

Executive Board Meeting

4th March 2019

Llanelli Wellness and Life Science Village

Purpose: To provide a position statement on the Llanelli Wellness and Life Science Village, in relation to:

- **Progress of City Deal Business Case.**
- **Termination of the Collaboration Agreement.**
- **Receive the findings from the independent legal review which assessed robustness and compliance around the procurement and governance processes.**
- **Receive findings of the Wales Audit Office Review which assessed the Authority's management of process, risk and governance and the protection of public money.**
- **Update on Joint Government and Joint Committee City Deal Reviews**
- **Progress on the development of the concept design for phase one and next steps.**
- **Update on current expenditure**

Recommendations / key decisions required:

1. To receive an update on the development of the City Deal 5 case business plan for the Village.
2. To receive the findings of the independent legal review undertaken on the procurement and governance of the project, both pre and post Collaboration Agreement
3. To receive the findings of the Wales Audit Office Review which assessed the Authority's management of process, risk and governance and the protection of public money
4. To receive an update on the wider City Deal Programme reviews being carried out namely the Joint Government and cross Authority internal reviews.
5. To receive an update on the specialist design development and business planning work commissioned to develop phase one of the Village.
6. To formally resubmit following Exec Board decision the Full 5 Case Business Plan to the City Deal Joint Committee.
7. To share the Legal and Wales Audit Office findings with
 - All Members of the Council
 - The Local Authority Leaders of the City Deal Joint Committee
8. That the Chief Executive, in consultation with the Leader, along with the Director of Corporate Services be given delegated Authority:
 - To progress discussions in order to agree and finalise suitable partnership agreements to ensure robust delivery of the project and delivery of its anticipated outcomes. We will continue to work with our current external lawyers to provide the required legal advice
 - To re visit the 5 case application in line with the conclusions from the above and bring back to Executive Board for approval
 - Following Exec Board approval to resubmit the business case to the City Deal Joint Committee

Reasons:

- To ensure that all members are fully sighted on progress to deliver the Llanelli Wellness and Life Science Village and to provide assurance that targets for benefits realisation are being maintained.
- To provide assurance on the governance of the Village delivery both during the procurement process and following the signing of the Collaboration Agreement with Swansea University and Sterling Health Security Holdings Limited.
- To agree the next steps for the future delivery of the Wellness Village and allow continued progress on the project.

Relevant scrutiny committee to be consulted

Exec Board Decision Required Yes

Council Decision Required NA

EXECUTIVE BOARD MEMBER PORTFOLIO HOLDER:-

Cllr. Emlyn Dole, Leader of the Council with responsibility for Economic Development

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Directorate: Regeneration & Policy

Designations:

Name of Director: Wendy S Walters

Director of Regeneration & Policy

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Project Manager

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EXECUTIVE SUMMARY

Executive Board
4th March 2019

Llanelli Wellness and Life Science Village

1. BRIEF SUMMARY OF PURPOSE OF REPORT.

➤ Background / Context

The Llanelli Wellness Village (The Village) is a landmark development forming the largest single site development proposed for Carmarthenshire. In summary the Village will create:

- £199.5 million of infrastructure including research and business development facilities, a learning academy, a state of the art care home and assisted living and rehabilitation centre, a new leisure and aquatics centre with hydrotherapy pool, Wellness Hotel and outdoor leisure space
- A projected 1853 high value jobs plus community benefits
- £467 million GVA by 2034
- A significant education, skills and training facility
- A multidisciplinary community health and care facility linked to the health board services.

Partnership working is key to realising these project benefits, alongside Hywel Dda University Health Board a core partner throughout has been Swansea University. In November 2018, Swansea University took the decision to suspend 4 members of staff including University representatives on the Wellness Village Collaboration Board. CCC have no official details regarding these suspensions or details regarding possible links to the Wellness Village.

On the 3rd December the Executive Board considered the full Business Case of the Wellness Centre, however due to the recent concerns around the University suspensions and in order to protect the integrity of the Authority and the project, the Council's Executive Board requested that in order to provide the required assurance that an independent review of the procurement and Governance of the project be carried out. The Executive Board also agreed to approve the Business Case in principle and for it to be forwarded to UK and Welsh Government. In addition, they requested that Officers look at alternative delivery methods to ensure that this much needed investment in Llanelli can be completed.

The County Council subsequently decided to terminate the Collaboration agreement with both Sterling Health Security Holdings Ltd and Swansea University. The termination notices were served on 6 December 2018.

In December 2018 the Council commissioned external legal advice in order to review the status of the Life Science and Wellbeing Village project. This included a review of the public procurement process, governance systems, the collaboration agreement and the Council's actions in the later part of 2018 in relation to the collaboration agreement. That legal advice is appended to this report and summarised later in this report. The review was carried out by Acuity Legal, Acuity is a panel adviser to local authorities in Wales under the National Procurement Service for Wales Legal Framework, covering governance work. Acuity did not advise on the procurement process or on the preparation of the Collaboration Agreement.

In December the Authority also invited Wales Audit Office to undertake a review of the Village, to provide assurance that the Council had sound governance and risk management arrangements in place, had complied with its own internal processes, and that it had ensured that public assets were protected.

➤ Current Expenditure

Current expenditure on the project has been primarily around the process of developing the detail in order to prepare the project for planning. The expenditure incurred between 1st August 2017 and 31st December 2018 is detailed below:

<u>Llanelli Wellness & Life Science Village</u>	<u>Expenditure Total - 1/8/17 to 31/12/18</u>	<u>Joint expenditure/shared costs by other partners - secured</u>	<u>City Deal funding pending</u>	<u>Note(s)</u>
<u>Costs and description of any works</u> All works associated with the project are defined below.	£ -	-	-	
<u>All payments to consultants and contractors</u>				
Financial consultancy - professional fees	£ 1,900.00	-	-	
Cost consultants - professional fees	£ 8,259.00	-	-	
<u>Ground preparation works</u>	£ -	-	-	No costs attributed to ground works
<u>External legal costs</u>				
Legal and procurement professional services	£ 35,794.80	-	-	
<u>Promotional and marketing costs</u>				
All marketing and media activities	£ 5,831.18	-	-	
<u>Expenditure associated with the planning application</u>				
Local Planning Authority - Planning Application fee ref no. S/36948	£ 30,500.00	£ 15,250.00	£ 30,500.00	Welsh Government Joint Venture/City Deal
ARUP - Preparation of Planning Application documents and Technical Reports	£ 234,250.00	£ 117,125.00	£ 234,250.00	Welsh Government Joint Venture/City Deal
Dwr Cymru - Surveys and Modelling	£ 31,775.58	£ 15,887.79	£ 31,775.58	Welsh Government Joint Venture/City Deal
Ecological Reports	£ 7,205.00	£ 3,602.50	£ 7,205.00	Welsh Government Joint Venture/City Deal
Archaeology Assessment	£ 4,700.00	£ 2,350.00	£ 4,700.00	Welsh Government Joint Venture/City Deal
Transportation data	£ 456.00	£ 228.00	£ 456.00	Welsh Government Joint Venture/City Deal
<u>Any other relevant expenses associated with this development, including any incurred in relation to potential private investors</u>				
Design development of phase 1 (public sector components)	£ 481,329.67	-	£240,664.84	50% to be claimed through City Deal, subject to approval
Staff costs - Project Manager, Project Officer and Business Support Officer	£ 198,753.15	See below	-	Costs shared with partners
Misc - venue/room bookings and associated costs, travelling, conference fees	£ 803.15	-	-	
<u>Joint expenditure with any public or private sector bodies with a breakdown of the shared costs</u>				
Partnership Agreement between CCC, Swansea University and ABMU and Hywel Dda Health Boards to make an annual contribution to cover project costs	-	£ 150,000.00	-	
	<u>£ 1,041,557.53</u>	<u>£ 304,443.29</u>	<u>£ 549,551.42</u>	

Expenditure is in line with the decision taken at Executive Board on 24 September 2018, which agreed a £2m reserve fund be set aside for City Deal to enable the Wellness Village legal and technical work on site to proceed to RIBA stage 2. Of this, £1.1m of design development work has been commissioned, with c. £481,000 spent as of 31/12/18.

➤ City Deal Business Case Update

The economic development potential of the Village was recognised by Government when the Strategic Outline Business Case for City Deal investment was submitted and accepted as one of the 11 project within the portfolio in March 2017. The City Deal investment identified was for £40m subject to the acceptance of a full 5 case business plan.

The business case has been taken through discussions with government and amendments made based upon revised Green Book calculations and requirement to include a full health outcome appraisal.

Subject to approval the City Deal investment will be drawn down by the Authority and utilised to construct the Community Health Hub element which comprises the research, business development, education, skills and training and clinical delivery elements of the Village. This is the fundamental aspect of the whole i.e. other aspects will add value to this anchor development.

The business case was taken through the Economic Strategy Board and following this was recommended for approval to Joint Committee in November. Joint Committee approved the business case on 22nd November 2018.

The Business Case was received by Executive Board on Monday 3rd December and the following was noted:

In light of recent events, Executive Board members at the council agreed that before they give final approval they want to have reassurance that all due legal process has been followed. They also want to seek assurance from Swansea University of their continued commitment to develop an Institute of Life Science at the Village, alongside the Council, Hywel Dda University Health Board and University of Trinity St David.

The Executive Board also heard that the Collaboration Agreement with Swansea University and Sterling Health Securities Holding Ltd was intended simply to try to prepare a Development Agreement to take the scheme forward. The Board were informed that the Development Agreement had not been completed. There was therefore no legally binding commitment or liability on the Council as yet. The Executive Board asked officers whether an alternative method to deliver this essential project could be found. Officers considered that this was entirely feasible.

The Independent legal review has now been undertaken and is covered in subsequent sections of this report. The Wales Audit Office review has similarly been completed and is attached in full.

➤ **Procurement, Governance and Collaboration Agreement**

To identify a Development Partner the Authority undertook a procurement process, supported throughout by our in house procurement officers along with specialist independent legal advisors. Recognising the complexity of the project, the Authority decided that in order to best meet its need it should follow a competitive dialogue procedure. This gave the market a degree of freedom to put forward solutions, enabled the Authority to negotiate the best and most appropriate deal with bidders and to develop a final specification which includes elements of market understanding/intelligence and learning from the private sector.

The procurement process concluded with the signing of a Collaboration Agreement (CA). This CA was prepared by external lawyers, who had advised the Authority throughout the process. The CA allowed the Authority to work openly with the Development Partners to produce development agreements for the individual components of the Village.

The CA formed an agreement between Carmarthenshire County Council, Swansea University and Sterling Health Security Holdings (SHSH) under which the partners agreed to work together to progress the business plan for each private sector element of the Village. The CA envisaged individual components of the Village being developed and delivered as individual Projects (or groups of projects) through separate development agreements and provided the Authority with the right of Veto on any element.

Following the signing of the Collaboration Agreement a Collaboration Board was established. In August 2018 Acuity Legal were appointed by CCC to provide specialist expertise in the establishment of a legal/corporate structure and potential funding models for the Village.

Following the suspensions of Swansea University staff with links to the Village, the Authority took legal advice and based upon progress since the signing of the Collaboration Agreement an assessment of the risk to the Council, the project and the City Deal funding the Authority took the view to terminate the Agreement.

The Collaboration Agreement was terminated on 6th December 2018. The termination was made in accordance with the terms of that Agreement which give the Authority an absolute right to do so, without explanation and with no liability on the Council.

The Collaboration Agreement did not commit any public sector funding, nor place any liabilities on the Council and no corporate structures had been established.

To provide the assurance requested by Executive Board on Monday 3rd December, Acuity Legal were requested to undertake a detailed review of the whole procurement process. A summary of this review is set out as follows.

Summary Legal Review

The Council instructed Acuity Legal to review its records in relation to the Project and to report on whether there are any issues of non-compliance with public procurement law in order to provide assurance to the Council that it conducted the process in a fair, robust and compliant manner.

Acuity is a panel adviser to local authorities in Wales under the National Procurement Service for Wales Legal Framework, covering governance work. Acuity did not advise on the procurement process or on the preparation of the Collaboration Agreement.

In summary:

- The documentation provided by the Council demonstrates that it followed due legal process in the procurement and the award of the Collaboration Agreement to Sterling and the University as a collective party.
- The Project records show good governance and regard by the Council to risk management
- The documentation provided shows that the Council has not given any binding legal commitments to Sterling or the University which lock those parties into the Project, nor has it transferred any land, made loans, offered cash consideration or formed any company or formal joint venture, with either party.
- The Council's actions since the establishment of the Collaboration Agreement, as recorded in minutes of Collaboration Board meetings and in the document itself, also reflect an approach which incorporated many levels of Council control into the draft legal arrangements, including appropriate veto rights and the creation of new corporate policies to ensure value for money and compliance with local authority governance rules. This was done in keeping with external legal advice.
- The Council had several options available to it in relation to the Collaboration Agreement in response to the recent suspensions of University staff. In order to protect the integrity

of the Project and the Council's assets it chose to terminate the Collaboration Agreement, having sought legal advice on its options. The Council took account of a range of relevant considerations when electing to terminate.

- Termination of the Collaboration Agreement does not prevent the Council from engaging with third party participants (including Swansea University) in the future nor does the absence of Sterling Health, in our opinion, have a material adverse effect on funding structures for the Project. Indeed, it gives the Council a greater deal of control to structure finance in a way which best fits its aspirations for the Project.
- Through the period we have reviewed, the Council's officers have, in our view, taken prudent steps to manage the Project in a safe and well considered legal and financial environment.
- In our view, there has been no misuse of, and no risk posed to, public funds.

In detail the review of the procurement process concluded that:

- The documents demonstrate that at all times the Council acted in accordance with the Public Contracts Regulations 2015 (PCR) and followed appropriate processes, including the recognised competitive dialogue procedure. Throughout the procurement process, the Council acted with the benefit of prompt advice provided by its external lawyers, and senior officers, including specifically the Council's Head of Law and Administration (who is also the Council's Monitoring Officer) and the Council's Director of Corporate Services (who is the Council's Section 151 Officer). The Council's in-house team and external lawyers played a central role in the procurement, including attending meetings and workshops with Sterling and the University. The Council's external lawyers chaired the dialogue meetings.
- The project records provide an audit trail of the procurement and the key decisions arising during the procurement. The project records demonstrate compliance with the PCR. In our view, the project records kept by the Council are robust and there are no gaps in those records when compared with the expectations for a procurement of a scheme of the size and nature of the Project.
- The documentation provided demonstrates that the Council followed due legal process in the procurement and the award of the collaboration agreement to the Developer Parties. The project records show good governance and regard by the Council to risk management.
- We are aware that the Council has now terminated the collaboration agreement. We have received confirmation from the Council's Section 151 Officer that the Council has not paid any public funds to the Developer Parties under the collaboration agreement or otherwise in relation to this Project. In our view, there has therefore been no misuse of, and no risk posed to, public funds.

Summary Wales Audit Office Review

The Wales Audit Office review commenced in January 2019 and sought assurance that the Council had sound governance and risk management arrangements in place, had complied with its own internal processes, and that it had ensured that public assets were protected. The review consisted of detailed document appraisals.

Wales Audit Office concluded that:

To date, Carmarthenshire County Council has followed appropriate processes and effectively managed risk to protect public money in its activities relating to the Llanelli Life Science and Well-being Village.

The full review is attached.

➤ **Summary Financial Appraisal**

The procurement process was undertaken to identify a Development Partner to work with the Authority to develop plans which would have been used to lever private sector investment. Whilst the partner developed some information during the process of collaboration the Authority did not consider that this information was sufficiently robust to approach City Financial Institutions. The Authority consequently chose, independent of the private sector to engage a financial advisor to robustly develop the financial planning directly with the Authority. This work comprises of detailed financial modelling and development appraisals of all elements to ascertain the sustainability of the Village.

It is concluded that, following review of the initial appraisals and potential rental income from various properties, subject to the financial structure being agreed, lot 1 (social housing, care, rehabilitation and assisted living) and lot 2 (Wellness Hub, Car Park and Community Health Hub) would achieve a strong private sector financing commitment from a number of private sector investors. This would require an Information Memorandum to be sent to a pre-selected number of Investors outlining the project together with financial information and business plans. The aim of this would be to obtain best value for the Borrower, and best long- term Investor partner for the project. Such an exercise would take around 3 months to complete once the Information Memorandum is complete.

➤ **Current reviews**

Two Swansea Bay City Deal programme reviews are currently underway:

- **Joint Committee internal review** - this review is being carried out by the Heads of Internal Audit for each of the four Local Authorities and is looking at the City Deal programme. This review has been commissioned by the Joint Committee.
- **UK and WG review** - this review is being carried out by Actica Consultancy. It has been commissioned by both Governments.

It is intended that the internal and UK/WG reviews conclude at similar times (approximately 4 weeks) in order to ensure there is a coordinated approach and that all findings can be discussed in a timely manner.

➤ **Update Phase One**

The City Deal funding would be used by the Authority to construct the Community Health Hub, this along with the Wellness Hub and the public open space will form phase one of the Village development. Phase 1 is currently being developed by a team of 19 different disciplines from ARUP in summary the Wellness Hub will house the sports, leisure and aquatics and the Community Health Hub will comprise the research, business development, education, skills and training and clinical delivery along. ARUP were commissioned to develop the outline design concept for both the buildings to deliver the projected outcomes. This was approved by Executive Board on 10th September.

ARUP are working to ensure the optimal configuration and adjacencies, to maximise the benefits of space and joint use to maximise the opportunities for training whilst delivering clinical care to patients. The innovative approach to linking business development with these services provides improved opportunities for research, clinical trials and business development. The business development will include life science devices and products which could in addition be trialled in linked supported living planned for later phases of the Village. Arup's scope of work also includes the spatial configuration of the Community Health Hub and Wellness Hub, and an options appraisal is underway to determine whether these should be organised as linked buildings (for example, with a common atrium) or one building housing all constituent services. Meetings have been held with all partners to inform this process and have included representation from all the Swansea University Schools to be included within the development.

The Outline Planning Application for the entire Village site was unanimously approved at an extraordinary planning committee on Thursday 10th January, pending National Resources Wales Flood Consequences Assessment and Welsh Government sign off.

The design work to RIBA stage 2 for phase one elements is progressing well and is scheduled to be completed by the end of February 2019 with phase one proposed for completion by September 2021. Should the Authority decide to await the outcomes of the outstanding reviews before progressing to RIBA stage 3, the project timetable would need to be reviewed.

DETAILED REPORT ATTACHED ?	<p>Yes</p> <ol style="list-style-type: none"> 1. Life Science and Wellness Village at Delta Lakes – Governance and Public Procurement Review, including Appendix 2. Wales Audit Office Review
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IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: Wendy Walters

Director of Regeneration of policy

Policy, Crime & Disorder and Equalities YES	Legal YES	Finance YES	ICT YES	Risk Management Issues YES	Staffing Implications YES	Physical Assets YES
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1. Policy, Crime & Disorder and Equalities

- The project will be compliant with policy as part of the City Deal initiative.
- Crime and disorder are key considerations of the project and the site aims to achieve the 'Secure by Design' standard.
- A Health Impact Assessment has been undertaken to reduce health inequalities.
- The Full Business Case outlines strategic alignment across all partners.
- The Village aligns with the Wellbeing of Future Generations (Wales) Act 2015, with the Project Management Office using the 5 ways of working. The project will make a demonstrable contribution to the 7 National Goals.
- All public sector partners operating onsite will be expected to comply with the Welsh Language Standards. Private companies will be encouraged to use the Welsh Language and offered practical support to foster take-up.

2. Legal

- Project is part of the City Deal agreement, signed March 2017
- Procurement and Collaboration Agreement with partners supported throughout by independent legal advice
- Legal advice set out in the advice note produced by Acuity Legal to cover both the procurement process and the management of the Collaboration Agreement and partners.
- The termination of the Collaboration Agreement on December 6th

3. Finance

- Public and private capital is required to deliver the Wellness Village.
 - Business case to draw down of £40m of City Deal money is complete however this may need to be updated based upon the preferred new structure for delivery of the Village.
 - Independent financial planning is underway, the initial financial appraisal has shown that, subject to the financial structure being agreed, the principal elements of the Wellness Village would achieve a strong private sector financing commitment from a number of private sector investors. This will require an Information Memorandum to be sent out to a pre-selected number of investors outlining the project together with financial information and business plans. The aim of this would be to obtain best value for the Borrower, and best long term Investor partner for the project. It is estimated that such an exercise would take in the region of 3 to 5 months to complete once the Information Memorandum is issued.
 - 23/9/2018, Executive Board approved the use of the £2m reserve fund set aside for City Deal to enable the Wellness Village legal and technical work on site to proceed to RIBA stage 2.
 - Funding for the County Council proportion of the project costs are included within the County Council Capital Programme 2019/20 – 2023/24
- Expenditure
 - Expenditure Total 1/8/17 to 31/12/18 - **£1,041,557.53** - as detailed in the body of this report

4. ICT

- Full Digital Strategy in development.
- Data sharing initiatives will need to be agreed in line with legislation and policy

5. Risk Management Issues

- Risk strategy and appropriate mitigation planning is maintained across all elements of the project work stream, procurement and planning.
- The development of the delivery structure will be subject to legal scrutiny and therefore the Council's risk exposure will be mitigated.
- A risk that Swansea University does not continue to be part of the project.
- Project delay due to the current reviews underway remains a risk

6. Physical Assets

- New physical assets will be developed as detailed within the outline planning application submitted.
- Outline planning application unanimously approved at January 10th committee subject to resolution of NRW approval and WG agreement.

7. Staffing Implications

- The Wellness Village will bring about positive impacts on employment and staffing – it is projected to create 1,853 jobs by 2034.
- No adverse impacts are expected on existing staffing.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below

Signed: Wendy Walters

Director of Regeneration and Policy

1. Scrutiny Committee

A special Community Scrutiny Committee was held on 23rd January 2019 to consider the Wellness Village project.

2. Local Member(s)

Constituent and adjacent Ward Members fully briefed at all key project milestones: Cllr. John Prosser, Cllr. Louvain Roberts and Cllr. Deryk Cundy.

Extensive engagement has been undertaken on the concept of the Village and its vision.

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THESE ARE DETAILED BELOW

Title of Document	File Ref No.	Locations that the papers are available for public inspection
City Deal papers	Stored on CFP.	The Beacon, Dafen, Llanelli
Procurement papers	Stored on CFP.	Listed within Tender Evaluation Report