



# SERVICE TARGETED ESTATES PARTNERSHIP FREQUENTLY ASKED QUESTIONS



# FAQs

## WHAT IS A JOINT VENTURE PARTNERSHIP?

A JV involves two or more parties pooling their resources and expertise to achieve a particular goal. The risks and rewards of the enterprise are also shared. There are a variety of JV models but generally a JV can provide:

- More resources;
- Greater capacity;
- Increased technical expertise;
- Access to new markets;
- New solutions to financial and operational challenges.

## WHAT IS A *STEP* JOINT VENTURE PARTNERSHIP?

Developed by Ryhurst Limited, a Service Targeted Estates Partnership (STEP) is a form of joint venture aimed at the health and social care market. Under the STEP model the care organisation and Ryhurst become shareholders in a new company that obtains the investment capital for planned improvements in health and social care facilities.

The STEP company will take responsibility for all capital works related activity and once service delivery has commenced it will manage and maintain this. On completion of the works, the care provider rents the space from the joint venture company. The STEP company can be structured to deliver a range of services extending to whole estate management solutions on behalf of the care organisation.

STEP

## WHY IS THIS DIFFERENT FROM PFI, PROCURE21 OR LIFT?

PFI usually involves the public sector securing a private sector partner to finance, design, construct and maintain a new or refurbished building for a specified period. A 'Project Co' Special Purpose Vehicle (SPV) is established specifically for the project and this receives a payment to cover the cost of the building and contracted services by means of a unitary charge. At the end of the contract period, the building is handed back to the care partner, who then assumes all property ownership risks.

Procure21 is a procurement method for publically funded NHS capital schemes. An NHS Trust can select a principal supply chain partner from the Procure21 framework without having to use the OJEU tender process. The costs of developing and funding the scheme are borne by the Trust, though with the comfort of a guaranteed maximum price. All risks of property ownership rest with the Trust from completion of the construction phase.

## CAN ALL CARE BODIES CREATE A JV?

It is our understanding that NHS Foundation Trusts (FTs) can enter into a joint venture arrangement. Indeed Monitor encourages FTs to improve their estate and improve their revenue position by exploring alternative funding routes. PCTs and non FT Trusts will need Secretary of State approval, though the 'Transforming Community Services: Enabling new patterns of provision' document issued by the Department of Health in January 2009 confirms that joint venture solutions secure the desired estate is an approach the Secretary of State would be supportive of. Local authorities have the ability to explore infrastructure development and are increasingly using joint venture partnerships for regeneration and improvement. Charities are not subject to public sector procurement rules and can create joint venture agreements within their local governance rules.

NHS LIFT is a vehicle for improving primary care facilities. Having selected a private sector partner, the PCT, partner and Community Health Partnerships (on behalf of DH) form a new limited company. Known as a LIFT Co, this company owns and maintains the building and leases the premises to the PCT, GP's, local authority social services, etc. for an agreed period, usually between 25 and 30 years. At the end of the lease the PCT has the option to acquire the building.

Unlike all of the above models, the STEP approach offers both a funding and procurement route for specific projects and an optional whole estate development and management solution. STEP offers a flexible route to risk transfer and an off balance sheet accounting position as well as the ability to tap new sources of capital, reduce revenue costs and meet current/future environmental and energy management targets. The care provider becomes a partner in developing an estate aligned with its service strategy, securing an equitable share in the risks and rewards of property ownership.

## WHY SHOULD MY ORGANISATION CONSIDER A STEP JVP?

The Ryhurst STEP model builds on the positive features of existing procurement and delivery models and addresses the risk and reward imbalance in these, which Ryhurst believe are unhelpful and unsustainable. It achieves this by incorporating features that delivers:

- Access to capital funding streams not available to public sector care partners;
- A legal structure that will achieve the off-balance sheet position many public sector organisations are seeking;
- A shareholding in the STEP company that far exceeds other market models;
- Separation of service delivery from the property management and development;
- Shared accountability and an equitable risk and reward balance between the partners;
- Meaningful input to company strategy and operational activities;
- Compliance with OJEU procurement rules;
- Flexibility in both scope and scale of STEP company use
- A vehicle to drive asset use and management efficiencies and transfer the considerable risks associated with building, providing and maintaining facilities;
- A total alignment of partner interests;
- An accounting and tax structure that protects the care partner's specific status;
- Flexibility in how the care partner achieves its project specific investment stakes,
- Transparency of investment returns; and
- Solutions bespoke to the care body's needs and tailored to meet local circumstances.

## DOES STEP REQUIRE AN EXCLUSIVE RELATIONSHIP?

No.

Ryhurst believes the care partner should always be free to decide whether or not it uses the STEP JV to procure new and/or improved premises. The care partner has the flexibility to choose the most appropriate and cost-effective method of procuring and financing each development or service.

Indeed, it is precisely the perceived inflexibility of existing PPP models that has caused many care parties to avoid using them. Some existing funding routes such as PFI may be appropriate for care partners and Ryhurst will continue to fund and develop through this route if required.

## HOW WILL A STEP HELP ME?

Working in partnership with care organisations, Ryhurst believe the vision for the STEP company should be to deliver an estate that provides our care partner with vibrant fully serviced sustainable health care environments that incorporate the flexibility to support changing service demands. We take as a given that this means we must deliver a highly cost effective, efficient low carbon emissions estate. This will involve the STEP company in the following principal activities:

- Reviewing the current estate against the care partner's service strategy to identify the extent of alignment;

- Production of detailed plans and layouts for both on and off-site solutions to achieve the service strategy;
- Acquisition and disposal of land;
- Procurement and management of supply chain partners to deliver and maintain new facilities;
- Procurement and management of supply chain partners to refurbish and maintain existing facilities;
- Procurement and management of soft and hard facilities management services;
- Identify and secure the funds to invest in new facilities.

## AM I "SELLING THE FAMILY SILVER"?

Not unless you want to!

Unlike some models who seek to secure ownership of land and buildings, the Ryhurst STEP has been specifically designed to address the legitimate concerns of our care partners. Recognising the complexity of the statutory obligations faced by many of our care partners and that land and buildings are over a period of time to become surplus, we anticipate that there will be no universal solution to the question about how best value is achieved by the care partner.

Whatever the best organisation specific solution, the partnership agreement will be structured to ensure the care partner has the appropriate rights to suitable compensation in the event land and/or buildings are transferred to the joint venture company or being disposed of.

## HOW LONG IS A TYPICAL STEP CONTRACT?

However long the care partner needs it to be.

As the care provider's property partner, the STEP company will exist as long as the care partner needs buildings from which to deliver services, and it chooses the STEP company to provide and manage these. However, it is appreciated that there will be occasions where one, either, or both of the partners may wish to change or dispose of their shareholding in the STEP company and the partnership agreement will include mechanisms for this to be achieved without damaging the care partners services.

## HOW IS THIS FUNDED?

As indicated earlier, the Ryhurst STEP has been structured to allow the care partner to use its own funds to develop and/or improve facilities. However, where these funds are not available, the joint venture company would access capital in the commercial markets utilising mechanisms such as funding competitions to secure the most competitive funds.

In securing funds, factors such as the length of the care partner's lease, the covenant strength of the care partner and the residual value will determine what percentage of the development cost can be secured. Any shortfall in funds would be provided by the STEP company shareholders, and this shareholder capital could take the form of a mixture of cash, land or a mixture of the two.

In meeting the associated lease costs the care partner will utilise budgets covering FM, energy, capital dividend payments, costs of borrowing etc. Taken together the sum of planned or current spending should allow cover of the lease costs and enable a return on investment.

## WHY CAN'T I DO THIS MYSELF?

Of course care bodies can raise funds through many routes including government capital and/or grants, targeted estate funds and donations. In the NHS, built-up surpluses and prudential borrowing to an agreed limit may also be possible.

Borrowing from the market at an acceptable rate however may not be as advantageous and in all self funded cases, the care body has the ongoing cost of occupation, repair, renewal and compliance to meet. The borrowing will also sit on the care partner's balance sheet, not an attractive position for all. The Ryhurst STEP solution accommodates all this in a single venture to deliver efficient use of assets and off-balance sheet treatment.

## DOES THE JV HAVE TO USE THE RYDON SUPPLY CHAIN?

No.

Ryhurst has demonstrated an ability to deliver and manage a wide range of PFI, LIFT and PPP projects over the last 12 years. Ryhurst can take responsibility for all aspects of a project from inception, through pre-development activity, the development phase and managing operational buildings. With a long established network of supply chain partners, we do have access to expertise within the Rydon Group and in those situations where a fixed supply chain is considered the best solution we can deliver this. However, we recognise that our partners will not always be comfortable with the fixed supply chain approach. We will therefore deliver a supply chain solution to achieve that objective and meet the care partner's needs.

## WHAT DO I DO NOW?

Contact us for a conversation. Call **Stephen Collinson** on **01342 822113** or email him at **scollinson@ryhurst.co.uk**

## WHY SHOULD I DO THIS WITH RYHURST?

Because Ryhurst is an established, highly successful firm which specialises in providing solutions exclusively to the health and social care sector. We have a demonstrable track record of working successfully with the NHS and other public sector partners to deliver market-leading solutions to their estates requirements. Our team is made up of experts in their field, including individuals who have held CEO and director level positions in NHS Trusts. We are part of a £190 million construction, development and services company, the Rydon Group, which has been established since 1978. Through our sister companies within the Rydon Group, we have access, as and when required, to expertise in land, design, construction, refurbishment and maintenance. The Group has wide experience in the healthcare market, having worked with Ryhurst on important schemes since 1998.

## WHAT'S THE 'CATCH'?

There really isn't a catch, if it does not work for our partner, it will not work for Ryhurst.

If a care partner is interested in progressing this approach, or indeed, any other means of achieving new facilities from which to deliver improved services, then talk to us. You will find that as a dedicated specialist health company, we have a genuine interest in improving healthcare environments to benefit all, we are passionate about working in partnership and we have a track record of delivering credible solutions in overcoming client challenges and delivering customer value.

*Ryhurst*

Ryhurst Ltd, Rydon House, Forest Row, East Sussex RH18 5DW

T 01342 822113

[www.ryhurst.co.uk](http://www.ryhurst.co.uk)