Joint Strategic Committee
10 April 2018
Agenda Item 12

ADUR & WORTHING
COUNCILS

Key Decision : Yes

Ward(s) Affected: All

Union Place Redevelopment

Report by the Director for the Economy

Executive Summary

1) Purpose

1.1 The purpose of this report is to consider a proposal to work in partnership on an innovative approach to delivering redevelopment of the Union Place site. Attached later on in the agenda is a confidential appendix to this report which contains the Heads of Terms of the proposed agreement, together with associated financial, procurement and legal advice. This information is deemed exempt under the Local Authorities (Executive Arrangements)(Meetings and Access to Information) (England) Regulations 2012 as it relates to the financial and business affairs of an individual or body and/or is legally professionally privileged.

2) Recommendations

2.1 To delegate to the Director for the Economy in consultation with the Leader of Worthing Borough Council and Executive Member for Regeneration, the authority to enter into a Land Pooling Agreement, in accordance with the Heads of Terms set out in the Exempt Appendix 1 for the purpose of securing the development or sale of the combined Union Place Site.

2.2 To delegate to the Director for the Economy, in consultation with the Director for Digital and Resources, the authority to continue to negotiate terms of the draft Heads of Terms set out at the Exempt Appendix 1 and to make minor amendments.

2.3 To delegate to the Director for the Economy in consultation with the Leader of Worthing Borough Council and Executive Member for Regeneration the authority to dispose of land known as High Street Car Park to London and Continental Railways Ltd at a value to be agreed, subject to an independent valuation and in accordance with the Council's statutory best value obligations.

2.4 To appoint the Chief Executive and the Director for the Economy to sit on a jointly established Strategic Board with Senior Officers of LCR and to act as the Council's representatives, and to have the authority to exercise all Executive functions, (subject to paragraph 2.5 below) relevant to the development of the Site, on behalf of Worthing Borough Council, subject to them acting within approved budgetary limits and legal, constitutional and governance arrangements.

2.5 To receive a report back in October 2018 to be updated as to progress and developments, to consider an options appraisal for the Site and to consider and approve a Development Strategy for the Site.

2.6 To receive a report back in due course with any proposals in respect of other Sites being incorporated into a Wider Land-pooling Agreement.

3) Context

3.1 *Union Place*

3.1.1 Union Place is the site of the former Police Station and has lain vacant too long. The Worthing Town Centre Investment Strategy 2016 identifies Union Place as a site of strategic importance to the future of Worthing.

> 'Located in a prime position within the town centre, this site lies adjacent to the High Street, opposite Waitrose and next to the Connaught Theatre. The site offers potential to reinvigorate this part of the town centre, building on the successful evening economy offer of nearby Warwick Street.
>
> Prominent street frontages on two sides provide the opportunity for prime new retail and leisure accommodation, with adjoining residential. A larger phased development could be facilitated through the inclusion of adjoining land'.

3.1.2 At their July 2016 meeting, members of the Joint Strategic Committee received a report which proposed that Worthing Borough Council entered into a development agreement with the Union Place site freeholder whereby WBC would invest a maximum of £3m funded through prudential borrowing and would agree to include the High Street surface car park as part of a new development combining both sites.

3.1.3 In the event, a development proposal was not forthcoming and in the meantime, WBC bid for and secured a successful award from the Coast to Capital Local Enterprise Partnership of up to £5.6m Local Growth Fund (LGF) monies toward the redevelopment of Worthing Town Centre. The subsequent LGF funded acquisition of the Union Place site was completed in January 2018.

3.1.4 Whilst the indications are that the site is still likely to represent a significant challenge in terms of securing financial viability, it is of strategic importance and its acquisition was an opportunity to 'break the inertia' with the potential to deliver significant benefits to the Worthing economy including an estimated Gross Value-Added benefit of £2.5m per annum by 2021.

3.2 *The wider context for a partnership approach to place making*

3.2.1 There are numerous examples of Local Authorities using land acquisition powers to bring forward regeneration schemes for the wider benefit of the community and with the launch of programmes such as One Public Estate, we have seen a culture change in the approach to public sector asset management, looking at property not only as a necessary cost, but something that can unlock wider benefits for local communities.

3.2.2 The Council's acquisition of the Union Place site has been funded using the Local Growth Fund which is in itself, a clear expression of the Government's objective of bringing housing, infrastructure and development funding together in a single investment pot for investment by local Councils and their partners.

3.2.3 Over recent years, the inflexibility of some of our traditional tools and the constraints imposed when markets have been uncertain, have highlighted the importance of a partnership based approach to placemaking and development.

3.2.4 'Unlocking Growth Through Partnership' (*a joint report from the British Property Federation and the Local Government Association – January 2017*) highlights the benefits of strong partnerships pairing up resources to promote mutual benefits. Such partnerships should have:

- ❖ a clear vision for a shared end goal, with economic growth and a thriving community at its heart.
- ❖ clarity and strength of leadership that will help drive the vision and bring in other partners.
- ❖ shared purpose: an approach which embeds mutual benefits – including for the wider community.
- ❖ sharing risk: a pragmatic and balanced share of risk and reward, so gains and losses are shared and the partnership is equal and mutually supportive.
- ❖ trust: building and maintaining trust – consistency and transparency are essential components of positive shared ventures.

3.2.5 The report indicates that joining forces means that each partner can contribute according to where their strengths lie; producing an effort that has more impact than each partner operating in isolation. By combining these strengths, some of the most significant barriers to development can be overcome. From this, a range of benefits flow to partners, central government, communities and the wider economy.

3.2.6 The report is clear on a key point; effective partnerships need to share risk and reward:

> 'Key to partnership is a careful balance of risk and reward, which can then lead to the realisation of mutual benefits rather than the adversarial zero-sum dynamic which has sometimes undermined partnerships in the past'

3.2.7 The principle of pooling resources has been established for many years in models such as local asset backed vehicles (LABV) whereby a local authority typically transfers ownership of key assets into the vehicle, and the private sector then leverages these assets to raise funding to undertake a programme of work with agreed joint priorities.

3.2.8 Advantages of an approach which follows these principles include:

- ❖ Sharing of risk
- ❖ Greater focus on commerciality
- ❖ Ability to capture the uplift in asset values as a result of infrastructure improvements

- ❖ The ability to leverage greater investment
- ❖ Integrated approaches to regeneration and economic development

3.3 *The Platform approach and the town centre investment prospectus*

3.3.1 The Council's Platforms for Our Places commitments are founded on a desire to maximise our chances of success by establishing a reputation as a trustworthy and reliable partner. At times, when the market is not able to deliver alone, we have committed to taking a stake for the wider benefit of our communities.

3.3.2 This proactive approach can involve making measured interventions including the use of land; borrowing to fund innovative solutions; or joint venturing to create wealth generating propositions for the long-term benefits of our places. It is consistent with our intention to become civic social entrepreneurs; using our resources creatively providing platforms for practical long terms solutions.

3.3.3 The Council's ambition is set out clearly in the Town Centre Investment Prospectus (2016):

> "Worthing will be recognised as a highly desirable place to live, work and visit, continuing to attract high calibre businesses and significant inward investment that will help the town's economy to grow and improve its regional competitiveness. It will be a vibrant place where people can enjoy a high-quality environment that combines the best of coast and countryside, a diverse cultural and leisure offer, modern infrastructure and economic opportunities."

4. Issues for Consideration

4.1 *A model for delivery*

4.1.1 A number of models for securing the development of Union Place are available and a table which summarises their relative merits is set out in exempt Appendix 2. A fuller assessment of risks and rewards is set out in exempt Appendix 3; together with a list of 'pros' and 'cons' in exempt Appendix 4.

4.1.2 The Council could simply sell the land on and permit another developer to bring forward a viable scheme, exercising our statutory duties of control via the planning system. However, the Council would lose control over the pace of development and any longer-term revenue. In short, we could be back to 'square one'.

4.1.3 At the other end of the scale, the Council could take on full responsibility for development of the site as owner/developer and all potential rewards, but in this instance the Council would take on all of the development risk and would rely on external consultant support to supply the necessary expertise. Such expertise is likely to be costly and does not deliver a longer term commitment from the other parties involved. The Council has only limited in-house capacity to take the site forward. In addition, the Council would be exposed to 100% of the market risk should development viability remain problematic. The Council would also be faced with funding a significant development prior to either the sale or any associated rental streams arising from the development. In the current financial environment faced by the Council, the scale of such development costs would be difficult to finance.

4.1.4 Beyond a straightforward sale of the land or direct development by the Council, there are a wide range of different partnership arrangements that are available that warrant consideration.

4.1.5 A formal joint venture with a private sector partner offers the potential benefits associated with access to private sector investment, skills and experience; but would also involve a lengthy procurement exercise with no guarantee that a site of this nature would attract the type of partner sought. A complex procurement would extend the timescale for delivery and place our Local Growth Fund programme agreed with Coast to Capital at risk.

4.1.6 The Council could establish its own development vehicle by setting up a separate development company with the advantages that it would retain any profits and control over timing and potential for cross subsidy of different tenures. However, this would require significant input of expertise and the Council would have to accept the full development risk. A site specific vehicle may mitigate these risks to an extent, but may still involve additional start-up costs and offer limited flexibility should market conditions change.

4.1.7 The alternative option of a Land Pooling Agreement (LPA) is informed by the need for pace (the site has lain vacant for too long) and in enhanced prospects for success that result from two parties bound by a shared interest in land, working to a common objective.

4.1.8 The land-pooling element reinforces the cooperative aspect of the relationship and supports the argument that the main purpose of the arrangement is not the award of a services contract but rather the development of a jointly-owned site. The additional pace comes from the ability to work with another organisation in public ownership; thereby negating the need for a lengthy procurement, as it is considered low risk that the Public Contracts Regulations 2015 would apply to the proposed arrangement (see Paragraph 7 below).

4.1.9 As with the other options, there are risks; agreeing what amounts to a contract may be time consuming; it may be that the parties cannot agree as priorities change; and there may be insufficient value to be generated from the site's development. As with any partnership arrangement, the 'exit strategy' will need to be clearly defined and the Council's land holding interests protected.

4.2 *The proposed land pooling agreement*

4.2.1 The proposed Land Pooling Agreement is outlined in the Heads of Terms included as exempt Appendix 1.

4.2.2 In essence, the proposed LPA is a mechanism that allows the Council and another party to take a stake in securing the delivery of a mixed-use development scheme that supports the regeneration of the site to the benefit of the town centre economy.

4.2.3 The strength of any land pooling arrangement will depend on the potential partners. The Council is building a strong reputation as outward looking and innovative in its approach to development. The prospective partner is London and Continental Railways (LCR); a 100% government owned company with a mandate from Government to deliver homes and jobs through the development of publicly-owned land. LCR has been in discussion with a number of local authorities ("LAs") regarding cooperation aimed at unlocking sites which have proved difficult to regenerate.

4.2.4 The key to the LPA is for LCR to secure a minority land-holding interest in the wider Union Place site, by purchasing the High Street Car Park, known as Site C, from Worthing Borough Council. This unlocks the potential for LCR to offer their services in terms of expertise and experience which the Council would otherwise need to procure. In turn, it also allows for the basis of an agreement whereby both the Council and LCR are incentivised to work collaboratively on a Strategy for development of the site – each 'side' securing an equity return which reflects their input in terms of time and costs. In the event that an agreed way forward cannot be found, WBC shall purchase the LCR land holding and LCR's costs together with interest are reimbursed.

4.2.5 Under the terms of the LPA, the Council and LCR will commit to working up a Strategy which will include an initial development and massing study; consideration of viability and the implications of any cinema proposal. A report shall be brought back to Members of the Joint Strategic Committee in due course dealing with an options appraisal and the Development Strategy.

4.2.6 The LPA will include checks and balances to ensure that progress is maintained; that the development objectives are agreed; and that any disputes can be resolved in a clear and equitable manner. The LPA proposes a suitably ambitious two-year window for sale or development of the site once the LPA is exchanged which accords with the timescales set out in the Local Growth Fund Round 3 Funding Agreement with Coast to Capital. If the Council is not able to develop out in a timely manner, there is a risk that Local Growth Fund monies might ultimately be returned to Coast to Capital.

4.2.7 The LPA is in effect a bespoke solution for the Council: it provides LCR with the security of land pooling and ownership which allows it bring forward expertise and cashflow. The Council will benefit from and pay a market rate for any services it receives from LCR; but both parties will be incentivised to minimise costs and work at pace to deliver a development led solution from which each will benefit from an equity stake resultant from enhanced land value as a result of development.

4.2.8 As with any agreement there will be risks: our ability to deliver a viable scheme with an appropriate mix of uses is uncertain until we test it further. The LPA offers an innovative approach to realising our ambitions which has the additional benefit of pace and the potential to deliver economies of scale that could benefit other sites in Worthing.

4.3 *Why London and Continental Railways?*

4.3.1 LCR was responsible for the delivery of the High Speed 1 railway, including St Pancras International Station. LCR was established in 1994: its original specialism was in the management, development and disposal of property assets in a railway context. In 2007, it came under public ownership of the Department for Transport and took with it the skills and experience acquired in delivering a major infrastructure project in HS1 and complex flagship regeneration schemes at King's Cross, Stratford, East London (Olympic Park), and Manchester Piccadilly.

4.3.2 LCR now operates on the cusp of the public-private sector, with the ability to work collaboratively with private sector and public bodies to maximise the value of public assets, through the management or development of property to support the Government's drive for homes, jobs and economic growth.

4.3.3 LCR has a track record of working effectively with both private sector developers and public bodies to deliver best value for the taxpayer. LCR employs 40 staff and its involvement here will enable the Council to harness specialist skills and resources, not readily available in the open market, as well as high quality advice from specialists to be appointed in accordance with the terms of the LPA and in compliance with procurement requirements.

4.3.4 In common with the Council's Platforms for our Places commitments, LCR's development philosophy is centred on place-making. Together with the Council, it will seek to maximise value by pursuing the medium to long-term development projects within the Council's portfolio, taking them through each stage of the planning process from strategy to implementation.

4.3.5 Working together with LCR, the prospects for delivering the projects improves and there is considerable opportunity for gaining/ sharing skills between the two organisations. LCR have useful links with Central Government, are experts at complex development, are well resourced and are committed to deliver successful projects in Worthing.

5) Engagement and Communication

5.1 The Council has been working in partnership with LCR under the terms of a broad based Collaboration Agreement since early 2017. The LPA envisages establishing a Board to ensure that engagement and communication remains effective as the relationship is formalised.

6) Financial Implications

6.1 The Council recently acquired the land at Union Place (previous Police Station site) at a final negotiated price of £3.5m. The overall cost to the Council of this scheme including Stamp Duty Land Tax and associated professional fees is £3.676m. The cost of the purchase is largely funded through the Local Growth Fund which awarded £3.6m towards the cost of purchase with a small contribution by the Council of £76,000.

6.2 This is less than originally forecast in the report to the JSC dated 12th September 2017, which indicated a purchase price of £3.6m and an overall budget of £3.8m funded by £2.1m from the Local Growth Fund, between £1m - £1.5m from a capital receipt, and up to £0.7m funding by prudential borrowing by the Council.

6.3 Earlier in the year, the WBC also acquired the freehold of the car park in Union Place at a cost of £6m which was funded through the Strategic Property Investment

Fund. As a result of these acquisitions, the Council now owns most of the land on the south side of Union Place.

6.4 *Options appraisal*

6.4.1 The report proposes a series of options for taking the development of the land forward, each of which potentially has a different financial implication for the Council. The final cost of each option will depend on the development potential of the site and the final mix of property delivered and the nature of tenure. For the purposes of comparison, it is assumed that there will be a mixed development comprising of leisure (including a cinema), retail and residential properties. Each option will deliver identical business rates and council tax income growth. The impact on the car park will be the same in each of the options.

In summary the indicative financial implications of each option are:

i) Asset Disposal

Depending on the final development brief for the scheme, a capital receipt of around £2m may be generated by the sale.

To achieve best value for the site, the Council would need to do some preliminary work on the development brief, the design of any potential building (to RIBA stage 1/2) and undertake any related feasibility studies. This would also enable the Council to shape the future use of the land. The site would then be marketed by a national agent who typically charge around 2% fee on the disposal price of the land. Consequently the costs of disposal are likely to be:

	£
Initial studies	500,000
Marketing costs	40,000
Total one-off costs	540,000

Any capital receipt could then be invested in property to generate an annual return of between 4 - 6% generating annual income of at least £80,000 per year.

ii) Planning JV / Development agreement / Land Pooling Agreement

Under the proposed Land Pooling Agreement, the Council would receive an up-front capital receipt for the part of the land purchased by our partner. This will need to be finalised as part of any agreement and will be dependent on the valuation of the land to be sold.

The value from the future sale of the combined site, once the initial design and feasibility work has been completed, will be shared by the partners in accordance with the agreements made. Under the proposed arrangement, the Council would only need to fund part of the initial costs associated with developing the scheme, but would then benefit from a potentially lower capital receipt as the sale proceeds would be split across the parties. This is discussed in greater detail at exempt paragraph 6.6.

The Council would need to fund the legal work in setting up the Land Pooling Agreement and potentially some of the costs associated with bringing the site to market.

One-off costs:	£
Legal fees to set up the proposed agreement	50,000
Contribution to costs of developing scheme	100,000
Total one-off costs	150,000

The resultant capital receipt could be invested to generate an annual return of between 4 - 6% generating annual income of at least £72,800 per year.

iii) Direct Development

Under this option, the Council would fund the development itself. The construction costs would be funded from borrowing and at the end of the development the Council would either sell or rent the property.

Based on the LGF submission, construction costs are likely to be in the region of £25.7m. The Council would be faced with funding interest payments during the period of construction prior to being able to either sell or rent the asset constructed. Based on a 2% interest rate and a three year construction timeline, these would be equivalent to £792,000.

Once the construction is completed, the Council would be faced with annual debt charges of £816,000 until the property is either sold or rented out. For the purposes of this comparison, it is assumed that the property will be disposed of within a year.

Once the property is either rented or sold, the Council should get a least a 4% return on the value of the investments.

The challenge with progressing with this option will be funding the interest costs and the development risk whilst the site is developed and the assets then disposed of or rented out.

iv) Direct Development by a Council owned vehicle such as a Company

The advantages to setting up a company is that there may be greater freedom in delivering the strategic outcomes of the Council. For example, many property companies have been set up by Councils to deliver housing growth, these companies have the ability to offer a wider range of tenures for housing without having to meet the rigorous requirements of a Housing Revenue Account or be subject to the Right to Buy regime.

However, in financial terms, the company would be owned by the Council and so would be consolidated into the Council's statement of accounts. Consequently, the financial implications are similar to that of direct development by the Council, however there would be administration costs to be funded and any profits would be subject to taxation. So the returns by the Council would be less than that associated with the direct development option.

If this option was pursued, then the Council would need to seek expert legal and financial advice in addition to funding the cost of the development via the company.

	£
Company set up costs	150,000
Interest costs during construction	792,000
Minimum one-off costs	942,000
Additional debt charges if properties remain unlet for a year	816,000
Maximum one-off costs	1,758,000

v) Setting up a joint venture

The Council could seek a developer partner to bring the site forward. The council's contribution would be the land and the developer partner would bring expertise and funding for the constructions costs.

However inevitably this would require expert legal and financial advice to take forward at say £150,000. Setting up such a vehicle is time consuming and could take up to a year.

The benefit of this approach is that the Council would not only receive a capital receipt for the value of the land but potentially a share, albeit a small share, of any development profit. This nature of the benefit would depend on the details in the legal agreement.

6.4.2 Summarised below are the potential costs and benefits of each of the options. These will be dependent on the final use of the site:

Indicative costs	Capital investment required £	Potential capital receipts £	One-off costs £	Annual revenue cost / income (-) £
Disposal of asset	-	2,000,000	540,000	-80,000
Planning JV (Land Pooling Agreement)	-	1,780,000	150,000	-72,000
Direct Development	25,650,000	Up to 30,415,000	£792,000 to £1,608,000	-190,000 to -400,000
Direct Development via a Council owned company	25,650,000 (paid by the Company)	Up to 28,500,000 (generated by the Company and subject to tax)	£942,000 to £1,758,000	-90,000 to -300,000 (generated by the Company and subject to tax)
Joint venture	-	2,200,000	150,000	-88,000

Depending on the option chosen, further work will be required to establish the full cost of the proposal.

6.4.3 The Council does have budget provision for the delivery of Major Projects (£317,000) and so can afford some set-up costs.

6.5 *Sale of land - exempt paragraph*

6.6 *Financial impact of the Land Pooling agreement - exempt paragraph*

6.7 *Risk contained within the agreement - exempt paragraph*

6.8 *Implications of LEP funding agreement*

The funding agreement with the LEP contains conditions for the delivery of both outputs and timescales. If the Council fails to deliver the project in a timely manner or to deliver the outputs required, there is a risk that the Council will have to repay the grant funding back to the LEP.

7. Procurement

Exempt section

8. Legal Implications

8.1 Section 1 Localism Act 2011 provides the Council with a general power of competence to do anything that an individual may do. Section 1 Contracts Act 1977 gives the Council the power to enter into binding contracts with others, subject to compliance with procurement legislation and Contract Standing Orders. Worthing Borough Council has the legal power to enter into a Land Pooling Agreement with London & Continental Railways Ltd.

8.2 Exempt paragraph

The Council has the power to dispose of land held by them under section 123 Local Government Act 1972, and in accordance with section 123 (2) shall not do so "for less than the best that can reasonably be obtained". However, an Authority may be satisfied that selling land at an undervalue is warranted, where the disposal will secure the promotion or improvement of the economic, social or environmental well-being of its area. This is lawful as long as the undervalue is less than £2 million.

8.3 Exempt paragraph

8.4 Exempt paragraph

8.5 Exempt paragraph

8.6 Members should note the confidentiality provisions of clause 11 of the Heads of Terms attached as Appendix 1, the Exempt nature of the appendices in this report in accordance with the Access to Information Regulations 2012, and the Returning Officer's Guidance on Publicity in the Pre-Election Period which commenced on 27th March 2018.

Background Papers

- 'Unlocking Growth Through Partnership, British Property Federation and the Local Government Association - 2017)
- Worthing Town Centre Investment Prospectus, Worthing Borough Council (2016)
- Platforms for our Places, Adur & Worthing Council (2016)
- Union Place Redevelopment Report, Joint Strategic Committee 2016

Appendices

Appendix 1 - Financial, Procurement & Legal Advice and draft Heads of Terms - Exempt
Appendix Two - Options for Securing Development
Appendix Three - Assessment of Risks and Rewards
Appendix Four - Pro's & Con's
Appendix Five - Union Place Site

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Sustainability & Risk Assessment

1. Economic

- How does this proposal/issue impact on the economic development of our places or the economic participation of our communities?
  - Bringing forward the Union Place site in partnership, has the potential to deliver a significant economic benefit to the Town Centre, through the creation of jobs and delivery of new homes.

2. Social

2.1 Social Value

- What impact does the proposal/issues raised have on our communities or specific groups within our communities?
  - The redevelopment of Union Place offers the potential to deliver homes and jobs and to support our regeneration of the Town Centre

2.2 Equality Issues

- Details of any equality issues, any equality impact assessment undertaken, or how the proposal impacts on access or participation.
  - Matter considered and no issues identified

2.3 Community Safety Issues (Section 17)

- Details of how the proposal helps to reduce crime and disorder and meet the Council's duties regarding crime and disorder reduction targets.
  - The design of any new scheme will need to address safety considerations for residents and visitors alike

2.4 Human Rights Issues

- Does the proposal impinge on anyone's human rights and if so how is it justified under the Human Rights Act? Human rights include:
  Right to a fair trial, respect for family life, private life, home and correspondence, freedom of thought, expression, assembly and association and protection and quiet enjoyment of property and possessions. Also ask, is the action proportionate to the anticipated response or outcome?
  - Matter considered and no issues identified

3. Environmental

- Are there any implications for the management, custodianship and protection of our natural resources?
  - The redevelopment provides an opportunity to integrate environmental enhancements as part of the proposals

4. Governance

- Are there any implications for or alignment with the Councils' priorities, specific action plans, strategies or policies?
- Are there any implications to the Councils' reputation or relationship with our partners or community?
- Any implications for resourcing, risk management (including health and safety), the governance of the either Council?

    - The redevelopment of Union Place offers an opportunity to implement a key element of the Town Centre Investment Prospectus. The project offers the potential to enhance the Council's reputation for working in partnership to deliver successful outcomes for the benefit of our communities.
    - As with any major development, Health and Safety considerations will need to be carefully managed.

Options for Securing Development

	Quality of Developer	Time/Cost to Establish	Control of Development	Max Financial Returns	Level of Risk
Asset Disposal		Straightforward and standard. Non OJEU	Control via planning process	Council does not share in all future development profits	Developer retains risk
Land Pooling Agreement (a Planning "joint venture")		Straightforward and standard. Non OJEU	Control via contractual approvals	Council does not share in all future development profits	Developer retains risk
Direct Development		Straightforward and standard but significant upfront costs	Council in control and can focus on priorities	Council retains development profits but not private sector expertise	Council takes full development and market risk
Direct development through Council owned vehicle	N/A	Becoming increasingly common but complexity to establish	Council in control and can focus on priorities	Council retains development profits but not private sector expertise	Council takes full development and market risk
Joint Venture (single site)	Site may not be of sufficient scale for complexity of process	Complex and site specific	Council can influence quality and timescales	Access development profits but share with partner	Share development risk
Joint Venture (multiple site)	Attraction of pipeline of sites provides potential to attract a more experienced development	Complex but economics in having a consistent approach across sites	Council can influence quality and timescales	Access development profits but share with partner	Share development risk but can manage across sites. 'All eggs' with single developer

Risk and Reward comparison of the development vehicles

Vehicle	Contractual Arrangements	Parties / Description	Commercial issues and commitment	Activity and reward
Planning JV	▪ Development agreement (Contractual) ▪ Profit share to be negotiated	▪ Landowner and Planning Partner (Housebuilder / PropCo. / DevCo.) ▪ Simplest form of vehicle ▪ Landowner works with the partner to secure a planning allocation or permission which uplifts the land value ▪ The partner has the ability to then purchase the site or the site is sold on the open market and the uplift is shared between the parties	▪ Land receipt dependent upon planning ▪ Defining a satisfactory planning permission ▪ Onerous use of consultants to secure a planning permission ▪ Limited commitment	▪ Retention of land ownership (SDLT savings) ▪ Access to private sector planning expertise ▪ Anticipated higher land receipt through an improved planning permission ▪ Reduction in landowner capex as the partner bears the upfront cost ▪ Overage arrangement to capture additional future value
Land Pooling JV	▪ Development agreement (Contractual) ▪ Profit sharing in accordance with land holdings	▪ Landowner and Landowner ▪ Landowners work together to secure an improved planning consent / allocation than if they had worked independently	▪ Landowners don't share the same objectives and methods of working ▪ Post contract disagreement leads to additional cost and time delays ▪ Commitment period is limited but contractually bound with the other Landowner	▪ Retention of land ownership (SDLT savings) ▪ Improved Planning consent / allocation ▪ Sharing of Planning costs ▪ Improved level of commercial returns ▪ Improved cash flow ▪ Overage arrangement to capture additional future value

Vehicle	Contractual Arrangements	Parties / Description	Commercial issues and commitment	Activity and reward
Serviced Land JV	▪ Development agreement (Contractual) ▪ Building Licence ▪ Lease	▪ Landowner and Infrastructure provider (DevCo.) ▪ Investment in infrastructure unlocks individual serviced plots for sale ▪ The arrangement may initially require the securing of a planning consent and thereafter the partner will finance and deliver the infrastructure ▪ Suitable for large, infrastructure heavy schemes (highways/community infrastructure/SUDS/remediation etc.)	▪ Land receipt dependent upon planning ▪ Defining a satisfactory planning permission ▪ Onerous use of consultants to secure a planning permission ▪ Covenant of partner ▪ Commitment period is required up to the point of development of accommodation	▪ Retention of land ownership (SDLT savings) ▪ Access to private sector planning expertise ▪ Anticipated higher land receipt through an improved planning permission ▪ Reduction in landowner capex as the partner bears the upfront cost ▪ Overage arrangement to capture additional future value
Deferred Land JV	▪ Development agreement (Contractual) ▪ Building Licence ▪ Lease	▪ Landowner and Developer (DevCo.) ▪ Development is carried out before the land is sold ▪ Licence granted to allow access to develop site ▪ Lease maybe necessary if the funder requires a charge on the land	▪ Landowner returns are deferred and dependent upon the success of the completed scheme ▪ Pre-let requirements may slow development activity ▪ Covenant of partner ▪ Development risk exposure in the event of developer default ▪ Commitment period extends to the completion of accommodation	▪ Land sold upon completion of the works gives security that development will be completed (reputational risk mitigation) ▪ The landowner shares in the uplift in value created by the 'development' of the scheme and an investment value (e.g. through the letting of the commercial accommodation ▪ The apportionment of value to be agreed ▪ Lower development costs as the land cost is paid at the end and therefore no financing costs to carry.

Vehicle	Contractual Arrangements	Parties / Description	Commercial issues and commitment	Activity and reward
Joint Venture	▪ JV vehicle (SPV) ▪ LLP ▪ LP ▪ Ltd.Co	▪ Landowner and Developer (PropCo./DevCo.) ▪ Other parties can be introduced with specialist skills such as funding or development expertise ▪ Joint ownership ▪ Vehicle type will be commercially driven (e.g. tax) ▪ Equity contributions determine profit apportionment ▪ Landowners contribution is land and the Developers is capital and expertise ▪ JV can create serviced plots or more likely develop out the site	▪ Landowner returns are deferred and dependent upon the success of the scheme ▪ Pre-let requirements may slow development activity ▪ Covenant of partner ▪ Development risk exposure in the event of partner default ▪ Funder requires landowner guarantee ▪ SPV set up and management cost ▪ Full commitment over development process but shared risk	▪ Shared development risk ▪ Higher receipts/profitability as greater development risk is taken through the servicing of land/completing development ▪ Access to private sector capital and funding ▪ Access to private sector expertise ▪ The real estate market is agreeable to this type of arrangement as it mitigates the payment of upfront land costs
Direct Development	▪ Land maybe transferred into a trading / development arm for tax purposes	▪ Landowner acts as the developer ▪ They procure a professional team to secure a planning consent ▪ They may Project and Development management themselves or make a consultant appointment ▪ Contractor appointments to complete infrastructure and development works ▪ Landowners using own capital reserves of raises finance	▪ Lack of in house skills and expertise to manage the project plan leads to reduced profitability and delays ▪ The landowner is taking all planning and development and funding risk ▪ Funder requires a charge on the land ▪ Cash flow requirement (Working capital) ▪ Deferred returns ▪ Market risk ▪ Full commitment	▪ Greatest level of development profit achievable as the landowner is taking all the risks throughout the development process

Asset Disposal

Pros	**Cons**
• Receive capital receipts • Transfer the majority of development risk and costs to development partners • Can react to market forces and sell as and when appropriate • Non OJEU route can be followed if land transaction only	• Limited participation in future receipts. Overage and clawback provisions can be difficult to manage and are often not transparent • Limited market appetite for developers prepared to take on costs and risks where funding gaps • Limited opportunity for bringing in private sector knowledge and skills • Single dimensional approach and may require Council to commit to single developer per site • Lose control of what, when and how sites are taken forward • Control through conditions of sale can impact on sale receipts • Limited control over quality of development other than through planning • Sites can be 'land-banked' until more favourable market conditions arise and risk are reduced, limited opportunity to accelerate development delivery • Potential limited pool of developer interest

Council Owned Vehicle

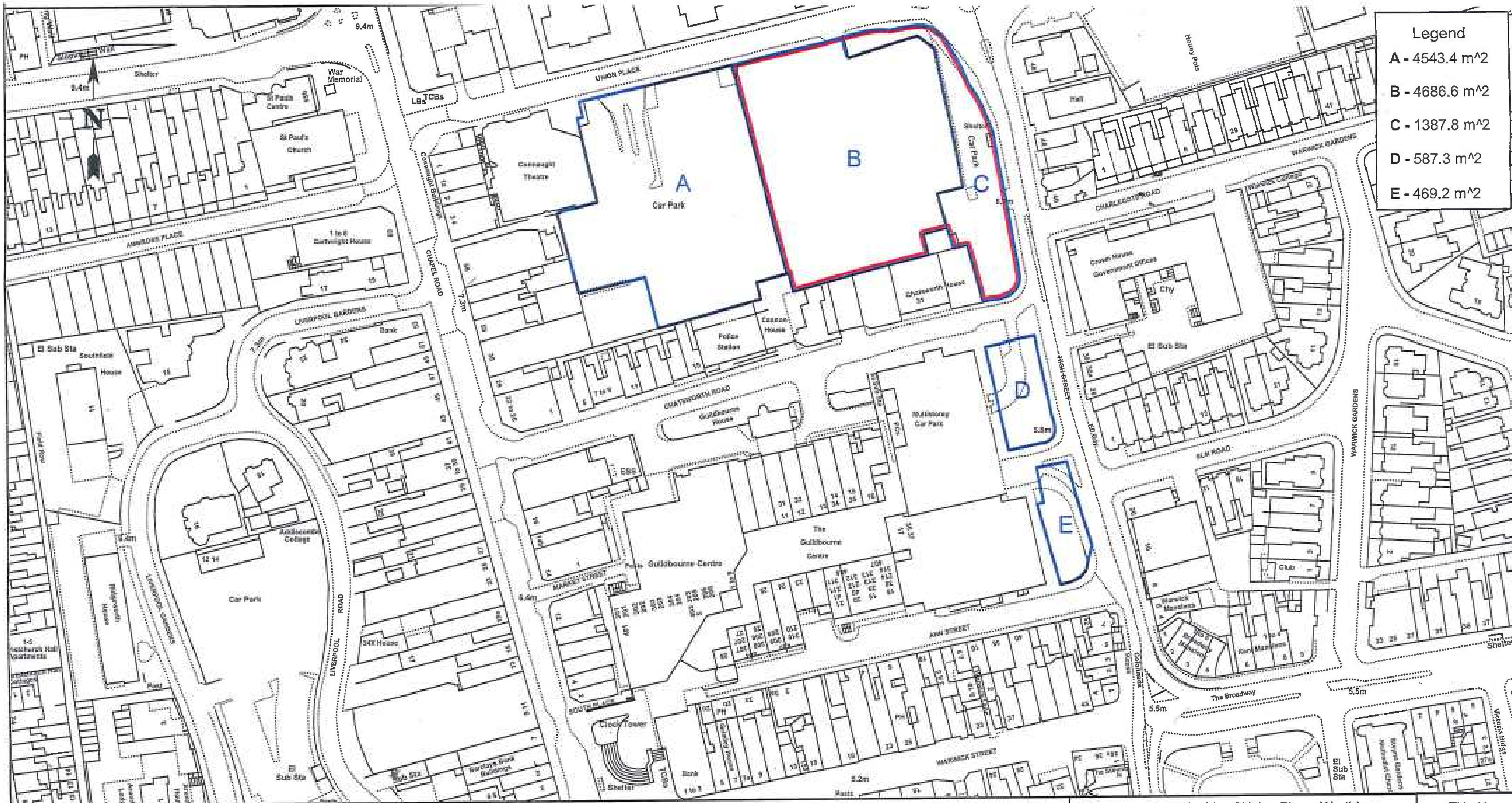
Pros	**Cons**
• A separate Council owned company has greater flexibility on tenure mix • Cross subsidy between tenures or uses possible • Council retains total control over the physical development of sites • Opportunities to develop sites in ring-fenced vehicles and bring in a variety of specialist developers and funding partners • The Council retains the profits generated by the vehicle • The Council can dictate the timescale at which sites are brought forward • No complex overage provisions • Potential to specialist in PRS which could provide a revenue stream for Council • Tax efficiency	• The Council has limited capacity and expertise to take the sites forward themselves • The Council (via the vehicle) is exposed to 100% of property market risk and tenant • The vehicle would sit on the Council's balance sheet and the Council take substantial financial risk • Council takes delivery risk of project and will need to manage contracts, resource the development/PM • Limited external investment to support development - requirement for additional Council borrowing • Complex to establish and initially expensive to operate • Subject to OJEU for procurement

<u>Site Specific Vehicle</u>

<u>Pros</u>	**<u>Cons</u>**
• Council retains control over the assets and the development as a partner in the vehicle • Participates in profits from the vehicle • Ability to lever in private sector investment, skills and knowledge • Ability to protect value in current market/economic climate depending when value of asset crystalised e.g. on establishment or drawdown • No complex overage provisions • Focused organisation	• No large capital upfront receipts until values crystalised • Increased establishment costs (time and resource) to set up each vehicle • Procurement process required for each vehicle (with cost, delay and market appetite implications) • Provides a single means by which the sites can be delivered • More difficult to cross-subsidies less viable schemes • Limited flexibility to include other stakeholders • Potential conflict of interest between competition sites (and vehicles) • Vehicle exposed to development risk as well as rewards • Length procurement process

<u>"Joint Venture"</u> (Including Land Pooling option)

<u>Pros</u>	**<u>Cons</u>**
● Council retains control over the assets as a partner in the vehicle ● The Council participate in profits and can create new income streams ● Flexibility to cross fund projects ● Reduced establishment and procurement costs/time compared to site specific approach ● Including a range of sites creates a more diverse portfolio, therefore allowing for the spread of risk which will be more attractive to private partner ● Can adopt long-term investment approach including short term wins ● Ability to lever in private sector investment, skills and knowledge ● Ability to 'hit the ground running' ensuring quick wins, acceleration of development ● Ability to add further sites ● Flexibility to take forward individual sites with appropriate delivery mechanisms	● The Council has limited capacity and expertise to take the sites forward themselves ● The Council (via the vehicle) is exposed to 100% of property market risk and tenant ● The vehicle would sit on the Council's balance sheet and the Council takes substantial financial risk ● Council takes delivery risk of project and will need to manage contracts, resource the development/PM ● Limited external investment to support development - requirement for additional Council borrowing ● Complex to establish and initially expensive to operate although less than single vehicle ● Subject to OJEU for procurement ● Tied into single development partner



OS Grid Ref:	TQ 14984 02749
Plan No:	Union Place Site_Worthing_Areas
Scale:	1:1250 [@A3]
Date:	11-September-2017

Land on the south side of Union Place, Worthing, BN11 1LG.

Title No: Union Place Site_Worthing_Areas

Scale
0 50 100 metres