APPENDIX C

Delivery Approach Advantages and Disadvantages

Option 1 – Disposal with Planning Permission

This option is the approach that has traditionally been adopted by the Council and was used as a baseline against which the other options were compared.

Advantages	Disadvantages
The Council can release additional value in the site but not expose itself to the risks associated with development and delivery of the private sector development.	Subject to planning requirements, the Council loses control of the development, including the quality, design and provision of public space. There is no guarantee that development will take place, as the viability and control of the site now rests with the new landowner.
The capital receipt is realised at the point of sale, before any development is undertaken, thereby mitigating the risks associated with development and delivery.	The Council would lose any uplift in value of the site as a result of the development activities.
If the site has a high value or worth to developers, then this is the lowest risk option in securing a capital receipt.	The Council does not enjoy any long-term revenue or capital uplift.

Financial Consequences

The Council would realise a capital receipt. The value of this receipt will be based on what the development market would pay for the site and include considerations such as, the level of contamination, current use, proximity to infrastructure, likely land use etc.

The receipt would reflect the fact that the Council is taking little risk under this option. This approach carries the least risk for the Council as they wouldn't be taking any of the development or sales risk, instead choosing to cash in on the value of the site and passing all of this risk to the private sector.

However, all corresponding development reward and upside risk would also pass to the purchaser resulting in a potentially significantly lower receipt than might be achieved through alternative approaches.

Whilst the low risk approach might traditionally be a Council's preferred option, in the current local government environment long term income streams are required to support Council activity.

In addition, in the current market there is significant evidence that developers are interested in the potential to share risk and reward with the public sector, and in

many cases, this is preferable to a traditional purchase/disposal/development agreement approach where all risk is taken by the private sector.

The current level of market activity suggests a need for mechanisms that can help accelerate the delivery of housing. In addition, a number of the challenges around infrastructure need and land value result in a need for more innovative solutions to cash flow challengers and viability issues, as such the traditional models are potentially less attractive in the current climate.

Option 2 – Self Development

This would involve the Council carrying out the construction of the entire housing and commercial development.

Advantages	Disadvantages
The Council has sole responsibility for all aspects of the design and delivery of the development. Although their construction responsibilities can be transferred to a contractor the Council is still responsible for the overall outcome. As such it can therefore specify quality, build and design standards to ensure that the aspirations for this project are fully met.	As the sole funder of the project, the Council has 100% of the financial exposure relating to the project. Any cost overruns not covered in the contractor agreement will be the sole responsibility of the Council.
As the body with sole responsibility for the finance and funding of the project any cost savings, increase in sales values, finance savings or any aspect that impacts positively on the profitability of the scheme will flow back to the Council. Any increased return might be used to increase quality aspects on this project, support additional build projects or simply flow back to the Council to support other service priorities.	As project and programme manager the Council is responsible for managing all risk relating to delivery and must bear the consequences should a certain risk materialise. Whilst much of the obvious risk associated with this type of project is financial in nature there are other categories of risk, such as reputational, political, environmental and health and safety which must also be managed appropriately.
Any positive gains from this project can be recycled and used to support and prime less viable and attractive projects the Council is considering.	In undertaking the role of the developer, the Council is acting outside the normal remit of a traditional local authority and must ensure it has the correct mix of skills and resources to ensure that the project is successful delivered.
Unlike a private developer the Council is not just motivated by profit but by a whole range of other socio-economic objectives. As a consequence, the viability the scheme will not only be measured from a commercial prospective but will also consider the social and regenerative benefits of the project and assign a value to	As the developer the Council retains the responsibility for the sale of units. This responsibility extends beyond the marketing and final sale to include the saleability of the scheme as a whole. This must be a consideration from the design of the scheme, to the lay-out of the open space and the quality of the units. The returns on

Advantages	Disadvantages
this; sometimes at the expense of the return on the scheme.	the original investment will only be maximised if the scheme is seen as desirable to the market.
In having sole responsibility for the design and construction of the scheme the Council is best placed to affect social issues on the development. This could include poor public realm, low quality facilities, poor or unsociable access areas or social exclusion.	The Council is exposed to third party claims e.g. litigation, health and safety breaches. Whilst these can be mitigated by way of insurance and transfer of risk to the contractor, the Council is ultimately responsible.

Financial Consequences

The Council would receive its land value plus all development / operational profit from the scheme.

As the developer, the Council would take on all responsibility for funding the development. Whilst there are advantages of this, such as access to preferential borrowing rates, there are also associated risks; namely the need to generate sufficient revenues through sales and rental to repay the funding option taken. The ability to do so would need to be demonstrated during development of the business case.

The potential for private housing development to cross subsidise affordable housing and employment space is significant, as demonstrated by a number of Council's who have utilised this approach. Were the Council to try and secure 100% of the development profit from these elements of its schemes for itself then the overall financial viability of the development could significantly increase.

This approach clearly brings with it associated risks. Were the Council to develop the private housing alongside the remainder of the development they would bear the risks on construction cost and sales, both of which they would need to ensure they understood, have the skills to manage and are in line with the risk appetite of the Council.

Were the Council to act as developer it is assumed that they would fund the development and undertake the master developer role, and as such would receive all surplus funds on development. They would not need to fund the purchase of their own land and as such all surplus funds would be collated.

In this scenario the Council is the developer and as such no land purchase is required. Hence there is a much-reduced development cost when compared to a private sector led scenario. In addition, it is assumed that the Council is able to borrow, via the PWLB or another facility available to the public sector, at a reduced interest rate.

Option 3 – Joint Venture – Enabling Partner

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Under this option the Council would enter into a partnership with a development/investment partner. The site is then enabled by the partnership and serviced plots sold on to the market. All services to establish the planning consents, removal of development issues, etc. would be undertaken by the joint venture partnership. The Council would likely receive a land receipt and a share of the profit from enablement.

Advantages	Disadvantages
This approach enables public sector land to be developed in a scenario where the public sector body does not have the necessary resources to unlock the site / debt required.	By transferring the land into an external vehicle and using it for security for an external funder the Council's land is placed at risk.
Financial risk is shared by accessing equity from the private sector, therefore reducing the cost to the public sector and incentivising the partner to deliver.	Establishing a joint venture structure can be time consuming and costly, as such the scheme must be of the appropriate scale to justify this route
Debt is secured through an external vehicle on the Councils assets without the partnership divesting itself completely of the benefits of ownership. Through this approach non-recourse debt funding, if structured correctly falls outside Council's balance sheet. It is possible to use private sector debt or prudential borrowing powers to provide the senior debt through this approach.	Whilst the JV will be established to meet the Council's need, its governance must be independent of the Council. As such future decisions made by the JV must be for the benefit of the JV and might not align completely with council strategy.
The Council will share in any potential uplift in value arising from the enabling of the site.	By transferring the asset into a joint venture and only receiving returns over time the Council is deferring the capital receipt that could be achieved from selling the land outright today.
Once the JV has been established, and if procured correctly, it can be used to enable further sites at a significant saving when compared to the costs of procurement	
A successful and well procured JV partnership will give the Council access to strategic and commercial skills and potentially see the transfer of skills and expertise to council staff.	
There is an on-going role for the Council as a shareholder in the vehicle, member of the Board and service provider, as such it has an on-going voice in strategic planning and the development process enabling it to	

Advantages	Disadvantages
further its place shaping role.	

Financial Consequences

The Council would receive financial returns through both its land value and a share of the profit on the sale of enabled plots of land. This will be ab uplift on pure land value but short of the profit on development.

This approach clearly brings with it associated risks. Were the Council to participate in a joint venture its land would be put at risk and it would share in the enabling risk on the site, as such any partnership agreement needs to be clearly structured to ensure reward is commensurate with the risk taken and to ensure the delivery of the scheme.

This approach enables the Council to access private sector skills specific to enabling major schemes. The Council do not have the in-house skills to manage and deliver a scheme of this scale. A private sector partner would bring significant skills in relation to managing the costs, including access to supply chain efficiencies maximising the value of sites developed and managing plot sales risk while the public sector brings skills in relation to planning.

Option 4 – Joint Venture – Development Partner

Under this option the Council enters into a partnership with a development/investment partner. The site is then enabled and the residential and commercial elements are developed by the Joint Venture. The Council would likely receive a land receipt and take a share of the development profit.

Advantages	Disadvantages
This approach enables public sector land to be developed in a scenario where the public sector body does not have the necessary resources to unlock the site / debt required.	By transferring the land into an external vehicle and using it for security for an external funder the Council's land is placed at risk.
Financial risk is shared by accessing equity from the private sector, therefore reducing the cost to the public sector and incentivising the partner to deliver.	Establishing a joint venture structure can be time consuming and costly, as such the development must be of the appropriate scale to justify this route
Debt is secured through an external vehicle on the Councils assets without the partnership divesting itself completely of the benefits of ownership. Through this approach non-recourse debt funding, if structured correctly falls outside Council's balance sheet. It is possible to use private sector debt or	Whilst the JV will be established to meet the Council's need, its governance must be independent of the Council. As such future decisions made by the JV must be for the benefit of the JV and might not align completely with council strategy.

Advantages	Disadvantages
prudential borrowing powers to provide the senior debt through this approach.	
The Council will share in any potential uplift in value arising from the development.	By transferring the asset into a joint venture and only receiving returns over time the Council is deferring the capital receipt that could be achieved from selling the land outright today.
Once the JV has been established, and if procured correctly, it can be used to develop further assets at a significant saving when compared to the costs of procurement and also for ring fenced cross subsidy of developments.	
A successful and well procured JV partnership will give the Council access to strategic and commercial development skills and potentially see the transfer of skills and expertise to council staff.	
There is an on-going role for the Council as a shareholder in the vehicle, member of the Board and service provider, as such it has an on-going voice in strategic planning and the development process enabling it to further its place shaping role.	

Financial Consequences

The Council would receive financial returns through both its land value and a share of development profit

The potential for private housing development to cross subsidise affordable housing and employment space is significant, as such developing a vehicle that enables this cross subsidy whilst sharing risk and reward between the partners could be highly attractive.

This approach clearly brings with it associated risks. Were the Council to participate in a joint venture its land would be put at risk and it would share in development and sales risk on the site, as such any partnership agreement needs to be clearly structured to ensure reward is commensurate with the risk taken and to ensure the delivery of the scheme.

This approach enables the Council to access private sector skills specific to residential development. The Council do not have the in-house skills to manage and deliver a mixed-use residential development. A private sector partner would bring significant skills in relation to managing development cost, including access to supply

chain efficiencies maximising the value of units developed and managing sales risk while the public sector brings skills in relation to planning.

Option 5 – Joint Venture – Enabling / Development / Operational Partner

Under this approach the Council enters into a 50/50 partnership with a strategic partner. The site is then enabled by the Joint Venture, a number of the sites are then developed by the Partnership whilst other plots are disposed of to other developers, and any operational elements are owned and operated by the partnership over the long term.

Advantages	Disadvantages
This approach enables public sector land to be developed in a scenario where the public sector body does not have the necessary resources to unlock the site / debt required.	By transferring the land into an external vehicle and using it for security for an external funder the Council's land is placed at risk.
Financial risk is shared by accessing equity from the private sector, therefore reducing the cost to the public sector and incentivising the partner to deliver.	Establishing a joint venture structure can be time consuming and costly, as such the development must be of the appropriate scale to justify this route
Debt is secured through an external vehicle on the Councils assets without the partnership divesting itself completely of the benefits of ownership. Through this approach non-recourse debt funding, if structured correctly falls outside Council's balance sheet. It is possible to use private sector debt or prudential borrowing powers to provide the senior debt through this approach.	Whilst the JV will be established to meet the Council's need, its governance must be independent of the Council. As such future decisions made by the JV must be for the benefit of the JV and might not align completely with council strategy.
The Council will share in any potential uplift in value arising from the enabling of sites, development of units or long term operation of assets.	By transferring the asset into a joint venture and only receiving returns over time the Council is deferring the capital receipt that could be achieved from selling the land outright today.
Once the JV has been established, and if procured correctly, it can be used to deliver further schemes at a significant saving when compared to the costs of procurement and also for ring fenced cross subsidy of developments.	
A successful and well procured JV partnership will give the Council access to strategic and commercial master developer, development and operational skills and potentially see the transfer of skills and expertise to	

Advantages	Disadvantages
council staff.	
There is an on-going role for the Council as a shareholder in the vehicle, member of the Board and service provider, as such it has an on-going voice in strategic planning and the development process enabling it to further its place shaping role.	
The Council is accessing expertise from the market to understand the balance between development and enablement as well as long term operational skills. As such it is supported in developing the strategy for the site.	

Financial Consequences

The Council would likely receive a land receipt and take a share of the development/operational profit, which could include private rental and commercial income.

The potential for private housing development to cross subsidise affordable housing and employment space is significant, as such developing a vehicle that enables this cross subsidy whilst sharing risk and reward between the partners could be highly attractive.

This approach clearly brings with it associated risks. Were the Council to participate in a joint venture its land would be put at risk and it would share in development and sales risk on the site, as such any partnership agreement needs to be clearly structured to ensure reward is commensurate with the risk taken and to ensure the delivery of the scheme.

This approach enables the Council to access private sector skills specific to residential development. The Council do not have the in-house skills to manage and deliver a mixed-use residential development. A private sector partner would bring significant skills in relation to managing development cost, including access to supply chain efficiencies maximising the value of units developed and managing sales risk while the public sector brings skills in relation to planning.