

Local Partnerships - The Relationship between Local Partnerships and the LGA

Purpose of report

To inform the Executive about the progress of Local Partnerships (LP) since the investment decision of December 2010

Summary

Since the decision was made to strengthen the investment of the LGA in the company, which it jointly owns with HM Treasury, a story of positive progress and performance against financial targets has unfolded. LP exists to work for Local Government and for the public sector more widely; and this report invites the Executive to note the benefits for Local Government and for individual authorities and to contribute to the ongoing discussion about where the efforts will generate greatest reward and benefit.

Attached as **appendices** to this report:

1. RSG report (**Appendix A**)
2. LP Business Plan (**Appendix B**)

Recommendation

The Executive are asked to note the report and the progress made by LP and note the work done by LP for Local Authorities

Action

Officers to proceed as directed.

Contact officer:

Helen Bailey

Position:

Chief Executive, Local Partnerships

Phone no:

0207 187 7359

E-mail:

helen.bailey@local.gov.uk

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Background

Origins of Local Partnerships

1. Local Partnerships (LP) is a Limited Liability Partnership (LLP) of which the LGA owns 50 per cent. It was created in August 2009 by the amalgamation of the former 4ps (Public Private Partnerships Programme) founded in 1995 by the LGA, and Partnerships UK, which put its locally focussed business into the new company. With the absorption of Partnerships UK into the Treasury in 2010 and the emergence of Infrastructure UK as a result, LP's owners became HM Treasury and the LGA. Each owns a half share and is represented on the Board of the company.

The Purpose of Local Partnerships

2. LP's strap line is "Commercial Expertise driving value and efficiency in local public services". It deploys skills in financing and in complex projects, for public benefit, acting as a commercial transactor. Its business model is to:
 - 2.1. work for central and local government;
 - 2.2. entirely for and within the public sector;
 - 2.3. sharing its intellectual capital freely with local government;
 - 2.4. acting as a source of commercial expertise, building capacity and capability in the sector;
 - 2.5. operating on a cost recovery basis, paid through fees/grant or similar mechanisms except where work of benefit to local government sector as a whole is funded by RSG;
 - 2.6. providing additionality, i.e. not doing things which can be done more efficiently by another organisation; and
 - 2.7. deploying a small core of staff supplemented by a wide range of associates and short term contractors from whom it gains flexibility and a range of skills on a cost effective basis.

Item 6

3. LP additionally has been able to secure work without needing to go through a complex procurement process as it is recognised as being “in house” to the public sector. Over the last year, LP has worked with councils in every region of England, and in Wales and with every type of council.

Funding and Financing of Local Partnerships

4. The LGA and HM Treasury each have an investment of £1.975 million in Local Partnerships. The investment of each partner was originally £1 million but was subsequently increased. The most recent increase of £375,000 per partner was approved by both owners in December 2010, when remedial action was taken in response to an Investment case put together to pre-empt the risk of trading whilst insolvent.
5. The foundation for the additional investment was the owners’ conviction that there was a long term need for an organisation which could work across central and local government to deliver major infrastructure related projects, and that this would be more necessary than ever in the atmosphere of austerity and greater determination not to rely upon private sector advisers. On that basis both the LGA and HM Treasury agreed after considerable deliberation to commit additional loan stock to the business and the business was restructured.
6. The features of the agreement which was reached were;
 - 6.1. The business should continue as a separate entity.
 - 6.2. Both shareholders to commit £375,000 in the form of loan stock due for repayment in 2029. The loan stock pays interest at 6 per cent and can be redeemed earlier at the discretion of LP.
 - 6.3. RSG would be available to LP to support work for Local Government for the three financial years to March 2014 with sums of £2.7 million, £2.3 million and £1.8 million respectively.
 - 6.4. The business was restructured (losing about half of the staff) with a base budget for 2011/12 of £6 million based around some significant contracts and the need to continue to identify new sources of work.
 - 6.5. The business would seek to reduce its reliance on a small number of government contracts (especially the Department for Environment, Food and Rural Affairs’ Waste programme and the Welsh Government) and develop new external sources of income.
7. This plan has been successfully followed and the company has turned round.

Item 6

The Current Situation

The Current Trading Situation for Local Partnerships

8. LP has now completed the end of the first year of trading under the post investment regime, and is in the process of preparing year end accounts. The provisional out turn figures look strong (closer to £8 million turnover than the originally projected £6 million, and full recoupment of all the previous losses). Whilst this represents a real turn around in the fortunes of LP, a period of consistent trading will be necessary to convince the Board that LP is on track to deliver consistent performance in these challenging times.
9. The budget for 2012/13 assumes total income of £7.4 million and good progress has already been made in securing external income, including (for instance) new income from CLG to assist Local Authorities to identify efficiencies in relation to their existing operational PFI and PPP projects.
10. The Board and the management team are working hard, as illustrated in the business plan, to diversify the base for LP and to find new sources of activity and funding which meet the objectives of the business and its owners.

Local Partnerships Business Plan for 2012/13

11. LP exists to deliver benefit for the Local Government and the wider public sector. The Local Partnerships Business Plan is attached as **Appendix B** to the report and shows an overarching focus on growth and economic development with work broadly being marshalled under the themes of: economy and efficiency; infrastructure; energy; funding for investment; Wales; and assurance and compliance.
12. These themes are also mapped onto the priorities in the LGA Business Plan, and it is intended in this way that the plan should reflect the priorities of our owners.

Use of RSG

13. LP recognises that in receiving RSG it is in a privileged position and seeks to ensure that the work for this money is deployed to the benefit of the local government community as a whole. In order to identify areas for focus, LP seeks to understand the priorities for the sector as set out by the LGA, current trends and needs which align with the company's strengths and ability to deliver. All RSG projects are developed through working alongside one or more councils to develop and test know-how at a local level. The learning and resulting tools and products are then made freely available to all in the sector who are tackling similar issues.

Item 6

14. **Appendix A** to this paper describes the way in which RSG has been used in 2011/12 and its projected uses for 2012/13. As will be apparent, a great deal of work has been with a large number of local authorities supported on projects enabling substantial cost savings and other benefits.
15. Whilst the budget for the financial year 2012/13 has been put together, including the RSG allocations, there is room to vary the allocation between programmes and the relative priority given to some areas of work. LP would very much welcome contributions from the LGA Executive, individual groups or councils which would help to target this spend as effectively as possible and there is time to flex the budget as the year progresses.

Local Partnerships Governance

16. The LGA nominates four elected members as Directors of Local Partnerships, the current Directors being:
 - 16.1. Councillor Paul Findlow (Con)
 - 16.2. Councillor Graham Chapman (Lab)
 - 16.3. Councillor Keith Ross OBE (Ind)
 - 16.4. Councillor Edward Lord OBE JP (Lib Dem)
17. The Chairman (currently Councillor Edward Lord OBE JP) is chosen by the Board and requires the approval of both the Owners, so this appointment is outside the LGA political proportionality rules. Other members of the Board comprise four nominee Directors of HM Treasury, three independent non executive directors (two of whom are currently local authority chief executives) and the LP Chief Executive. The LGA provides the Corporate Secretary for LP (Stephen Jones).
18. LP has thirty-five full time members of staff, a leadership team of three and an interim chief executive on secondment from HM Treasury. The partnership employs people on fixed term contracts and as associates in order to have the full range of necessary skills available to it. It has seconded a number of staff both from Infrastructure UK and the Treasury and from the LGA.

Conclusion

19. The decision of LGA and HM Treasury to invest in LP in December 2010 has set the organisation on a positive path forward. There has been a year of successful trading, with LP performing ahead of plan. It remains vital to the success of the business that it should continue to enjoy the support and advocacy of its owners. To this end, the Executive is invited to suggest ways in which LP might use its unique range of skills and experience to further support

Item 6

and promote the sector and to increase the capacity and capability of local government.