Appendix 3: Options Appraisal

1. The development of potential sites as a long term strategic programme is seen as bringing the following benefits:

    - Adding critical mass and strategic commitment to the contract which will increase developer interest in the opportunity;
    - Allowing the council to more effectively control housing development responsibly and sustainably via phasing to meet local needs and priorities through an annual development plan;
    - By ensuring that all developable sites (approved within the programme) are progressed, in comparison to piecemeal disposal of land, which risks that only the most commercially viable opportunities are taken up by the market;
    - Increasing the council's capability to design and develop strategic infrastructure as an intrinsic part of schemes such as district heating;
    - Maximising the potential to generate a greater capital receipt (albeit within a longer time frame than out right land disposal);
    - Introducing the potential to generate long term revenue streams;
    - Allowing easier access to development financing (which would be sourced or financed by the developer) to allow developments to be financially self-sustaining and provide financial benefits for the council;
    - Reducing the costs and time taken to complete developments by virtue of the programme being delivered without the need for procurement of a developer and /or contractor for each piece of land;
    - Implementation time will be reduced as schemes will be co-developed in a 'partnership environment', which heavily 'exploits' expertise;
    - Further, the developer and the council will have 'learned lessons' from previous developments so shortening the time taken and 'smoothing' the progress of any future developments;
    - In addition, 'partnership working' helps to manage development risks more effectively, by placing them on the party best positioned to bear them;
    - Extending the benefits of economies of scale;
    - Exclusivity would be given on sites which were approved by cabinet to be included within the programme, thereby allowing scope for the procurement of specific projects or for the outright disposal of land;
    - A commissioned arrangement would also have sufficient flexibility to accommodate the outsourcing of any related services e.g. property; facilities management and certain regulatory services;
    - A longer term relationship will not limit competition as development will be phased a level which is within the capability of the small to medium enterprise (SME) market;
    - Smaller developments are highly likely to be sub-contracted by the developer or excluded from the programme and offered by the council directly to the SME market. (This will be discussed further with bidders during the procurement process);
    - And the relationship would not prevent development by other developers including affordable homes under section 106 provisions.

2. Given the benefits of adopting a strategic approach and on the basis of background factors (such as the results of the market consultation described in Appendix 2), it is clear the delivery model, approach, value and scope of the programme is key to the council securing the right developer and the achievement of its strategic objectives.

Table 1 summarises the key relationship models followed by further narrative detail on each.

Table 1: Relationship (Delivery) Models: Degree of Integration between the Council and Developer

Simplest Model: no integration	**Land Disposal**	Council disposes of land on the open market. Not subject to EU procurement requirements.
Simple Model: low level of integration	**Construction Contract**	Contractor commissioned to build homes to a specification drawn up by the council. Possibly subject to EU procurement depending on the value of contract or use of framework contractors.
Intermediate Model: moderate level of integration	**Design and Build Contract (D&B)**	Developer commissioned to design and build homes to meet the council's design brief / outcomes.
*** Complex Model: high level of integration** (*Recommended Option)	**Commissioned Programme**	Commissioned development programme controlled by the council, including the provision of wider design and construction expertise. Potentially incorporating D&B, profit share (via a SPV) & revenue generating options.
Most Complex Model: full integration	**Joint Venture Company**	Formation of a company which would be jointly owned and controlled by the council; the developer (and potentially any funder). Potentially incorporating D&B, profit share & revenue generating options.

3. **Land Disposal:** The council disposes of assets by sale on the open market. Whilst this provides the quickest receipt of capital, it does not provide for any revenue generation nor does it provide the council with control over developments (other than provided through the planning process). The sale of land to the highest bidder also does not focus on whether the development which raises the most capital is also the development which is most likely to meet housing needs and create a balanced, sustainable community and regeneration opportunities.

4. **Construction Contract:** Contractor engaged to build homes to a design brief drawn up by the council. This simple relationship relies heavily on council resource and expertise to design and oversee the development(s). This model is most often utilised for individually commissioned schemes of a size and scale and accessible to the SME market. However whilst procurement of contractors can be labour intensive, a construction framework could be established to minimise delays. A further caveat is that commercial funding may be more difficult to source and more expensive, plus there also may be a potential failure to capitalise on economies of scale. Further the delivery of strategic programme vision may be more difficult to deliver outside of a programme / strategic relationship.

5. **Design and Build Contract:** Developments designed by developer to meet the council's brief. This relationship recognises and utilises the expertise offered by the

developer (who also assumes more of the risk). Council resource and expertise are required to approve the design brief and oversee development (but less so than under a construction contract). Again this is more suitable for individually commissioned schemes and again this may increase costs; time taken; cause difficulties with obtaining commercial funding and fail to capitalise on economies of scale. As with a construction contract, the lack of 'partnership' working within a strategic programme framework is a cause for concern in ensuring delivery of the 'vision'.

6. **Commissioned Programme (**Preferred Option**):** the appointment of a developer to oversee delivery on all sites. This relationship further utilises the expertise offered by the developer (who further assumes more of the risk) and is likely to encourage a higher level of commitment and investment within a long term strategic relationship.

7. Plus this relationship could also include a wider range of services e.g. land assembly; feasibility studies (such as development masterplanning) and the sourcing of funding etc. The contract would also include a mechanism for sharing of increase in land value attributable to development of homes for private sale. The basis of this model is that the council provides the land and the developer develops the units. The council receiving a generated estimated land value, with further monies being realised via overage (should the costs of the development be less than estimated or sales revenues be higher than anticipated due to a change in market conditions for example).

8. This model could also include the potential to incorporate commercial revenue generating opportunities both in housing (such as the management of student accommodation and extra care) or more commercial opportunities such as car parks; retail and sporting facilities. Management could be outsourced; shared with the developer or managed by the council through an arms-length trading organisation such as Hoople Ltd.

9. Individual projects (and the progression of the programme) are overseen by a programme board (which features joint representation from the developer and the council). Under this model the council retains full control over the programme, as the programme board makes recommendations which are then approved by cabinet, as the decision making body)[1].

10. A small client team would need to be established by the council to manage the agreement. The council could also consider the establishment of a council officer working group (i.e. a housing programme group) to ensure that a co-ordinated approach is taken to feasibility investigations and due diligence.

11. Typically, the agreement would provide for a greater degree of council control over the development; faster scheme delivery (due to 'partnership' working); would receive a greater land value by virtue of the development and a share in decrease in development costs and land value increase due to market factors (overage), which it may not otherwise receive under the less integrated models.

12. Further, mechanisms could be established within the agreement by which the council could adopt a greater degree of development risk and therefore receive a greater proportion of the rewards for this. Developer profit would be determined from a 'fixed' maximum level set during the tender process. Generally, however the market showed a lesser degree of interest in this model compared to a JVco.[2]

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[1] A sample governance process diagram which sets out the process by which the programme could be governed is attached at appendix 7.

[2] Broadly because a number of contributors answered 'don't know' as the exact terms of the commissioned model will only be finalised post cabinet approval.

13. **Joint Venture Company (JVco):** Formation of a jointly owned and controlled company by the council and the developer (and potentially also any funder) in proportion to the levels of investment provided e.g. developer assumes commercial risk and the council would provide the land for development, via a transfer or ownership to the JVco. The JVco developer (JVco partner) would match the value of the land invested with capital to fund construction.

14. Under this model, control is shared with the JVco's executive board (featuring joint representation) taking programme and development decisions (however the council would have to authorise the addition of sites to the programme and approve funding (borrowing) commitments for example. The programme would be managed by JVco staff.

15. Again a JVco model would provide for a faster scheme delivery (due to formalised partnership working); would receive a greater land value by virtue of the development and a share in decrease in development costs and land value increase due to market factors (overage), which it may not otherwise receive under the less integrated models.

16. The JVco relationship is the most complex but receives a larger degree of support from the market on the basis that it maximises both developer and council expertise through 'shared aspirations, joint enterprise and control'. The JVco model can also be very commercially attractive to developers as typically the council assumes a higher degree of risk and makes a higher degree of commitment to the relationship with an expectation of receiving a greater level of financial return.

Options Consideration

17. The nature of the various delivery vehicles (and access to funding) make some more suitable than others to accommodate the long term strategic scope of the land developments proposed within the Programme.

18. In particular, one of the key elements in selecting the most effective relationship will be the provision of funding by the developer / funder which would preclude the simplest relationships (i.e. construction and design and build contract), leaving only the options of a commissioned programme and a JVco.

19. Further these relationships both accommodate funding and the potential to realise profit from the council's investment of land for development.

20. In deciding between these models, the core difference between a JVco and a commissioned programme is the shared control (within a separate company) of the development programme between the developer (and any other parties such as 3rd party funders). Strategic decisions would normally be made by the JVco's partnership board (made up from council and other party shareholders, with control being held in proportion to the value of investment and commercial risk).

21. This is in comparison to a commissioned programme within which the council makes the key strategic decisions based on recommendations put forward (with the benefit of the advice and expertise of the developer) to the programme board. Whilst there are both council and partner representatives on the board, the chair (who typically would be a senior council officer would have the decisive vote).

22. Under a commissioned programme the council also has the option of retaining ownership of the land whilst construction takes place. And further for non-private market sale schemes, the council could also opt to fund or co-fund the construction stage. Any capital investment would be repaid on completion of the scheme and

replaced with commercial lending provision e.g. leaseback[3], thereby allowing any investment to be 'recycled' to 'pump prime' successive developments. This has the potential to de-risk development and increase flexibility. Scheme borrowing costs can also be significantly reduced due to this short term funding of the development stage, which provides increased investment return and / or improves the viability of projects.

23. Whilst perceptions of the pros and cons of these models vary (with the market consultation attributing similar benefits and detriments) to both models, factors to consider broadly are:

- Whilst experiences vary, the establishment and management of a JVco can be complex, costly and time consuming, particularly in relation to senior management and executive officers. In comparison, a commissioned programme has the potential to underpin a start on site within 6 – 9 months of award with minimal set up costs, with much quicker receipt of capital returns as a result.
- The extent of costs and time in establishing a JVco may prove to be disproportionate in relation to the extent of profit likely to be obtained by the council, as the extent of the council's landholdings which may be made available for development in the future is unclear. This may materially affect the level of market interest in the opportunity. A commissioned programme may provide a more flexible platform from which profits can still be realised, particularly if the land holding available for disposal is relative small and uncertain. A commissioned programme may also prove to more flexible in terms of the ability to accommodate the outsourcing of any future services.

24. Overall a commissioned programme offers similar benefits to a JVco but with a lower level of integration (in other words organisational change). In addition, as the key strategic drivers for the council are speed of development delivery; investment and project approach flexibility; council led management of the programme in accordance with council priorities and risk management, a commissioned approach would appear more appropriate. Further, in that as the full extent of the council's developable land holdings are not fully confirmed and that the council already has an arms-length trading organisation (through which any management services could be potentially delivered) the recommended model is a commissioned approach.

[3] Leaseback funding is modelled so that lease payments are covered by predicted revenues to be received from the development e.g. rents, parking charges etc. less allowances for management costs; voids etc. In this way developments are 'self-financing or in other words 'washing their own face'.