

**Report to Manydown Executive Committee**

**26 January 2016**

<b>Subject:</b>	<b>Manydown Project – JV options</b>
<b>Status:</b>	<b>Routine Matter for Discussion</b>
<b>Report Ref:</b>	
<b>Ward(s):</b>	<b>All</b>
<b>Key Decision:</b>	<b>Yes</b>
<b>Key Decision Ref:</b>	<b>KD951/FR</b>
<b>Report of:</b>	<b>Cabinet Member for Finance and Resources</b>
<b>Contact:</b>	<b>01256 845675 – ext. 2675</b>
<b>Appendices:</b>	<b>Appendix 1 – GVA Grimleys Summary Interim Commercial and Financial Report (confidential pink – paragraph 3 of schedule 12a of the Local Government Act)</b>
<b>Papers relied on to produce this report</b>	<b>None</b>

**SUMMARY**

**1 This Report**

- 1.1 Following agreement to further analyse a range of Joint Venture options by the Manydown Executive Committee (MEC) on 01 December 2015, further work has been undertaken on a range of different JV options as part of the continued development of the Outline Business Case for the Delivery phase of the Manydown project.
- 1.2 This report deals with an analysis of the principal JV options available to BDBC and HCC as joint landowners of Manydown project. It recommends that further analysis is undertaken on a type of a Strategic Master Developer JV route as set out in this report so that a full comparison and analysis can be made with the other JV options in the final version of the Outline Business Case for review and decision by the MEC in March 2016.
- 1.3 The Manydown Executive Committee is asked to consider and comment on the scope and content of this report.

**2 Recommendation**

- 2.1 It is recommended that the Manydown Executive Committee:
- (i) considers the comments of the Manydown Overview Committee in respect to the matters contained in this report;
  - (ii) notes the evaluation criteria and mechanism for the potential Delivery options for the Manydown project contained in this report;

- (iii) notes that further analysis and soft market testing is undertaken on a type of a Strategic Master Developer JV route as set out in paragraph 3.4.4 of this report so that a full comparison and analysis can be made with the other JV options in the final version of the full Outline Business Case for decision by the MEC in March 2016.

## PRIORITIES, IMPACTS AND RISKS

### Contribution to Council Priorities

This report accords with the council's Budget and Policy Framework and directly supports the Council Plan priority of planning policies that safeguard local distinctiveness to:

*“Promote the use of Manydown land to deliver much needed high quality homes and facilitate wider borough benefit, which protects local communities”*

### GLOSSARY OF TERMS

<b>Term</b>	<b>Definition</b>
BDBC	Basingstoke and Deane Borough Council
CIL	Community Infrastructure Levy
CLG	Communities Local Government department
DIO	Defence Industry Organisation
DevCo	Development Company
EM3	Enterprise M3 Local Enterprise Partnership
EPH	Economic Planning and Housing Committee
EIP	Examination in Public
FBC	Full Business Case
HCA	Homes and Community Agency
HCC	Hampshire County Council
JV	Joint Venture
LPA	Local Planning Authority
Manydown OSCOM (until March 2014)	Manydown Overview and Scrutiny Committee
MAP	Members' Advisory Panel
MEC	Manydown Executive Committee
MOC (since April 2014)	Manydown Overview Committee
MUSCo	Multi-Utility Service Company
NPPG	National Planning Policy Guidance
NPPF	National Planning Policy Framework
OBC	Outline Business Case
OJEU	Official Journal of the European Union
PRS	Private Rental Sector (housing tenures)
SDLT	Stamp Duty Land Tax
SPV	Special Purpose Vehicle

## **MAIN CONSIDERATIONS**

### **3 The Proposal**

#### **3.1 Background**

- 3.1.1 The Stage 1 Delivery and Strategy Report produced by GVA Grimley in October 2015 was recently reviewed and considered by members. At the last Manydown Executive Committee (MEC) on 01 December 2015, it was agreed to focus further evaluation on the JV options for delivery as part of the continued development of the Outline Business Case (OBC) for the Delivery phase of the Manydown project.
- 3.1.2 The purpose of the OBC is to provide a 'gateway' or approval milestone for the councils to choose a preferred delivery option to procure. Essentially, it provides a thorough analysis of the JV options in addition to some base case or traditional delivery options that are available to the councils by following HM Treasury's best practice 'Five Case Model'. GVA Grimley has produced a draft of a summary interim commercial and financial report that focuses on the initial analysis and financial modelling within the emerging commercial and financial chapters of the Outline Business Case (OBC) as a confidential report attached in Appendix 1.
- 3.1.3 It is anticipated that, following member agreement to proceed with the recommendations in this paper, a final version of the Full OBC will be produced for review by the MOC and thereafter approval by MEC at their respective meetings in March 2016. Following receipt of approval by the MEC, the procurement of a potential delivery partner can commence and a final version of the Full Business Case (FBC)<sup>1</sup> can begin to be prepared for approval by members once the procurement process has successfully completed.

#### **3.2 Delivery Strategy – JV options**

- 3.2.1 Feedback from the MOC and MEC together with a broad range of members has been to focus future evaluation in the OBC on JV options. This section of the committee report outlines the delivery options that have been considered in the interim OBC produced by GVA Grimley in the confidential Appendix 1.
- 3.2.2 The table below sets out the types of JV options that BDBC and HCC officers are proposing to evaluate during the continued preparation to produce a final version of the full OBC. The table also includes some examples of where these types of delivery Options have been applied to other projects, although it should be noted that quite often there is not a direct or absolute comparison as project structures are structured to fit the specific scheme.

---

<sup>1</sup> For information, interim and final versions of the FBC are likely to contain base case or traditional delivery options as part of the analysis to enable members to make decisions during the delivery and construction phases of the Manydown project should circumstances significantly change (e.g. change of Government policy).

Option	Description	Examples
<b>Option 1</b> Base Case	<p>The Councils secure planning permission and then draw down land parcels under the Option from the Manydown Co. on a back-to-back arrangement having agreed an onward sale to a developer. There is no prior infrastructure investment in the land.</p>	
<b>Option 2</b> Infrastructure Model	<p>The Councils would draw down land from the Manydown Co. as under Option 1 once planning permission is granted. However, instead of being a back-to-back onward sale to a developer(s), the Councils would first invest in the infrastructure for the relevant land drawn down and then sell serviced land to developers.</p>	<p>Whichelstowe - Swindon BC (the Infrastructure Model was the Council's initial approach or strategy)</p>
<b>Option 3</b> Gain Share	<p>The Councils would draw down the land after securing planning permission as under Options 1. They would then enter into a contractual Development Agreement with a strategic development partner (SDP) who would complete detailed masterplanning, pay for the infrastructure and agree the optimum land disposal strategy with the Councils. The SDP's return for its risk would comprise: a margin on its infrastructure investment; a development management fee; and a percentage share in the uplift value of the land, the majority being paid to the Councils. Under this option the SDP is unlikely to undertake and development (although this would be tested through procurement) and so is incentivised through the land value uplift mechanism by devising an optimum land parcel disposal strategy.</p>	<p>Defence Industry Organisation (MoD)</p> <ul style="list-style-type: none"> <li>• Wellesey (Grainger)</li> <li>• Chattenden Barracks (Land Securities)</li> </ul> <p>St Modwen</p> <ul style="list-style-type: none"> <li>• East of Crawley</li> </ul> <p>Barton</p> <ul style="list-style-type: none"> <li>• Oxford Council &amp; Grosvenor (but this is within a JV structure)</li> </ul>
<b>Option 4</b> Joint Venture - Strategic Master Developer	<p>The Councils would draw down the land as in the previous Options and then form a corporate joint venture (JV) being a 50/50 JV with a strategic master development (SMD) partner. The JV (as a legal entity) would then commission and pay for the necessary infrastructure, and then undertake a combination of some direct development and some serviced land parcel disposals. The base modelling assumed half plots are sold and half are directly developed.</p> <p>The Councils control through the SMD JV revolves around their voting presence on the JV Board and their ability to control the land drawdown process together with detailed planning and design code requirements.</p>	<p>Bournemouth Council &amp; Morgan Sindall (mixed use)</p> <p>Hammersmith and Fulham &amp; Stanhope</p>
<b>Option 5</b> Joint Venture - Construction Partner	<p>This Option is similar to Option 4 but the JV's Business Plan would contain strategic objectives to directly develop the Manydown masterplan rather than selling any serviced plots on to other developers. The Construction Partner would therefore need all the necessary skills, resources and experience to undertake the development and have strong supply chains to enable the JV to benefit from construction economies of scale.</p>	<p>Millbay, Plymouth.</p> <p>Rathbone Market, Canning Town.</p> <p>Sheffield City &amp; Keepmoat</p>

<b>Option 6</b> Joint Venture - Infrastructure Hybrid Model	Under this Option a corporate JV is also created but 50% of the infrastructure is paid for by the Councils before the land parcels are transferred to the JV and 50% paid for within the JV. There is therefore an enhancement in the value of the land being transferred to the JV when compared with Options 4 and 5.	Whichelstowe - Swindon BC (this JV – Infrastructure Hybrid Model has been the council's recent approach/strategy)
--	---	--

### 3.3 Evaluation framework

3.3.1 This section of the committee report outlines the evaluation framework that has been used in the commercial and financial report produced by GVA Grimley in the confidential Appendix 1.

3.3.2 The table below sets out the evaluation criteria and mechanism that has been used to evaluate the six options outlined above in the report and which officers will use for evaluation purposes during the continued preparation of the final version of the full OBC. The categories, descriptions and weightings have been devised by Pinsent Masons and GVA Grimley based on their experience from other projects and adapted specifically for the Manydown project using the initial draft of the Principles and the initial draft of the Objectives as set out elsewhere on the agenda. In particular, the categories and weightings have been specifically chosen to reflect the ambitions and requirements that have been identified by both councils to date. The evaluation framework will be reviewed and the subsequent version that is used during the procurement process will be subject to approval by the MEC.

Categories	Descriptions	Weightings
1. Risk	Risk profile of option	10%
2. Financial Affordability	<ul style="list-style-type: none"> <li>• Consideration of financial outlay by the Council including co-investment</li> <li>• Can maximum affordable debt exposure be managed?</li> </ul>	20%
3. Ability to drive better returns from land assets over a medium to long term view	<ul style="list-style-type: none"> <li>• To maximise financial returns the Councils will need to participate in all levels of the development chain and funding opportunities</li> <li>• Can land value uplift be captured by the Councils?</li> <li>• Ability to generate capital and revenue receipts</li> </ul>	20%
4. Councils control – ability to influence the overall development/timing/ Quality	<ul style="list-style-type: none"> <li>• Robustness of governance</li> <li>• Transparency</li> <li>• Ability to influence the development including Design Code (quality) and Affordable housing</li> <li>• Compliance with the Councils' socio-economic objectives?</li> </ul>	25%
5. Opportunity to participate in direct development	<ul style="list-style-type: none"> <li>• Flexibility of structure to enable participation alongside joint development with private sector partner</li> <li>• Where will the development risk sit?</li> </ul>	5%

6. Robustness of structuring payment/profit sharing mechanisms	<ul style="list-style-type: none"> <li>• How robust will the proposed repayment mechanisms be?</li> <li>• How can they be effectively monitored?</li> </ul>	10%
7. Flexibility of structure	<ul style="list-style-type: none"> <li>• Infrastructure provision through to full development risk</li> <li>• How flexible is the structure in dealing with market change/ability to vary risk profile?</li> </ul>	5%
8. Tax	<ul style="list-style-type: none"> <li>• How tax efficient is the proposed option?</li> </ul>	5%

### 3.4 JV options analysis

3.4.1 This section of the committee report outlines the analysis of the JV options based on the information set out in the commercial and financial report produced by GVA Grimley in the confidential Appendix 1 and should be read in the following context.

3.4.2 Members of both councils have a clear desire to achieve an exemplary development with the councils having a significant degree of control over detailed design and timing of delivery. It is therefore clear that straightforward disposal of the land is an unattractive proposition for the councils in terms of a degree of control perspective. Equally, were the councils to undertake direct development for the whole project the size of Manydown, the Stage 1 report produced by GVA Grimley in October 2015 demonstrated that this approach would bring with it significant risks in terms of a lack of any experience by the councils in undertaking similar projects and potential financial exposure in the event of project over run or failure. In this context, JV options are therefore an attractive delivery strategy for the councils to explore and then test in the market.

3.4.3 Based on the information contained in the commercial and financial report produced by GVA Grimley in the confidential Appendix 1, officers recommend that further analysis and soft market testing is undertaken on a type of Option 4, the Strategic Master Developer JV route, as set out in paragraph 3.4.4 below for the following reasons:

- **Options 1 & 2** are often considered to be more traditional Delivery options for councils and have been included in the OBC to enable the analysis that GVA Grimleys are preparing to properly evaluate the costs, benefits and risks associated with pursuing a JV option for Manydown. Option 2 was originally or initially pursued by Swindon Borough Council for their Whichelstowe project a few years ago. Neither of these options are an approach or position that is attractive for the councils;
- **Option 3** provides a JV option that is a fairly well-trodden path for Government organisations (e.g. Defence Industry Organisation or MoD) and councils using a development agreement approach similar to the one between BDBC and Muse on Basing View. However, this type of approach tends to leave 'upfront control' with the developer partner(s) and whilst it does require finance investment from the development partner(s) often does so in fairly prescribed ways that would not allow the councils to easily renegotiate variations to the business plan should circumstances change.

Option 3 is likely to require less funding but also will have less potential for generating profits or returns for the councils relative to the other JV options;

- **Option 4** provides an approach for a JV option that aims to ensure the councils and its developer partner(s) achieve as close to a 50/50 position on risk and finance as possible whilst also having a developer partner(s) that has the expertise and capacity to work with and alongside the councils in designing and implementing critical place making elements (e.g. infrastructure, affordable housing, public realm, landscaping) for the Manydown project. In this scenario the councils and its partner(s) develop 50% of the project and sell the remaining serviced plots of land to other developers or housebuilders using a design code for quality purposes. It is important to note that with this approach there maybe a desire for developer partner(s) to take a development management fee as part of the contract and they will inevitably have a reasonable degree of influence in the progression of the project through specific business plan variation mechanisms. Option 4 is likely to require a reasonable level of funding from the councils and also has a reasonable potential for generating profits or returns for the councils relative to the other JV options;
- **Option 5** sets out a JV option where the councils will work with a suitable partner(s) to develop all of the project in contrast to Option 4 where the councils and its partner(s) only develop 50% of the project and sell the remaining serviced plots of land to other developers or house-builders using a design code for quality purposes. Whilst this option could achieve an 'end to end' position and control for the councils with a higher financial exposure and potentially a better profit or return potential compared to Option 4; the type of developer partner(s) who might be interested tend to be large multi-disciplinary construction companies who might not have the place making experience that the councils would like for Manydown;
- **Option 6** has been included to help identify the potential attractiveness for the councils by themselves to fund the infrastructure and then provide serviced plots through a potential JV delivery vehicle (either options 4 or 5). The analysis of Option 6 shows that it is likely to require more funding from the councils and therefore more risk whilst not necessarily achieving the highest level of profits or returns for the councils compared to Options 4 and 5 where they have the ability to joint participate in infrastructure provision.

3.4.4 Officers now intend to further explore the following type of Option 4 which is the Strategic Master Developer (SMD) JV option:

- SMD with the experience and a strong track record in place making for large residential projects;
- SMD is incentivised through a development management fee;
- SMD is prepared to co-invest to achieve a 50/50 position and accept risk profile that is commensurate with its level of investment;
- SMD that could work together with the councils to develop and implement the core infrastructure, public realm, commercial properties together with some housing tenures (e.g. affordable, private rented).

It is important to note that not every element listed above may be able to be achieved or secured and so the councils will need to explore during the future

procurement process the capability of securing some or all of these features and also how an appropriate level of flexibility can be made available to the councils in the subsequent contracts to make contractual changes or indeed withdraw from the contract at particular points (milestones) in the future.

- 3.4.5 KPMG (tax advisors) have reviewed the six different delivery options currently being considered. The JV options (i.e. options 4, 5 and 6) appear to be broadly tax neutral when compared amongst themselves. However, they give rise to different tax implications to options 1, 2 and 3, particularly from an SDLT perspective.
- 3.4.6 Specifically, the transaction to transfer the land from the councils into the JV will trigger an additional SDLT charge. Further, the extent of the charge will depend on the nature of the JV i.e. whether it is a corporate JV or a legal partnership. The tax issues will be considered in more detail alongside the continued development of the OBC with the assistance of KPMG.
- 3.4.7 Initial exploratory meetings as part of the soft market testing has confirmed that there are potential partners interested in discussing an approach that is similar to Option 4 above as well as others who are interested in discussing an approach that may more closely reflect Options 3 and 5 as set out above. Further soft market testing will be fed into the final version of the full OBC.
- 3.4.8 Finally, following a successful procurement process and as part of the contractual discussions to implement the selected delivery option, appropriate break clauses otherwise known as 'liquidity' clauses will be negotiated to enable the councils to switch partners or change direction should either the performance of the JV partner or general market circumstances change during the life of the project.

### **3.5 Next steps**

- 3.5.1 GVA Grimley working with other members of the project team including Pinsent Masons and KPMG will need to progress work on this interim OBC in order to produce a final version of the full OBC for review by the MOC and MEC at its respective committee meetings in March 2016. In addition to reviewing and finalising the Commercial case and the Financial case set out in the interim OBC report produced by GVA Grimley in the confidential Appendix 1, further work will be undertaken to finalise the following areas for inclusion in the final version of the full OBC to be reviewed by members in March 2016:
- Procurement timetable: a process and timetable to be developed for the councils to procure JV option approach recommended in this paper;
  - Project Governance: model/proposal to be developed for the councils focusing on the JV option approach recommended in this paper;
  - Lease Review: further analysis/work undertaken for the councils focusing on the JV option approach recommended in this paper.

## **4 Corporate Implications**

### **4.1 Financial Implications - Section 151 Officer Comments**

- 4.1.1 The Interim Outline Business Case report (Appendix 1) will enable the six main delivery options to be further evaluated in association with information

emerging from the master planning process and the Councils principles and objectives for Manydown. However, the master planning work is still in the early stages and the Interim report therefore still uses high level assumptions from consultants on the potential composition of the master plan and the potential high level infrastructure allowances and phasing.

- 4.1.2 The proposed financial outputs from the revised model currently under construction will focus on the six proposed options considered in the Interim report but at this stage these options do not represent specific financial or commercial structures nor do they include detailed tax considerations.
- 4.1.3 It is important to note that funding requirements will include the cost of purchasing the land in accordance with the option agreement as the site is currently leased rather than freehold owned by the two councils. More analysis is therefore required around the land acquisition options and the impact that these would have on the model, delivery structure and scheme affordability.
- 4.1.4 The initial evaluation undertaken in Appendix 1 identifies that a form of JV structure is likely to be the option that best meets the Councils objectives but more detailed analysis and evaluation is required to inform the Final Outline Business Case particularly regarding risk assessment, deliverability, taxation and affordability.
- 4.1.5 Funding for the proposed next stage of option evaluation can be met from the approved Manydown budget and the cost will be shared 50:50 with HCC. This expenditure may also be claimable as an allowable expense under the terms of the option agreement.
- 4.2 Risk Issues
  - 4.2.1 There is a Project Risk Log which is reviewed by the Project Director. The principal risks identified in and addressed by this report would arise from BDBC in its capacity as joint landowners for Manydown not considering the most appropriate delivery and financial mechanism in order to protect the value of the investment made by BDBC and HCC when they jointly purchased the 999 year lease in 1996.
  - 4.2.2 GVA Grimley has carried out an initial risk assessment of the different delivery options including joint ventures. This describes the risks associated with each option and some possible mitigations. This analysis will be more fully developed when the final version of the outline business case is produced.
- 4.3 HR Issues
  - 4.3.1 In relation to the recommendation outlined in this report, the HR issues relating to the recruitment of a full technical project team to undertake the Self-Delivery option are not present to the same extent for the Joint Venture option. Further work will need to be completed on the HR considerations for different JV options over the coming months to enable the proper consideration of any more specific JV proposal and recommendation in the final version of the outline business case. In addition, the staffing requirements for BDBC and HCC for the Delivery phase will be assessed once a clearer direction on delivery mechanisms has been determined.

#### 4.4 Equalities

4.4.1 There are no equalities implications arising from the report

#### 4.5 Legal Implications

4.5.1 The existing lease agreement enables BDBC and HCC to consider a range of JV options. Further work will need to be completed on the legal considerations for the JV options over the coming months to enable the proper consideration of the recommended JV proposal and recommendation that is contained in the final version of the outline business case.

#### 4.6 Any Other Implications

4.6.1 There are no other specific implications arising from the report

### **5 Communication**

5.1 It is important that residents are kept informed about how the Manydown development will be developed and so the selection of potential partner(s) for the councils will form a key part of the communications plan.

### **6 Conclusion and next steps**

6.1 Further progress has been made with the OBC for the Manydown delivery options which now includes an initial evaluation of a range of JV options as set out in this report. A potential type of Option 4, which is the Strategic Master Developer (SMD) JV route, has been identified for further analysis and evaluation to be included in the final version of the full OBC for the Manydown delivery options which is to be presented to the MOC and the onwards for approval at the MEC in March 2016.