

**TITLE OF REPORT: PSP – PERFORMANCE OVERVIEW REPORT – 2019**

**REPORT OF: PETER UDALL, ACTING STRATEGIC DIRECTOR  
ECONOMY INNOVATION & GROWTH**

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## **SUMMARY**

This report provides OSC with an overview of the current arrangements in place with Public Sector PLC ('PSP'), details the workstreams underway and gives an update on performance.

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## **Background**

PSP is a private sector company, backed by Cabot Square Capital, which was developed in the 1990's to assist public sector organisations to meet their aims and objectives, through the delivery of property-based projects and solutions.

The concept is based on an 'in sourcing' model, as it seeks to use existing Council resources, together with private sector funding/expertise/resources, to develop projects. It is the opposite of the traditional out-sourcing model, which is contractually based and often seen as adversarial, (particularly when things go wrong).

To date, PSP has established Limited Liability Partnerships with 20 Local Authorities in England. In January 2017, Gateshead Council & PSP established PSP Gateshead LLP ('the LLP'). On 1 April 2019, the Council transferred the majority of its Tenanted Non- Residential Portfolio ('TNRP'), by way of a 7 year' lease, to the LLP. The LLP now undertakes the day-to-day management of the TNRP including, lettings, rent reviews, lease renewals, surrenders and debt management. The Council seconded a number of staff from the Property Services team, to the LLP, to ensure continuity of the property management function.

The activities of the LLP are overseen by an Operations Board (comprising Council Officers and PSP management) and a Partnership Board (comprising Council Members and PSP management), both of which meet on a quarterly basis. Council Board Members chair both groups, where performance of the LLP is considered in more detail.

The LLP is tasked with driving value in the TNRP, including reducing costs, to create a portfolio that generates more income and has greater capital value. It will do this through:

- i) organic growth – lettings, rent reviews, etc,
- ii) trading opportunities – selling poorly performing assets and acquisition of new investments, and
- iii) creation of new assets on Council land.

The TNRP comprises Industrial Estates, Commercial & Residential Ground Leases, Shopping Centres, Offices, Garages, Garden Land and other miscellaneous assets. The Council receives a Minimum Guaranteed Net Rent from the LLP, currently set at £2.3M per annum. This equates to the rent the Council would have received had it continued to manage the portfolio in-house. Any additional income generated by the LLP is split through an agreed Profit Share, in the ratio 75% Council:25% PSP.

### **Workstreams & Performance Update**

Since the LLP took on the management of the TNRP, PSP has undertaken the following:

- i) commissioned an External Agent to prepare a Strategic Review of the assets, to identify those that are poorly performing;
- ii) prepared a Portfolio of Sale Opportunities, (which was approved by Cabinet, October 2019);
- iii) assumed management of the TNRP and at 30 September 2019 has:
  - a) generated income of £2,391,322 (Gross figure with deductions to be made for NNDR & management costs)
  - b) actioned 29 rent reviews/4 completed, 30 lease renewals actioned, 4 lettings completed, and
  - c) paid to the Council the Minimum Guaranteed Net Rent of £1.15M.
- iv) progressed plans for the development of new Industrial floorspace at Team Valley Business Centre.

Outside of the TNRP, the LLP has also progressed the following projects:

- i) Nest Road, Felling – a vacant 5 acre site in Council ownership. Proposals are being developed for the creation of a new investment asset. Ideas include a new Energy based facility (Solar Farm, Fuel from Waste Plant, Hydrogen Production Plant) or traditional Industrial floorspace.
- ii) Clasper Village – a vacant 1 acre site adjacent to the proposed residential development, which now has planning approval. The LLP is progressing feasibility for a new small supermarket development and has engaged Agents to attract an Operator on new leasehold terms.
- iii) Modular Housing – the LLP is undertaking a Viability Assessment for the development of a new 15 unit residential scheme on the former Front Street school site in Whickham. The scheme is predicated on off-site modular construction, in partnership with PSP's sister company, Net Zero Buildings. The house types are carbon neutral and highly energy efficient. The proposed tenure is Affordable Rent.
- iv) Social Care – the LLP is currently in discussions with the Council to develop a property solution for the Independent Living service.

## **Conclusion**

The Council continues to monitor the activities and performance of the LLP through the Board arrangements.

The Council's Internal Audit Service is currently auditing the transfer of the TNRP to the LLP.

## **Recommendations**

1. The Overview and Scrutiny Committee is asked to note the current workstreams underway and performance of the LLP, as noted above.

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