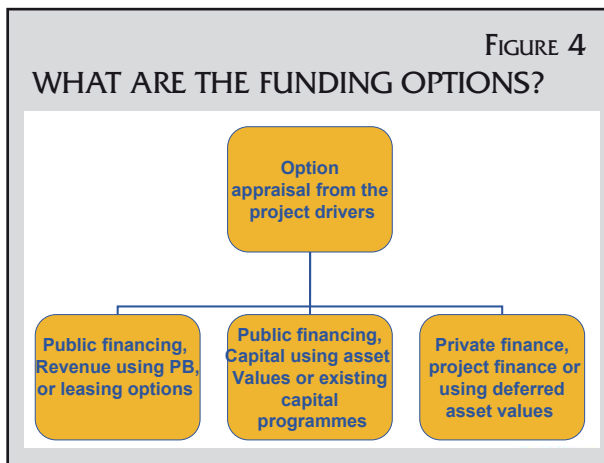
The key factor with any good project, be it PFI or not, is to set clear and deliverable project objectives.



# THE FUNDING OPTIONS

Funding options will be influenced by some of the following, although this does not pretend to be a full list.

- The source of the savings, property and non-property related, including the intangibles. Do they come from better ways of working or a better environment for staff to reduce the sickness rate? Do you need fewer staff in the long term to deliver the same quality of service or better? Is that where we are driving the savings, or are we driving the savings out of property?
- The timing of delivery of the savings and the cash flow model. Is it an incremental approach fixed by the nature of the estate or a big bang approach?
- The scope of the project.
- Attitude of strategic partnering and local experience.
- Approach to risk and ownership.
- The state of the market.



# RISKS TO BE TRANSFERRED

- Planning risk
- Design and construction risk
- Decant risk
- Occupancy risk
- Disposal risk
- Operating (availability and performance) risk
- Regulatory and legislative risk
- Residual value
- Market risk
- Long term flexibility
- Ownership risk

These are the sort of risks that need to be assessed as to

both their quantum for your circumstances and how you see them being apportioned in a project.

# FORMS OF PARTNERSHIP

Figure 5 below shows the different forms of partnership. For example in-house provision, traditional procurement, a joint venture of some description, PFI route, limited liability partnership or through a concession. All are possible and there may not be a single right answer.

Figure 6 overleaf lists some features that might help you to decide what type of project or what type of partnering arrangement you might need from the options of PFI, PPP or private developer scheme. The list of features is not necessarily comprehensive; its purpose is to promote thinking and to help to develop a discussion. For example...

- if you have a high level of certainty of requirements over the contract life;
- if it is a big project (say over £50m);
- if you are looking for optimum risk transfer;
- if you have got a fairly homogeneous property portfolio and;
- if you are working as a single client entity rather than in partnership with other public sector bodies (which makes the contractual arrangements more difficult to secure)

...then it may be that you are looking at a PFI, PPP or private developer scheme. On the other hand...

- if it is a heterogeneous project with a lot of strands to it, and;
- if you have less certainty about the longer term and want to put some flexibility into your estate,

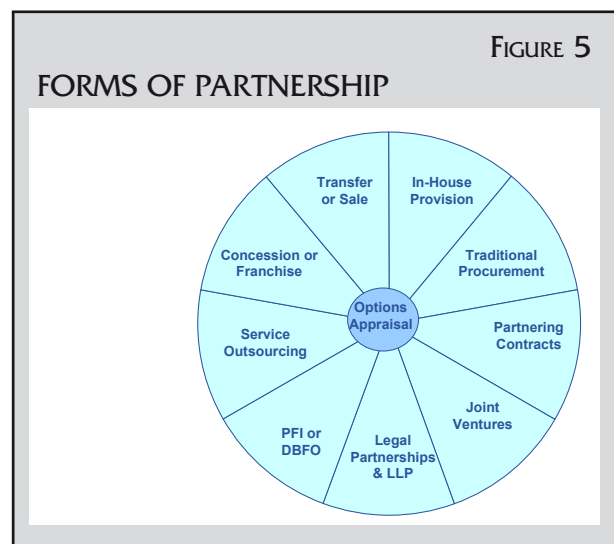


FIGURE 6

**FORMS OF PARTNERSHIP**

- High level of certainty of requirements over contract life
- High residual asset value
- Project >£50m
- Optimal risk transfer sought
- Property portfolio is relatively homogeneous
- Single client entity
- Ownership not a key client requirement
- PFI PPP or private developer scheme

... then you might be looking at something other than PFI, at other partnership models, for example the integrator model that worked for the MoDEL scheme which was the relocation of the London Ministry of Defence estate.

Ask yourself whether it is a homogeneous project? Are you looking at multi-agency client partnerships? Is this the sort of project that might engage social services or primary care trusts for example? Will there be surplus assets at the end? Have you got good levels of certainty for the longer term? In that case instance you might want a PFI Partnership or LIFT model or a modified LIFT model.

**HEALTH WARNING**

The purpose of the health warning in Figure 7 below is just to put some ideas out so that you can go away and to come to your own conclusions.

Finally on partnerships it may be possible to create a partnership through utilising land values, for example;

- Guaranteed Minimum Price (GMP) plus overage that would depend on planning success.
- Define the planning assumptions and capture them in the sale price with a claw-back agreement if they are not achieved.
- GMP plus % of sale value with return linked to sale price.
- Prepare the sites through planning and (potentially) enabling works to achieve maximum up front value.

FIGURE 7

**FORMS OF PARTNERSHIP**

- Health warning – the above examples are illustrative and each project should be considered on its own merits using established diagnostic tools and involving all stakeholders.

**RECOGNISING SUCCESS**

Your project may not be iconic but success can be tangible and measurable if the original project objectives are clear. They may be measured in, for example;

- consensus of a successful partnership through managed risks and rewards
- achievement of financial goals (that should look something like the original model)
- more effective and efficient working methods
- and better staff morale and greater productivity.

A key point is to ensure that, no matter how the project is developed, make room for checkpoints as you go through and a proper post-project evaluation at the end so you measure whether objectives are achieved.

**CONCLUSION**

And in conclusion I would like to provoke further thought and ideas about what the future might hold.

- What does the future look like? What is the vision? Wouldn't it be good if there were some recognition by central government of the up-front cost of change, that "do nothing" is not a viable option, that there are some spend to save opportunities here and that they need to be recognised in the property sector
- We need to keep thinking up innovative partnering models such as those achieved elsewhere in public/private partnerships.
- Are we thinking about a market where local authority/private sector property partnerships become so commoditised that we can create standardised contract options and payment and reward structures leading to faster procurement
- To achieve an agreed or bankable market position on the basket of risks, what is the most acceptable to the market place and is there a settled position on that?
- Finally, can we make property a prime driver for meaningful change? I think there is a lot of potential for that to happen and for property to be a stimulus as we go forward.

David Revell  
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