PETERBOROUGH CITY COUNCIL

FLETTON QUAYS PROJECT

INITIAL OPTIONS APPRAISAL

CONTENTS

1. EXECUTIVE SUMMARY

1.1 Introduction

Peterborough City Council (PCC) is committed to leading the regeneration of around 17 hectares (42 acres) of brownfield land known as the Southbank Opportunity Area (SBOA) of Peterborough.

The site is strategically located to the south of the city centre adjacent to a main access route to the city centre and alongside the River Nene. It is seeking to do this in a sustainable and comprehensive manner through a range of direct and indirect interventions such as its own investment into infrastructure and facilities and indirectly through making land available for third party development.

Fletton Quays (which is the basis of this report) forms Phase 3 of the SBOA, with a site area of approximately 7ha (17 acres).

The purpose of this document is to examine the different options available and identify the preferred option to be recommended to Cabinet for the delivery of a mixed use scheme on the Fletton Quays site as described in this paper.

This paper has been prepared to underpin decisions on the optimal way forward.

1.2 Project Objectives

The objectives of this project are:-

1.2.1 To create a deliverable scheme

1.2.2 To avoid cherry-picking and the risk of landbanking

1.2.3 To transform the utilities infrastructure requirements from being a cost burden to an investment opportunity and achieve returns to the public sector as a consequence

1.2.4 To enable PCC to assure the clean/green credentials of the scheme's utilities infrastructure and services

1.2.5 To provide financial, governance and management architecture that give the best possible chance of using the lowest cost money throughout the scheme

1.2.6 To provide PCC with control based on the positive provision of equity (land), investment and capability (utilities) to augment the influence it has as Planning Authority

1.3 Project Team and Strategic Project Board

1.3.1 In order to progress the project in an efficient manner, a Project Team has been established to which it is proposed that authority will be delegated to take the scheme forward. The Project Team comprises:-

(a) Head of Growth and Regeneration

(b) Executive Director Strategic Resources

(c) Solicitor to the Council

in consultation with the Leader of the Council and Cabinet Member for Growth, Strategic Planning, Economic Development, Business Engagement and Environment Capital; and with input from others as the Project Team consider necessary or appropriate to involve from time to time.

1.3.2 The Project Team will report into the Strategic Project Board, which will comprise the Leader of the Council, the Deputy Leader and the Cabinet Member with responsibility for Housing. The Strategic Project Board will have responsibility for approving proposals put to it by the Project Team from time to time in relation to the project.

1.4 Strategic Commentary

1.4.1 It is recognised that in the current economic climate, a different approach is required by the public sector in order to bring forward cohesive regeneration projects which would otherwise suffer from viability and developer appetite issues.

1.4.2 Against this backdrop, Fletton Quays is a highly strategic site not only as an integral part of the South Bank Opportunity Area but also in terms of its gateway position towards the city centre and its prominent riverside frontage. The site has the potential to be used for a wide variety of uses. There is an opportunity here to make a step change on this site in terms of a high quality sustainable development and an exemplar scheme contributing to PCC's clean/green agenda. However, this ambition can only be realised if:-

(a) Site assembly continues and is completed by PCC where possible and supported by a viable business case; and

(b) Comprehensive infrastructure is delivered on the site to enable the scheme to come forward in a cohesive manner.

1.4.3 In order to realise this ambition it will be necessary for PCC to engage in a strategic fashion with the private sector, to ensure it retains control over what is delivered and when, that opportunities for its ESCO are maximised; and that the optimum financial position for PCC is achieved.

1.5 Option Appraisal

The following options were shortlisted:-

1.5.1 Option 2 - straight sale

(a) PCC could sell Fletton Quays, most likely in plots, on the open market, either with or without a planning brief. The purchaser would (subject to any planning constraints) be open to deal with the land as it wished.

(b) This option is not likely to deliver PCC's objectives to any significant degree but the values yielded by this option could prove a useful benchmark.

1.5.2 Option 3 – sale restricted as to uses and delivery

(a) PCC could constrain its purchaser in the sale agreement as to the use to which the site could be put, and a right to take the land back if any proposed scheme was not delivered.

(b) This option could potentially deliver a number of PCC's objectives regarding sale but there is unlikely to be any ongoing involvement for PCC in the scheme. Again, development would likely be piecemeal.

1.5.3 **Option 5 – joint venture (contractual)**

(a) PCC would create a contractual joint venture (development agreement) to develop the Fletton Quays site.

(b) This option can deliver most if not all of PCC's objectives. However in a purely contractual situation there can be little incentive to resolve disputes and find solutions as matters change over time. PCC's ongoing involvement may be limited.

1.5.4 **Option 7 – joint venture (corporate – master developer)**

(a) PCC would create a corporate joint venture vehicle (likely a Limited Liability Partnership) with its selected partner. The partnership would be likely to be a 50/50 model. The partnership would deliver infrastructure and carry out enabling works to enable the cohesive delivery of the site. It would not carry out vertical development itself.

(b) This option can deliver most if not all of PCC's objectives. The "seat around the board table" should enable PCC to truly participate in decision making processes over time. The model is flexible enough to adapt to changes in internal and external circumstances. It should create a true, transparent profit sharing arrangement. It also delivers the infrastructure that is essential to the development of this gateway site.

1.5.5 **Option 8 - Joint Venture (corporate – integrated model)**

(a) This model builds upon Option 7 but as well as creating development platforms within the Fletton Quays site, the partnership also carries out all of the development activity on site, capturing all of the available profit.

(b) Given the wide range of uses on site it may not be appropriate for this option to be selected as different elements are likely to require different development specialisms. There is likely to be limited appetite within PCC to share in the full range of development and sales risk across the whole site that this model entails.

1.6 Scoring the shortlist and preferred option

The shortlisted options were scored against criteria reflecting PCC's objectives for the Project, which were weighted according to their relative importance to PCC. The results are set out in the table below.

	WEIGHTINGS	WEIGHTED SCORES				
Shortlisted options		**2: sale**	**3: restr. sale**	**5: cont. JV**	**7: corp JV (master dev)**	**8: corp JV (integrated)**
Scoring criteria						
Deliverable	**25%**	15	15	20	25	20
Avoids cherry-picking/ landbanking	**20%**	4	8	12	20	20

Generates returns from infrastructure investment requirements	**5%**	0	0	0	5	5
Clean/green credentials	**5%**	1	1	1	4	4
Financial/manageme nt/governance allow for lowest cost money	**20%**	0	0	0	20	16
Control for PCC	**25%**	5	10	15	20	20
	TOTAL WEIGHTED SCORE	**25**	**34**	**48**	**94**	**85**
	RANKING	**5**	**4**	**3**	**1**	**2**

1.7 Preferred structure and additional options

Following the identification of the preferred structure, the following additional elements were added:-

1.7.1 Hybrid option

It is acknowledged that it may be useful to allow the partnership to build out a limited proportion of the development platforms within the site in order to enhance the attractiveness of the opportunity to the market - this would effectively be a **hybrid model between Option 7 and Option 8.**

1.7.2 Development subsidiaries

In order to ringfence development and finance risk between disparate elements of the scheme, where the partnership is carrying out development activity it is suggested that this should be done through discrete wholly owned subsidiary companies or partnerships.

1.7.3 ESCO involvement

In order to bring the ESCO into the arrangements in a structured way that allows for "clean" governance of the public/private joint venture, it is suggested that the ESCO and PCC could if desired form a corporate vehicle between them, which itself will be the public sector participant in the public/private joint venture vehicle.

1.8 Procurement issues

1.8.1 The selected procurement route for this project is the creation of a public/private partnership using the OJEU competitive dialogue process.

1.8.2 Key dates for the procurement are as set out below, together with the parameters for decisions that are anticipated to be required:-

MILESTONE	ANTICIPATED TIMESCALE	DECISION MAKING

Approval to structure of Project	July 2012	Cabinet
OJEU notice issued	September 2012	Project team
Pre-qualification	November 2012	Project team
Long-listed bidders invited to participate in Competitive Dialogue	November 2012	Project team
Competitive dialogue	December 2012 – May 2013	End of stage 1: Strategic Project Board to approve shortlisted bidders
Final tender	June – July 2013	Presentation to all Members
Preferred bidder and contract finalisation	July – September 2013	Cabinet
Financial close (establishment of joint venture partnership)	September 2013	Project team

This procurement timetable is tight and has been prepared on the assumption that all organisational elements are in place at the right time so as not to delay the process. Clearly, it is possible that external circumstances and influences may influence the timetable.

1.8.3 Once financial close has taken place, some possible timescales moving forward include:-

(a) Obtain outline (or hybrid) planning permission for the scheme: a further 12 months, around September 2014

(b) Start on site: around December 2014

(c) Construction period: around ten years.

1.9 Financial issues

At this early stage it is impossible to interrogate the potential financial implications of the preferred delivery route in any detail. However, in broad terms it has been identified that whilst Options 2, 3 and 5 (*sale, restricted sale and development agreement*) would yield a capital receipt, Options 7 and 8 (*corporate joint venture – master developer and integrated model*) would yield an ongoing income stream over the medium to longer term. This is in line with PCC's aspirations to release revenue for investment in accordance with its Medium Term Financial Strategy.

1.10 Conclusions and Recommendation

This report identifies that the preferred solution against the different objectives of PCC for the Fletton Quays site is the creation of a corporate joint venture. The preferred option is examined in more detail in Sections 4.4-4.7 inclusive. Whilst it is acknowledged that there is no "perfect" solution, this route delivers more effectively against PCC's objectives than any other route that has been identified. The creation of a corporate joint venture is therefore recommended as the most effective, credible and robust methodology for delivery of PCC's aspirations for Fletton Quays as part of the broader SBOA.

2. THE STRATEGIC POSITION

2.1 National Context

The Coalition Government's deficit reduction plan and localism agenda, together with the current fragile economy are currently creating an uncertain and changing property and regeneration market. In the face of this economic climate property development and regeneration over the next ten years is expected to be very different. With increasing scrutiny on public sector bodies, their asset portfolios and revenue and capital budgets, the public sector will need to step up and play a more significant role in bringing forward sites if regeneration, development, investment and housing projects are to continue.

There are now a number of challenges being faced within the current market:

- Reduction in bank lending and debt finance. Banks have taken a more risk adverse approach with an increased reluctance to provide finance particularly for speculative development schemes
- Reduction in funding. There has been a contraction in the availability of funding to take projects forward for both the private and public sector. Issues such as the tightening of public sector finance and grant funding within development opportunities has been under scrutiny, with the Comprehensive Spending Review marking the implementation of further cuts
- Reduction in market values. Regardless of whether it is thought that the UK has come out of the recession, there is still considerable uncertainty surrounding the recovery of the market and the speed of this recovery. It may be a number of years before the market reaches the values seen prior to the recession, with an ongoing north-south divide and a wide divergence in values between primary and secondary property being experienced
- The need by the public sector to ensure that limited budgets are used for maximum benefit. It is evident that assets and property holdings need to be exploited both efficiently and effectively in order that regeneration and development objectives can still be achieved despite the spending cuts. PCC has already recognised this in its Medium Term Financial Strategy and the problem remains as acute as ever
- The need to continue to deliver regeneration projects even within the current difficult economic climate and to present these opportunities to the market in a way that is both attractive and market acceptable

We have, for the foreseeable future, seen the end of regeneration being driven by short term speculative gains and readily available funding. Instead regeneration will need to be driven by longer term strategies and delivery structures, such as delivery vehicles and funds.

2.2 The local context

In light of the above macro constraints, PCC has recognised that a different approach is required in order to bring forward the SBOA and specifically Fletton Quays.

The SBOA is divided into four phases:-

1. Carbon Challenge

2. Football stadium

3. Fletton Quays

4. London Road allotments

It will therefore be seen that Fletton Quays is an integral part of the overall scheme, both in terms of its sequential place within the overarching delivery strategy, and also in terms of its strategic location on the banks of the River Nene and in a high profile gateway site to the city centre.

PCC has now adopted its Core Strategy, which provides a robust planning backdrop against which further planning guidance and strategies can be developed. It is noted that the draft City Centre DPD will not be published until early 2013.

Because of the location and physical make-up of the Fletton Quays site, in order to unlock the site it is necessary to carry out two principal activities, namely site assembly and infrastructure provision. We comment on each of these in turn below.

2.2.1 **Site Assembly**

It is recognised that PCC has a key and leading role to play here in creating a development opportunity of sufficient scale, and with few enough physical impediments, to render it attractive to the market.

Consequently PCC has been acquiring key assets from both the private and public sectors. These include the former Matalan and B&Q units and the listed railway sheds on Fletton Quays.

In addition, negotiations are proposed to start with the Environment Agency regarding the acquisition of Aqua House as a future development site with some possible interim PCC occupation (potential relocation space for leased in properties with imminent expiries/lease breaks and decant space following the demolition of Bridge House).

Talks are also proposed with the owners of the mill at Fletton Quays (a building of “local interest” not listed but with the potential to be) about achieving vacant possession and including the mill either as a refurbishment or as a land only asset (assumes demolition). The mill is owned by Milton Estates a major landowner in this area and occupied and operated (limited operation now) by Whitworth Bros Ltd for specialist flour production.

2.2.2 **Infrastructure provision**

It is recognised that in order to facilitate the comprehensive development of Fletton Quays, it will be necessary to provide infrastructure at an early stage in order to create the appropriate linkages in spatial planning terms between the various phases within the SBOA and also strategically along the riverbank and across the river to the city centre. Significantly, PCC is likely to require a bridge spanning the River Nene and a riverside promenade.

Whilst these are essential and fundamental pieces of the jigsaw for the proposed approach to the site, in themselves they will represent pure capital expenditure and investment in the overall scheme. In light of the national economic picture outlined above, and the constraints placed on PCC in the current CSR, PCC does not have funds available to deliver these unilaterally.

As such PCC's view is that the provision of main infrastructure for the Fletton Quays site is best delivered through joint venture arrangements with the private sector whereby the cost and risks associated with this can be shared and the consequent value uplift in the developable land within the site is also shared.

2.3 **Proposed uses for Fletton Quays**

Initial work has been undertaken to ascertain appropriate uses for the site in terms of PCC's aspirations as a land owner. The final proposal will be determined based upon both financial and environmental viability and planning policy. As a result any list developed now will be likely to change but an indication of future potential uses is set out below:-

2.3.1 Leisure uses (eg cinema; restaurant/bars)

2.3.2 Hotel

2.3.3 Arts and/or educational facility

2.3.4 Footbridge

2.3.5 Residential (premium apartments/crescents of houses taking advantage of the river frontage and proximity to the station with its links to the City of London)

2.3.6 An energy centre

2.3.7 Parking

2.4 In considering these potential uses the following issues have been considered:-

2.4.1 **Financial viability**

The hotel concept is generally felt to be valid over the long term because of the quality of the location and the simple facts about projected growth, but the market is characterised by operator caution at the present time.

The probability is that, taken together, these considerations mean that there will be a phased implementation of any scheme in order to maximise viability on site and facilitate the sequential development of Fletton Quays.

2.4.2 **Parking**

Any parking solution that seeks to meet all parking demand on site is likely to produce an unattractive scheme. The scheme will need to draw on some of the existing parking capacity in nearby sites.

2.4.3 **The football stadium**

There have been discussions about development nearby and in front of the stadium. PCC is aware of the reality that if commercial or residential premises are constructed here, they will absorb some of the demand that will be required to make a scheme at Fletton Quays stack financially. PCC's thinking about what surrounds the stadium, and how its implementation is phased, should be informed by a recognition of the likely impracticability of delivering both opportunities at the same time.

2.4.4 **Arts facility**

Discussions are progressing with The Arts Council (East) over arts provision in the city. Whilst these are looking at the whole city, interest is focusing at present on the Fletton Quays Railway Sheds which have recently come into the ownership of PCC. These discussions are progressing well and an option study is shortly to be commissioned that will examine potential uses.

Whatever is provided will require revenue support from benefactors, sponsors and/or taxpayers, and a credible business model endorsed by such organisations will be needed in advance of a facility being commissioned – although it could be integrated into a Fletton Quays development on the basis that it belongs to a secondary or subsequent phase.

2.4.5 **Strategic nature of site**

What is clear is that this strategic gateway site represents a significant opportunity to deliver a step change in the quality of development within the Peterborough city centre and that it has the potential to become home to a flagship scheme in terms of quality of design, regional profile and sustainability. There are few sites like this in Peterborough and the potential of Fletton Quays for a high quality mixed use scheme should be safeguarded through the masterplanning, design and development process.

3. DELIVERY OPTIONS

3.1 Introduction

This section of the paper looks at the different delivery models that are available to PCC and assesses them by reference to the strategic and economic background outlined above.

3.2 Long-listed options

The long list of options for Fletton Quays are:

3.2.1 Do nothing

3.2.2 Straight sale on the open market

3.2.3 Sale with restrictions re use and delivery

3.2.4 Carry out direct development of scheme

3.2.5 Joint venture (contractual)

3.2.6 Joint venture (corporate) – vehicle acts as fund

3.2.7 Joint venture (corporate) – vehicle acts as master developer

3.2.8 Joint venture (corporate) – integrated model

3.3 Shortlisted options

A short listing of the above options was carried out as set out on the following pages.

This process yielded a shortlist of the following five options:-

Option 2: Straight sale

Option 3: Sale with restrictions on use and delivery

Option 5: Joint venture (contractual)

Option 7: Joint venture (corporate) – master developer

Option 8: Joint venture (corporate) – integrated model

Option	Description	Shortlist	Reason
1. Do nothing	The property is vacated (where not vacant already). There is no change to the existing accommodation	No	No regeneration delivered. Contributes nothing to PCC's overarching plans for city centre and its MTFS
2. Straight sale	PCC sell the property for highest price attainable	Yes	This will likely fail to deliver a number of PCC's objectives but is useful to consider as a financial benchmark
3. Sale with restrictions on use and delivery	PCC sells site (as a whole or in parts) with restriction on use; and ability to take land back if proposed development not delivered within certain timescale	Yes	This has the potential to deliver a number of PCC's objectives. Sale could potentially be on the basis of a ground lease or capital receipt
4. Carry out direct development of scheme	PCC acts as developer, delivering all infrastructure and vertical development to create finished product	No	It is not considered realistic that PCC could identify the significant funding to pay for this. Also it is not as skilled as potential partners in relation to delivering infrastructure and mixed use development. It would channel resource away from core business
5. Joint Venture (contractual)	PCC procures a joint venture partner (by way of a Development Agreement) to deliver the scheme	Yes	This option has potential to deliver all objectives, provide a level of control and share in on-going returns but is less flexible than option 7 if the deliverables and/or objectives change over time
6. Joint Venture (corporate) – acting as a fund	PCC procures a joint venture partner to enter into a corporate vehicle simply to provide funding to facilitate delivery of infrastructure	No	This option has potential to provide a level control and share in on-going returns. It is flexible enough to involve PCC truly in the ongoing decision making process and to deal with external and internal changes over time. However it does not provide any significant degree of involvement in physical delivery

Option	Description	Shortlist	Reason
			on site. This route is more fitted for a site where there is one fairly simple constraint against immediate delivery: here the site is complex and the opportunity requires a significant degree of development expertise as opposed simply to funding. Given the nature of the opportunity and the requirement for significant infrastructure, this route is likely to be of very limited interest to the market
7. Joint Venture (corporate) – acting as a master developer	As 6 above - vehicle acts as master developer – obtaining planning permission, delivering infrastructure etc to create serviced sites to expose to the market	Yes	This option has potential to deliver all objectives, provide a level control and share in on-going returns. It is flexible enough to involve PCC truly in the ongoing decision making process and to deal with external and internal changes over time
8. Joint Venture (corporate) – integrated model	As 6 above – vehicle carries out all development activity from "cradle to grave" including all delivery of vertical development	Yes	This option has potential to deliver all objectives, provide a level control and share in on-going returns. It is flexible enough to involve PCC truly in the ongoing decision making process and to deal with external and internal changes over time. Maximum opportunity for profit but maximum risk; different elements of scheme may require specialist developers

3.4 The Appraisal Criteria

Set out below are the appraisal criteria key headings against which the shortlisted options were assessed.

3.4.1 Creates a deliverable scheme

3.4.2 Avoids cherry-picking and the risk of landbanking

3.4.3 Transforms the utilities infrastructure requirements from being a cost burden to an investment opportunity and achieves returns to the public sector as a consequence

3.4.4 Enables PCC to assure the clean/green credentials of the scheme's utilities infrastructure and services

3.4.5 Provides financial, governance and management architecture that give the best possible chance of using the lowest cost money throughout the scheme

3.4.6 Provides PCC with control over the direction and delivery of the scheme based on the positive provision of equity (land), investment and capability (utilities) to augment the influence it has as Planning Authority

3.5 Weighting the Benefits Criteria

The criteria have been weighted out of a total of 100 to reflect PCC's view of how important that criteria should be in the overall decision making process. The weightings are as below:-

CRITERIA	WEIGHTING (%)
Deliverable	25
Avoids cherry-picking/landbanking	20
Generates returns from infrastructure investment requirements	5
Clean/green credentials	5
Financial/management/governance allow for lowest cost money	20
Control for PCC	25
TOTAL	**100%**

3.6 Scoring the Options

The shortlisted options were scored on the basis of 0-5, as follows:-

0 = completely fails to achieve the objective

1 = achieves the objective in a minimal way

2 = achieves the objective to some (inadequate) extent

3 = achieves the objective to an adequate extent

4 = achieves the objective to a good extent, is more than adequate

5 = achieves the objective completely or in a superlative way

Criteria	2: sale	3: restr. sale	5: cont. JV	7: corp JV (master dev)	8: corp JV (integrated)
Deliverable	3	3	4	5	4
Avoids cherry-picking/landbanking	1	2	3	5	5
Generates returns from infrastructure investment requirements	0	0	0	5	5
Clean/green credentials	1	1	1	4	4
Financial/management/governance allow for lowest cost money	0	0	0	5	4
Control for PCC	1	2	3	4	4

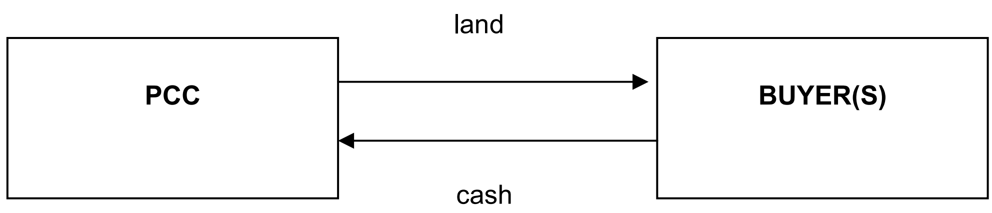
After the weightings were applied, the scores were as set out overleaf.

	NON WEIGHTED SCORES					WEIGHTINGS	WEIGHTED SCORES				
Shortlisted options	**2: sale**	**3: restr. sale**	**5: cont. JV**	**7: corp JV (master dev)**	**8: corp JV (integrated)**		**2: sale**	**3: restr. sale**	**5: cont. JV**	**7: corp JV (master dev)**	**8: corp JV (integrated)**
Scoring criteria											
Deliverable	3	3	4	5	4	**25**	15	15	20	25	20
Avoids cherry-picking/ landbanking	1	2	3	5	5	**20**	4	8	12	20	20
Generates returns from infrastructure investment requirements	0	0	0	5	5	**5**	0	0	0	5	5
Clean/green credentials	1	1	1	4	4	**5**	1	1	1	4	4
Financial/management/governance allow for lowest cost money	0	0	0	5	4	**20**	0	0	0	20	16
Control for PCC	1	2	3	4	4	**25**	5	10	15	20	20
						TOTAL WEIGHTED SCORE	**25**	**34**	**48**	**94**	**85**
						RANKING	**5**	**4**	**3**	**1**	**2**

4. EXAMINATION OF SHORTLISTED OPTIONS

4.1 Straight sale

4.1.1 Structure diagram



4.1.2 Key features:-

- The land is parcelled up into separate sites and exposed to the open market.
- Bids are received and the land will be sold to the highest bidder.
- A capital receipt is received on Day One, possibly with some overage at a later date.
- No separate legal entity created: each party simply contracts as itself.

4.1.3 Pros:-

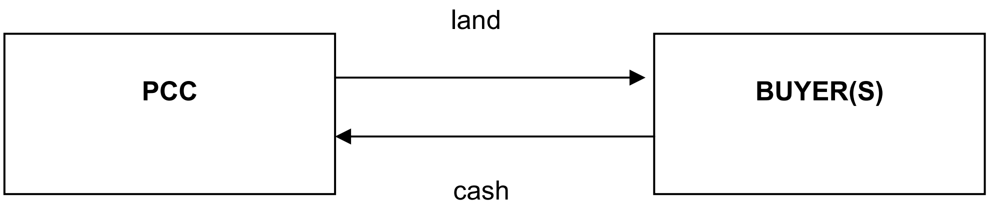
- Well understood by the market: a tried and tested model
- Relatively cheap to put in place
- This is likely to yield the highest, earliest capital receipt for the land
- No requirement for OJEU procurement process

4.1.4 Cons:-

- Does not deliver the infrastructure required to unlock the site
- Does not deliver a comprehensive scheme
- No ability to control what is delivered on the site (apart from as planning authority)
- Does not prevent landbanking
- Difficult to guarantee use of ESCO energy: so limited clean/green credentials
- Inflexible

4.2 Sale with restrictions on use and delivery

4.2.1 Structure diagram



4.2.2 Key features:-

- The land is parcelled up into separate sites and exposed to the open market.
- Bids are received and the land will be sold to the highest bidder.
- The sale documentation will contain restrictive covenants so that the buyer can only use for certain uses; it also contains a right for PCC to take the land back if the proposed scheme is not delivered.
- A capital receipt is received on Day One, possibly with some overage at a later date.
- No separate legal entity created: each party simply contracts as itself.

4.2.3 Pros:-

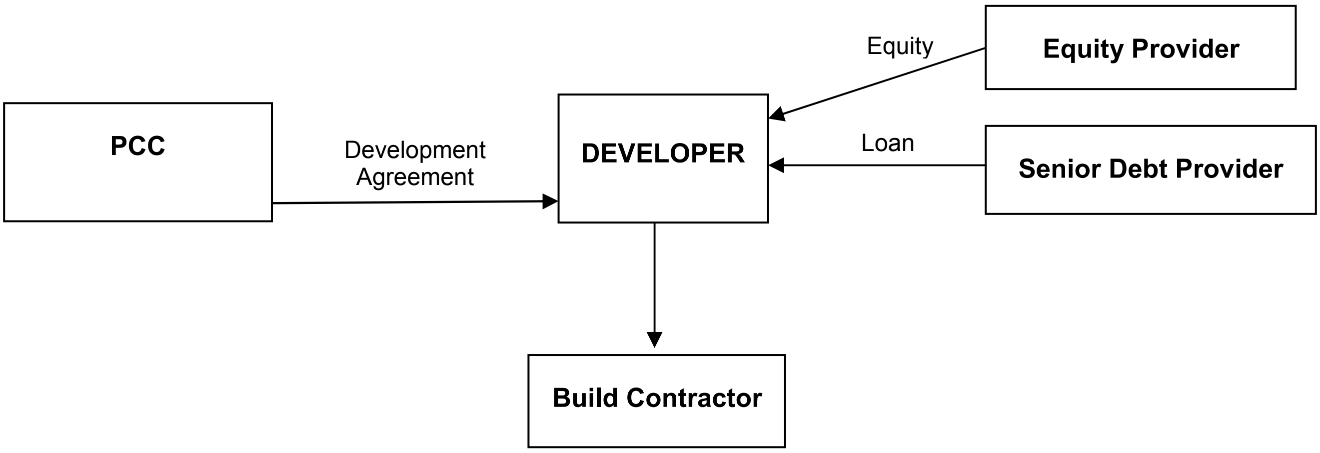
- Well understood by the market: a tried and tested model
- Relatively cheap to put in place
- Capital receipt received
- Possibility of overage
- No requirement for OJEU procurement process (as long as correctly structured)

4.2.4 Cons:-

- Does not deliver the infrastructure required to unlock the site
- Does not deliver a comprehensive scheme
- Profit share unlikely to be transparent in practice (overage can be difficult to extract)
- Limited ability to control what is delivered on the site (apart from as planning authority)
- Difficult to guarantee use of ESCO energy: so limited clean/green credentials
- Inflexible

4.3 Contractual joint venture – development agreement

4.3.1 Structure diagram



This model is a standard route which has been adopted by the public and private sector over many years. It can be described as a joint venture; however it is a contractual rather than a corporate joint venture. This means that no separate legal entity is created: rather, the public sector will enter into a contract with its private sector partner under which the private sector partner will commit to develop a site for the public sector. Typically this will also cater for the transfer of the site to the private sector once built out.

4.3.2 Pros:-

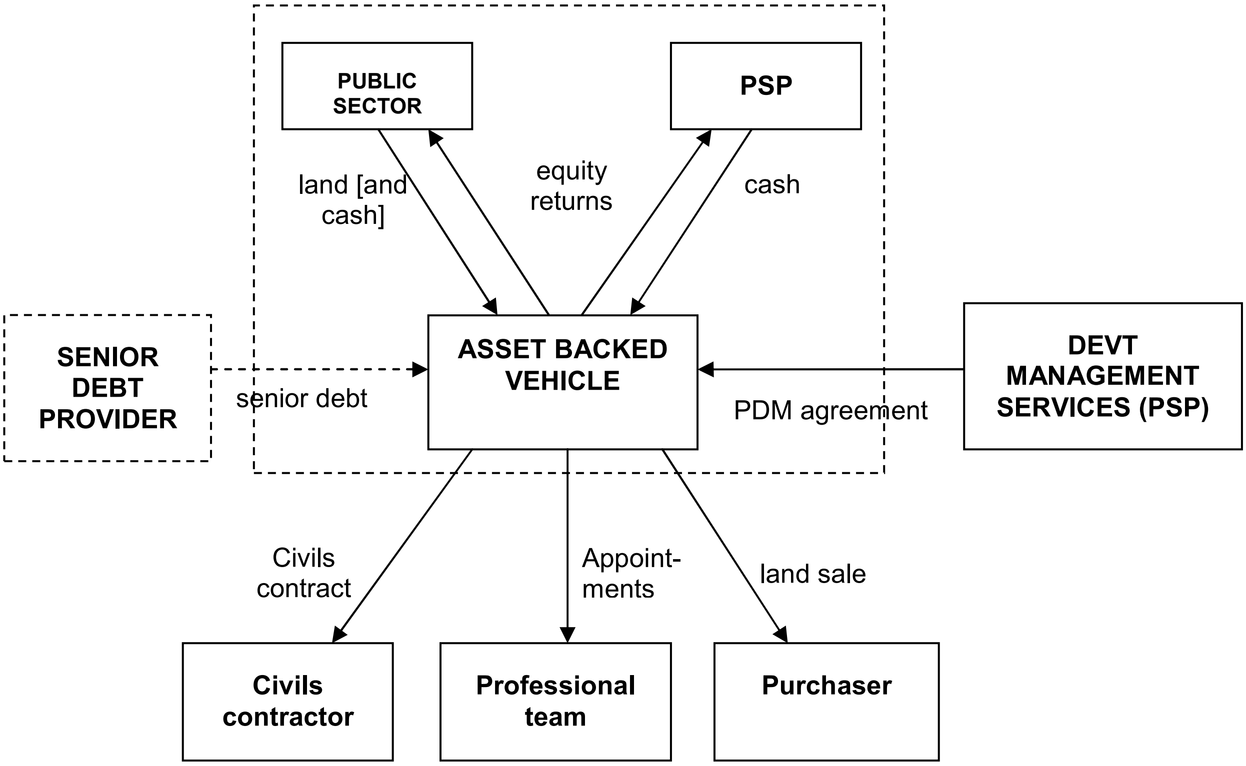
- Well understood by the market: a tried and tested model
- Capital receipt received
- Public sector can share in the success of the scheme through overage

4.3.3 Cons:-

- Unlikely to deliver the infrastructure required to unlock the site
- May not deliver a comprehensive scheme
- Limited ability to adapt to any changing requirements as to what is delivered on the site (apart from as planning authority)
- Profit share unlikely to be transparent in practice (overage can be difficult to extract)
- Difficult to guarantee use of ESCO energy: so limited clean/green credentials
- Requirement to procure through OJEU process (and most likely competitive dialogue)

4.4 Corporate Joint Venture: master developer

4.4.1 Description and structure diagram:



In this structure, the public sector body procures a private sector partner to participate in a joint venture vehicle. It is likely that the vehicle will be a 50/50 deadlock structure. Commonly these are set up as Limited Liability Partnerships (or sometimes Limited Partnerships where a tax exempt investor like a pension fund is involved) which are tax efficient (the public sector partner will not be taxed).

The authority will contribute assets to the vehicle the value of which is usually matched in cash by the private sector partner ("**PSP**"). The vehicle is thus endowed with land plus cash, enabling it to take forward development activities.

If the vehicle is a 50/50 structure, profits are distributed on a pari passu basis to reflect the 50/50 nature of the vehicle. Profits are typically distributed proportionately to the relative investments of the partners in the vehicle.

In this model the vehicle is acting as a "master developer" – ie it will obtain planning permission, ready the site for development, oversee the building contractor and potentially also find occupiers – the one thing that the private sector partner does not automatically do here is to bring the construction supply chain with it. The vehicle will procure this separately once set up.

The partner will take its return in two or three ways:-

- It will take an equity return from the profits made by the ABV itself.

- It is likely to provide development or estate management services to the vehicle: it will charge a fee for this.

- It may also participate in the supply chain (eg building contractor) where again it will take a return for works carried out. However the vehicle will need to procure this separately.

4.4.2 **Pros?**

- Flexible structure which adapts to complex sites and changing situations over time

- The public sector body will obtain a greater degree of "control" and an ongoing involvement, through the constitution of the vehicle, including prohibiting cherry picking and landbanking

- Only one procurement required for multiple or complex projects to be delivered

- Does not necessarily require injection of cash by public sector body

- A true joint venture where in return for equal contribution the two parties realise an equal share in the net uplift in value as a consequence of investment

- Can be a more effective way of capturing uplift over time rather than through contractual overage

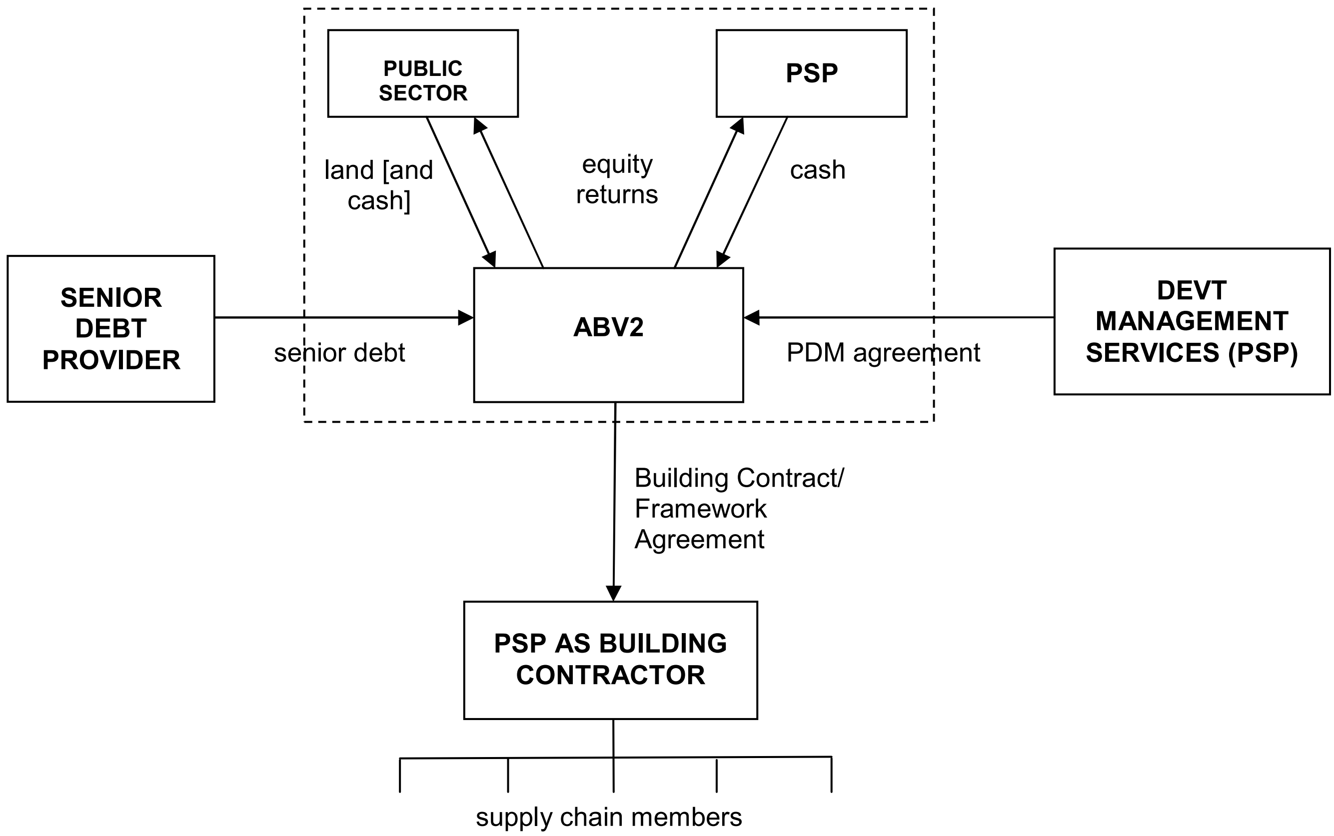
4.4.3 **Cons?**

- Procurement – competitive dialogue – expensive and time consuming

- Reliant upon one partner to oversee the strategic delivery of entire project – therefore need to be careful in selecting the right master development partner for a long term relationship

4.5 Corporate Joint Venture: integrated model

4.5.1 Description and structure diagram:



This structure is a variation on the "master developer" model described above, and involves the vehicle actively developing out the whole scheme. This variant was designed to deliver mixed tenure housing including social and affordable housing as currently defined by the HCA.

This structure is again likely to be a 50/50 deadlock vehicle, commonly an LLP again for tax efficiency reasons (as a development vehicle, tax exempt investors are unlikely to be involved so unlikely to be a LP). Again, the authority will contribute assets to the vehicle the value of which is usually matched in cash by the private sector partner. Profits are typically distributed proportionately to the relative investments of the partners in the vehicle.

The key difference with this model is that it acts as a builder and as a consequence the partner will bring the supply chain (ie construction contractors etc) with it, and this will be tested/benchmarked as part of the procurement process. So, for example, a housebuilder or registered provider may become the PSP. It will provide development management services. It will also act as master contractor for delivery of the project. It will typically use its established supply chain to maximise efficiencies and drive prices down for the vehicle.

The partner will take its return in three ways:-

- It will take an equity return from the profits made by the vehicle itself.

- It is likely to provide development or estate management services to the vehicle: it will charge a fee for this.

- It will also head up the supply chain (as building contractor) where again it will take a return for works carried out.

4.5.2 **Pros?**

- The Council will obtain a greater degree of "control" through the constitution of the vehicle, including prohibiting cherry picking and landbanking

- A true joint venture where in return for equal contribution the two parties realise an equal share in the development profit (depending upon risk allocation)

- Only one procurement required for multiple projects to be delivered

- Does not necessarily require injection of cash by public sector body

- Can be a more effective way of capturing uplift over time rather than through overage

4.5.3 **Cons?**

- Procurement – competitive dialogue – expensive and time consuming.

- Reliant upon one partner to deliver the entire project – therefore need to be careful in selecting the right partner for a long term relationship – especially where there are specialist elements within the scheme

- Can be challenging to demonstrate value for money through supply chain when this is being put in place over life of project on day one

4.6 Variations on the Corporate Joint Venture model

4.6.1 Hybrid option

A hybrid option is available between the Master Developer and the Integrated model. Here, in order to enhance the attractiveness of the offer to the market, which it is understood from experience has an appetite for participation in the development and delivery of these types of joint venture schemes, the vehicle will directly develop a certain proportion of the platforms that it has created through the delivery of infrastructure on site. This will be limited and the extent of that limit will be ascertained prior to commencing the procurement process.

4.6.2 Subsidiaries carrying out development

In order to ringfence the risk between the developments of different parts of the overall site, different elements of development may sit in separate wholly-owned subsidiaries of the main vehicle. They will be funded by, and distribute profits to, their parent – the main vehicle. These subsidiaries are also capable of entering into separate joint venture arrangements as appropriate with third parties, and obtaining non-recourse development finance.

4.6.3 ESCO involvement

Key to the success of Fletton Quays as an integral part of the South Bank Opportunity Area, is PCC's ability to ensure that end users of the scheme purchase energy from PCC's ESCO, which is currently a wholly owned subsidiary.

In order to keep the governance arrangements within the joint venture vehicle as simple as possible it is not recommended that the ESCO directly participates in the vehicle. Instead, it is possible for PCC and the ESCO to form a jointly owned subsidiary between them, which will itself be the public sector participant in the public/private corporate joint venture. This structure would avoid governance difficulties if the ESCO were to cease to be wholly owned at a later date.

As an alternative the ESCO could remain separate in a corporate sense (ie with no participation in the ownership of any partnerships referred to in this document), but simply with a contractual structure that –

(a) Gives the ESCO the ownership of the infrastructure required to deliver energy to the phases within the site; and also possibly

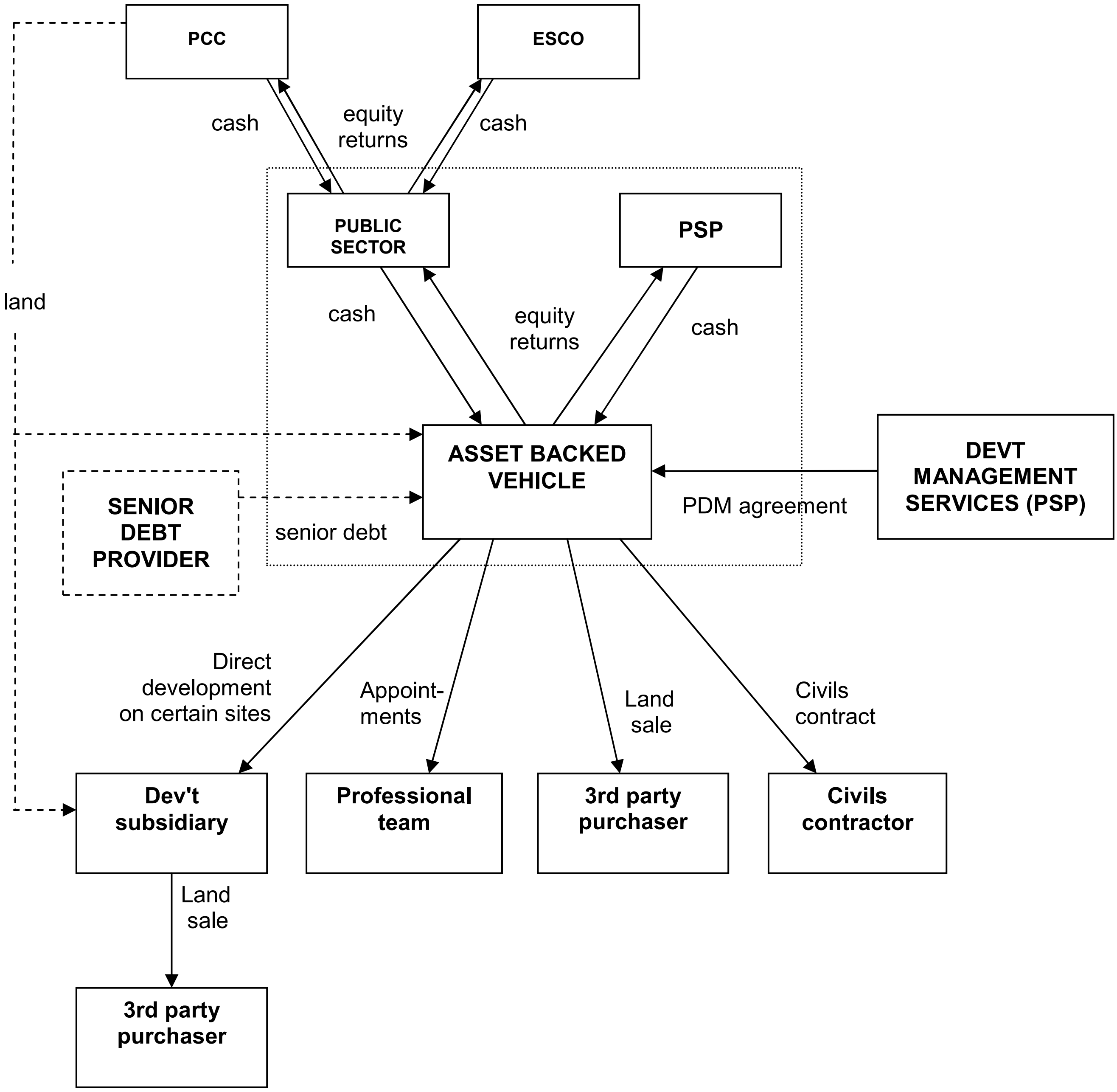
(b) Gives the ESCO the rights to supply the energy to the phases within the site; and also possibly

(c) Creates a position where the ESCO has sole supplier status to the plots within the site.

These alternatives are being explored and pending the results of further investigations it is acknowledged that the ESCO's final or preferred position need not be ascertained at this early stage.

4.7 Composite suggested model incorporating variants

In light of the above a composite model, reflecting the above and presenting the overall favoured option, would resemble the following (subject to final confirmation of the ESCO's position):-



4.8 Summary

The preferred option, selected through the appraisal process, is the creation of a corporate joint venture vehicle with the addition of the optional items referred to at 4.7. It will be seen from the evidence in this section that this most closely fits PCC's objectives and is the route most likely to deliver against the greatest number of objectives.

5. PROCUREMENT ISSUES

5.1 Introduction

It is clear from the options analysis that has been undertaken, that PCC's objectives for Fletton Quays will most readily be achieved by way of some form of corporate joint venture.

If a joint venture is to be brought forward then this will need to be formally procured by PCC in accordance with the EU Procurement Regulations, and in particular using the Competitive Dialogue procedure. The construction tender will be a matter for the joint venture partnership once established.

5.2 Competitive dialogue procurement process - outline

5.2.1 Once PCC is ready to commence the formal procurement process, it will issue an OJEU notice which will be backed up by a memorandum of information and a pre-qualification questionnaire.

5.2.2 The intention behind the MOI and PQQ is to establish a long list of participants who will be invited to participate in the competitive dialogue stage of the competition. We anticipate that number to be 6-8.

5.2.3 The competitive dialogue will be run in two stages, with an evaluation/shortlisting exercise carried out at the end of Stage 1. Therefore, 6-8 participants are likely to participate in Stage 1; and then a short list of circa 3 participants will be invited to continue dialogue in Stage 2.

5.2.4 The bidders' solutions for the Fletton Quays Project will be discussed and negotiated in increasing detail during the two stages of dialogue. During Stage 2 bidders will be asked to produce detailed designs for the development and business plans detailing the occupation and services to be operated from the site.

5.2.5 The aim of the competitive dialogue stage of the competition is to drive out sufficiently advanced solutions from bidders that will meet PCC's objectives in relation to Fletton Quays. Once PCC, advised by its external consultants, considers that these solutions are suitably detailed and fit for purposes, it may then close dialogue and invite final tenders from the remaining bidders.

5.2.6 The final tenders will be evaluated and a preferred bidder selected. Before the preferred bidder can be announced, Cabinet approval will be obtained to that preferred bidder and the basis upon which the project is to be brought forward.

5.2.7 The preferred bidder will be required to present their proposals to the team for review. Final clarifications may be required at this stage.

5.2.8 Upon financial close, it is anticipated that the preferred bidder will establish a corporate vehicle jointly with PCC which will then act as the master developer of Fletton Quays with the ability to develop a certain amount of the overall scheme directly, by way of development subsidiary companies.

5.3 Scope of bidders' responses

5.3.1 As there will be limited information, including no up-front design works, the joint venture bidders will be expected to develop outline design solutions as part of their tender submission and in conjunction with local planning constraints.

5.3.2 Due to the limited information, tender returns are likely to be wide ranging and it will be important for enough time to be dedicated to assessing the returns and reviewing qualifications. There is likely to be a significant clarifications period to ensure that the bidders are being assessed on a like-for-like basis.

5.4 Personnel Implications (including TUPE)

TUPE (Transfer of Undertaking and Protection of Employee) will not apply to this procurement.

5.5 Procurement Route and Implementation Timescales

5.5.1 The appropriate procurement route is the creation of a joint venture vehicle with a private sector partner, through competitive dialogue.

5.5.2 The implementation milestones are set out below.

5.5.3 Project milestones:

STAGE	**Actual or Planned Date**
Cabinet Approval	July 2012
Appoint commercial advisors	August 2012
OJEU notice	September 2012
Return of pre-qualification questionnaires	November 2012
Long-listing of bidders	November 2012
Stage 1 dialogue opens – long list	December 2012
Stage 1 dialogue closes	February 2013
Evaluation of Stage 1 submissions	March 2013
Stage 2 dialogue opens – short list	March 2013
Stage 2 dialogue closes	May 2013
Invitation to submit final tenders	June 2013
Receive final tenders	July 2013
Identify preferred bidder	July 2013
Finalise contract	July – September 2013
Financial Close	September 2013

6. FINANCIAL ISSUES

6.1 Introduction

6.1.1 It is impossible at this stage to carry out detailed financial analysis of the costs and benefits to PCC of the different options that have been analysed during the outline business case process.

6.1.2 However, it is possible to make some general high level comments in relation to each of the shortlisted options, as set out in this section.

6.2 Straight sale

6.2.1 This option would generate a capital receipt for PCC, which could be released to invest in other activities as set out in its various strategies.

6.2.2 It would also in theory be possible to carry out the straight disposal by way of the grant of a long lease, which would yield ground rent revenue over the term of the lease. However, this is less likely to be attractive to the market, and the ground rent yielded would be likely to be minimal. As such this route would not be recommended.

6.2.3 Clearly a straight sale does not of itself yield an ongoing income for PCC.

6.3 Restricted sale

6.3.1 This route would yield both a capital receipt and the potential for overage over time.

6.3.2 As overage is characterised as a capital receipt for accounting purposes; therefore, the restricted sale route does not yield an ongoing income for PCC.

6.4 Contractual joint venture

6.4.1 This route would typically involve a development agreement or joint venture agreement, with a purchase price payable (either upon completion or deferred until a later date), plus overage or other profit share. It may also involve participation in profits generated through development activities at the site.

6.4.2 The contractual JV route would therefore yield both a capital receipt and potential for income over time.

6.5 Corporate joint venture

6.5.1 This route would typically involve the establishment of a separate legal entity such as a partnership or a company. The company would purchase the land from PCC, with the land comprising PCC's "equity" in the vehicle. Profits generated by the vehicle's activities on site would be split between the partners in accordance with the corporate documentation.

6.5.2 The principal financial return yielded by this route is therefore revenue income over time. This route is likely to give the most transparent methodology for PCC of identifying and pursuing a genuine profit share through its part ownership of the vehicle.

6.5.3 However, this route could potentially involve injection of capital by PCC in order to "prop up" the activities of the vehicle, particularly in the early days. This capital would be protected by an appropriate cascade of profit payments within the vehicle, and so PCC could take comfort that any cash injected would be secured for future repayment.

6.5.4 This route is the most complex and difficult to predict, because it involves the creation of a living, discrete business that will operate in accordance with principles agreed between the partners, which are capable of adapting to changes in internal and external circumstances over time. However, it is fair to say that this route has the most potential to create true value for PCC in the medium to longer term, through the injection of the Fletton Quays site as its equity into a separate business venture.

6.6 Conclusion and recommendation

All of the above routes have potentially beneficial financial implications. However the joint venture routes (and specifically the corporate joint venture routes) have the potential to provide the most transparent and "full" profit sharing outcome for PCC from Fletton Quays.

7. RISK AND RISK MITIGATION

The following risks have been identified in relation to the preferred route and also the project generally, together with the potential mitigating factors and/or actions set out opposite them in the table below:-

RISK	MITIGATION
Over-aspirational expectations of stakeholders outside the Project Team re outputs from project	Good communications Involve stakeholders in the procurement process (eg Members briefings and interviews) for transparency re what bidders are offering – and what they are not
Viability issues arising from land values in particular	Running a competition will ensure the best possible financial offer to the Council and demonstrate value for money The site is more likely to demonstrate viability when developed as a whole through the preferred route, than if sold off piecemeal: this options appraisal demonstrates that the best overall financial out-turn for the Council is achieved through the preferred delivery route
Constraints presented by any preferred uses required by the Council on site	Bidders will see and understand these constraints from Day One of the procurement exercise and will work around them. The Council will need to acknowledge that an increased number of constraints on physical delivery for onward disposal will mean increased viability issues (see above). The commercial architecture that will be put in place to govern the vehicle's business plan will assist in ensuring consistency and proportionality of approach
Timescale for procurement	A robust timescale has been developed and is attached to this Options Appraisal document, by Pinsent Masons (legal advisers to the Council on this project). This timetable draws from Pinsent Masons' extensive and market leading experience of running other similar procurements for other local authorities across the country and reflects a tight but realistic timeline
Timescale for delivery on site once joint venture has been formed	A delivery business plan, with timescales, will be worked up with the preferred bidder prior to formation of the joint venture. The joint venture will be required to adhere to this plan The private sector partner will be selected pursuant to various criteria, a key one of which will be the development expertise, experience and approach of bidders. The selected partner will be required to demonstrate its ability to mitigate external factors affecting development and to apply that expertise in delivering against the business plan

Planning delays and problems	See above re timescales for delivery. The selected partner will be one that demonstrates relevant experience and a robust approach to delivery within timescales and according to business plans, and will be expected to comply with the business plan that is worked up with the Council during the procurement process
Scope creep	The Fletton Quays site is a discrete site with easily understood and defined boundaries. The Council as joint venture partner within the delivery vehicle will be able to constrain its private sector partner not to attempt to widen the scope of the vehicle's activities unless the Council agrees
Third party land interests	It will be necessary to acquire the third party interests on site. If this cannot be achieved through voluntary sale then the Council is prepared to consider the use of its CPO powers.
Planning policy delays	At present there is no adopted City Centre DPD. This would be required for example to underpin a CPO of third party land interests on site However this is being progressed and the draft for public consultation will be issued in early 2013. Therefore during the procurement process there will be an opportunity for bidders to make representations and potentially influence the development of the DPD in a positive way for the site. The adoption of the DPD is anticipated to take place in December 2014, which could coincide with start on site by the joint venture vehicle. Therefore no significant delays to the vehicle's activities are anticipated and there will be the opportunity to plan around this timeline with the selected partner in order to minimise any impact on the project.

8. CONCLUSION AND NEXT STEPS

8.1 Conclusion

8.1.1 It will be seen from this paper that the recommended option for the delivery of Fletton Quays is the establishment of a corporate joint venture, potentially with the ESCO participating at a "public/public" level, and the opportunity for the vehicle not only to deliver infrastructure but also to build out certain segments of the site through development subsidiaries.

8.1.2 It is considered that this model will fulfil the maximum number of PCC's objectives for the scheme as identified and measured in this paper.

8.2 Next Steps

8.3 The next steps that PCC should consider are set out below:-

No.	STEP	TIMESCALE
1	Seek to obtain Cabinet approval to the proposals	July 2012
2	Appointment of commercial advisers to advise on the financial and commercial arrangements and support the procurement exercise	By August 2012
3	Carry out financial appraisals/modelling regarding possible outcomes	August/September 2012
4	Progress planning allocation for site as part of DPD	Ongoing – late 2012/ early 2013
5	Gather together due diligence information in relation to the site	Ongoing – by Sept 2012
6	Progress site assembly	Ongoing – preferably by Sept 2012