



Report

65 Gresham Street
London
EC2V 7NQ
T: +44 (0)20 7911 24 68
F: +44 (0)20 7911 25 60

**COMMERCIAL IN
CONFIDENCE**

High Road West Business Case Report

November 2015

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Prepared By: Tom Dowman and Oliver Maury
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For and on behalf of Bilfinger GVA

1. Introduction

- 1.1 Tottenham is seen as London's next big growth opportunity. This area alone is capable of delivering 10,000 new homes and 5,000 new jobs by 2025 (as directed by the Strategic Regeneration Framework - SRF). Alongside the SRF, the London Plan also sets out a target for Haringey for the delivery of 1,502 homes per annum between now and 2026.
- 1.2 Haringey Council (the council) believes that these ambitious targets can be achieved by leveraging its land and property holdings. By exploiting the strategic value of its assets to best effect it can drive housing and economic growth and ensure that this growth benefits existing residents of the Borough and where possible meets the wider aims of the council's Corporate Plan.
- 1.3 The agreement of the High Road West (HRW) Masterplan, in December 2014, following three years of consultation with the local community, was a major first step in realising the council's regeneration and growth ambitions and meeting the targets set out in the SRF.

Objectives of the Business Case

- 1.4 Whilst the council has ambitious plan for the HRW area, it is also aware that funding and skills constraints at the local level means that input will be required to deliver this regenerational change, including from Central Government and the private sector.
- 1.5 The objective of this Business Case is to identify and recommend an appropriate approach for unlocking the HRW scheme by accessing such Central Government and the private sector input, by way of supporting regeneration, housing delivery and economic development in the immediate area and North Tottenham more generally.
- 1.6 This includes an assessment of the types of partners who may be interested in working with the council on such an opportunity and how investment could be attracted through a delivery structure.
- 1.7 This document therefore sets out and examines the delivery options available to the council and provides a formal recommendation as to the most appropriate option for the council. In summary, the Business Case will address the following issues:
 - Crystallisation of the council's scheme objectives and fixed delivery parameters;
 - Analysis of the delivery options available to the council in order to fulfil its objectives;
 - Assessment of the feasibility, viability and deliverability of the options, which will include a detailed qualitative and quantitative analysis;

- Recommendation of a preferred option, including the structure and operation;
- Procurement advice on appropriate routes and limitations;
- Proposed implementation.

1.8 The Business Case has been prepared by Bilfinger GVA (BGVA) drawing upon the findings and work already undertaken to date by the council and its consultants.

1.9 Specifically, much of the delivery structuring content of the paper has been reviewed by the council's in-house legal team as well as Eversheds LLP in their capacity as retained legal advisers on the project; albeit it should be noted that the legal detail behind the options arising will require further development going forward.

Approval Procedure

1.10 This Business Case has been prepared for submission to Cabinet in November 2015. Using the Business Case, Cabinet will be able to make an informed decision as to whether to proceed with the procurement of a partner.

1.11 Over the life of the project the council will be required to make decisions to progress the project including for example to confirm a partnership agreement and to release land for development/sale. Should the council decide to proceed with the procurement process it will be important to define which decisions can be delegated and which require a full council vote, this balance will be key to ensure that sufficient democratic scrutiny is in place at the same time as allowing momentum to stay with the project.

2. Strategic Case

London Borough of Haringey Context

- 2.1 Increasing funding constraints are putting considerable strain on Local Authority revenue and capital budgets. The caps being imposed on the amount Local Authorities can borrow against their housing assets; acceleration of the Right to Buy and therefore the depletion of housing stock; the forced decrease in rents (1% per year for four years); and the costs involved in utilising facilities such as prudential borrowing are all impacting on the ability of Local Authorities to finance new homes, estate renewal and economic regeneration projects.
- 2.2 There is also significant pressure on Local Authorities to ensure their property portfolios are rationalised, fit for purpose and are being used efficiently. As a result, Local Authorities are increasingly giving consideration to facilitating development through delivery arrangements, with this financial context provoking an exciting opportunity to implement new delivery methods and strategies.
- 2.3 Against this context, the council is seeking to deliver the growth set out in the High Road West masterplan and the strong vision for the Borough set out in the Corporate Plan, the draft Housing Strategy, and the Economic Development & Growth Strategy. The vision within these documents form a clear strategic backdrop against which the proposal to implement the HRW scheme must be considered. Any delivery approach for HRW must have the ability to realise the needs and objectives of the council as set out in these key documents.

Corporate Plan

- 2.4 Housing is a major council priority. As identified in the 2011 census the population is growing faster than previously estimated, and for the plan period 2011-2016 there is a requirement for a housing target of over 19,000 houses. The council via its Local Plan DPD allocations has identified sites for 18,000 homes with the shortfall to be made up of windfall sites. In addition, however, the council through its Corporate Plan makes it clear that they are seeking to implement a regeneration strategy that goes further than simply adding to housing stock.

Housing Strategy (2015 – 2020)

The Borough Housing strategy sets out four objectives which will deliver the Haringey vision for this period:

“We believe that housing is about people and communities, not just bricks and mortar. We want to make sure that our residents have access to high-quality homes that will support

them in leading happy and fulfilling lives. Whether renting or buying, there is clear evidence that the quality of our home affects our health, our children's attainment at school and the quality of family relationships. To help our children to have the best start in life and our adults to fulfil their ambitions, it is crucial that our residents have access to high-quality homes at prices they can afford."

2.5 With a 65% reduction in the amount of subsidy that is now available to the council to build affordable homes, as well as the continuing changing nature of the housing market, both locally and nationally, the housing challenge for the Borough is even more significant, and the council currently cannot meet demand. This demand far exceeds the housing association homes in the Borough, and currently the Borough has the second highest number of households in temporary accommodation.

2.6 The council's latest Housing Strategy outlines the council's position for housing over the next five years, including the council's estate renewal strategy to tackle issues such as mono tenure, non-permeable estates, poor stock profile and low density. It is an important document that builds on the Corporate Plan and sets out how the council will deliver and plan new housing to support growth in the Borough.

" Housing is about people and communities, not just bricks and mortar. This means mixed and inclusive neighbourhoods where residents can lead happy and fulfilling lives"

2.7 In order to carry out this ambitious strategy the council understands that a step change in the number of houses being built and the type of density of housing is required. This will enable the council to tackle the current housing crisis and drive up the quality of homes whilst building mixed and balanced communities in a Borough that already has huge disparity across its wards. The aim also being to ensure no net loss of existing affordable housing floorspace across the Borough; ensure affordable housing units are designed to a high quality; and are fully integrated within schemes.

2.8 This strategy supports and works in tandem with the planning policy of the local development plan, ensuring new homes:

- Are affordable to current and future residents of the Borough;
- Provide an appropriate mixture of different tenures;
- Are designed for peoples' needs including accessibility to numbers of bedrooms.

2.9 The development documents at High Road West applicable to High Road West including the AAP, the SRF and the adopted masterplan, all mirror the requirements of the Borough Housing Strategy.

Haringey Economic Development & Growth Strategy (2015)

- 2.10 Carving out Haringey's place as a national hub for modern small and medium businesses is at the heart of the council's economic development and growth strategy with help for more job hunters to use the borough's fantastic transport links to find work or develop careers across the capital. The Economic Strategy hopes that by regenerating areas within the Borough the council will not only be able to deliver increased housing but will also ensure that its long term aims for economic growth are achieved.
- 2.11 Any new delivery approach needs to act as a catalyst and platform for economic regeneration and growth in the Borough with greater opportunity and prosperity for residents. By increasing economic and business demand in the area, it is hoped that this will catalyse job creation, and therefore generate business rates revenue, which the council could retain for reinvestment in further growth, and key services.
- 2.12 The council's commitment to delivering change is most demonstrable in Tottenham where an exciting regeneration programme, capable of delivering 10,000 new homes and 5,000 new jobs by 2025, is being delivered. The regeneration programme is guided by the SRF, which sets out the vision for the future of Tottenham.
- 2.13 These ambitions are supported by circa £300 million of public sector investment in infrastructure in Tottenham. This funding will deliver:
- An intermodal station at Tottenham Hale;
 - The three and ultimately four tracking of the West Anglia Main Line;
 - The incorporation of the Edmonton Green line into the London Overground network;
 - The electrification of the Barking Gospel Oak line; and
 - Improvements in frequency between Northumberland Park, Tottenham Hale and Stratford on the West Anglia Main Line.

Tottenham Area Action Plan

- 2.14 The Tottenham Area Action Plan (AAP) is a significant and important component of the regeneration strategy for Tottenham which establishes the local spatial planning framework for the area, giving detailed expression to the overall growth objectives for Tottenham as contained in the Haringey Strategic Policies Local Plan (2013). The revised AAP is being prepared in order to ensure that the scale of development and change proposed for Tottenham to 2026 and beyond is positively managed and guided by a planning framework and investment decisions that meet the aspirations that the local community and the council have for the area as a whole, as well as the places within it.

2.15 The AAP links the overall council objectives for the Borough and more specifically the Tottenham area with specific site requirements at the individual sites, including High Road West.

High Road West Masterplan

2.16 The High Road West masterplanning was commissioned in 2014 and adopted by the council in December 2014. It provides a strategic development solution for the site which incorporates the findings from a thorough consultation process with stakeholders in the area.

2.17 It shows a design solution which provides the following key deliverables of new development at the site:

- Better-quality housing and more housing choice;
- A safer and more attractive place to live and work;
- More leisure facilities and activities for young people;
- New community facilities;
- An improved High Road with a wider retail offer;
- More job and training opportunities for local people; and
- Better quality and more open space.

2.18 These strategic-level outcomes will guide the council objectives for the development and form the basis of the evaluation and scoring criteria of the proposed delivery solution.

Financial Strategy

2.19 One of the council's main long-term strategic objectives is to secure a better balance between long-term revenue streams, by participating in the development and holding of property, as opposed to short term capital receipts achieved through the sale of assets; together with maximising the value of both assets that are retained and of those assets that are disposed.

2.20 There is also an acknowledged shortfall of development management skills within the organisation which means that, combined with lack of capital funding, the council is unable to establish an effective development function to deliver development in its own right, in order to secure best use and maximise value of its land and assets and deliver the required growth.

2.21 Due to the scale of the opportunity and the council's ambitions for HRW, it is clear that any delivery approach needs to attract significant investment and development management expertise from the private sector. In order to do this, the council must provide an attractive proposition that will entice the private sector to participate.

- 2.22 Part of this relates of course to the council's land and property assets within the HRW area, as well its statutory powers to acquire 3rd party interests. Moreover the council is keen to explore new delivery approaches that will attract the private sector funds, skills and investment need to catalyse and deliver the aimed for development.

Housing Zone

- 2.23 Housing Zone is a new initiative to accelerate housing delivery in areas with high development potential and was introduced by the London Mayor's Housing strategy. Bids were invited from London Boroughs for a £400 million programme, which is jointly funded by the Mayor and National Government. The scheme hopes to create 20 housing zones across London, delivering 50,000 new homes and over 100,000 associated jobs over the next ten years.

Housing Zone Phase 1

- 2.24 The Borough has already been successful in achieving its Phase 1 bid which was announced in February 2015 for Tottenham Hale. This will deliver c 2,000 new homes across Tottenham Hale and Seven Sisters, and will assist in achieving the AAP target of 4,000 jobs (gross), as well as new commercial floorspace including managed workspace, retail and community facilities.

Housing Zone Phase 2

- 2.25 The council is in discussion with the GLA about the potential for a further submission for funding under Housing Zone Phase 2. A funding bid of around £150 - £180 million is envisaged comprising a mixture of recoverable and non-recoverable loan support.
- 2.26 The terms of this funding are not yet known however it has been assumed that the funding requirement for the land acquisition at High Road West will be met through this facility. The drawdown and repayment terms will be of vital importance to the success of this project and will shape the delivery structure offered to the market. We expect to know details of the HZ Phase 2 bid in November 2015.

Additional Sources of Funding

- 2.27 An Opportunity Investment Fund of around £4 million has been established to enable the council to invest in workspace and employment projects in Tottenham. The Fund is jointly provided by the council and the GLA.
- 2.28 The council has also created its own Acquisition Fund. This is supported borrowing for a rolling £50 million fund, for the council to acquire key sites, either to develop itself or to undertake land assembly. The fund is new and already has over £5 million committed.

2.29 Other sources of external funding can potentially be made available to the council to support the wider development and regeneration objectives across the Borough and should be considered as part of more detailed analysis. These could include:

- Local Retention of Business Rates;
- Community Infrastructure Levy;
- New Homes Bonus; and/or
- Other new infrastructure funds set up by Central Government / GLA including the London Housing Bank; and
- Prudential borrowing.

Haringey Development Vehicle

2.30 In a parallel project, the council will soon enter into the formal procurement process for a Borough-wide development vehicle. The aim of this vehicle is to bring forward development of council-owned land across the Borough for employment and residential use. The council has previously decided that High Road West would be subject to a separate procurement in order to share the project risk and potentially bring forward more regeneration in a shorter time.

2.31 The nearby Northumberland Park Estate is likely to be in the first tranche of projects to enter vehicle. This site is also within the North Tottenham regeneration area and is therefore subject to many of the same issues as High Road West, for example the need for regeneration, the impact of the White Hart Lane Stadium development and the requirement for Housing Zone Allocation funding. This means that much of the strategic case for these projects is mirrored and we have referenced it where appropriate.

3. Council Objectives & Scheme Parameters

Project Objectives

3.1 The council has undertaken significant consultation on the North Tottenham area regeneration, much of which has focussed on the High Road West locality. Several planning and policy documents have been produced which set out the council's aspirations for development in the area. The council has taken into account reports, workshops, discussions and policy documents when arriving at the objectives for this project. These have included:

- Discussions with LB Members at earlier stages of the project;
- Previous Cabinet meetings (including discussions around the Haringey Development Vehicle project);
- The Tottenham Strategic Regeneration Fund;
- The High Road West Masterplan;
- The Tottenham Area Action Plan; and
- Requests for allocations as part of the Housing Zone funding scheme.

3.2 The outputs and ideas from the above documents and workshop sessions were collated to produce the overall objectives for this project. These objectives relate to the strategy of the council in relation to the overall project and do not set out specific physical or legal requirements for the finished development; these are set out in the delivery parameters section below. As currently drafted the council objectives are as follows:

- To deliver comprehensive regeneration of the High Road West area that creates a vibrant, attractive and sustainable neighbourhood and a new sports and leisure destination for London;
- To regenerate the Love Lane Estate, ensuring that all current secure tenants are rehoused in high quality homes within the area;
- To deliver a broad mix of tenures including innovative new affordable housing products and PRS in a tenure blind development;
- To provide new employment opportunities and deliver an increase in the number of jobs in the High Road West area;
- To deliver new community infrastructure that meets the needs of an increased population, including a new library learning centre;

- To deliver an uplift in the amount and quality of public space in the area, including a new public square, which is activated with community and other uses, to link White Hart Lane station to the High Road;
- To ensure the council maintains influence and control, above and beyond planning powers, to deliver the maximum possible public value;
- To ensure that any future development partner is committed to facilitating the delivery of the objectives set out in the Tottenham People Programme.

3.3 These objectives will be used in the first instance as part of the Soft Market Testing (SMT) process to inform potential bidders of the council's intentions. It is unlikely that they will change significantly between now and the start of formal procurement.

3.4 The objectives have been used as a key reference point in the evaluation of possible delivery structures that the council might pursue. In addition the objectives will be used as a key element within the drafting of the procurement documents including the legal framework presented as well as evaluation criteria, weightings and questions posed to potential delivery partners.

Fixed Scheme Parameters

3.5 The council's objectives provide a guide to the procurement and can be revisited at any stage of the project to measure overall performance. In contrast, the fixed scheme parameters provide a rigid framework within which the development and overall project must operate. Generally, the project will not proceed if the fixed scheme parameters are not being or cannot be met.

3.6 These parameters will be important at an early stage in the procurement process to give guidance to potential bidders as to the form of and restrictions to the type of development required.

3.7 The fixed scheme parameters have been devised from some of the same sources as the council's objectives. In addition, they contain reference to commitments that the council has made to the residents. The current fixed scheme parameters are as follows:

Assurances to the community

- The council and developer partner will need to meet the assurances set out in the Love Lane tenant and leaseholder guide and Business Charter.

Homes

- The council requires ownership of the replacement social rent units and secure tenancies will apply to all new social rented homes built;

- All social housing units used to rehouse Love Lane tenants will be set at a target rent. Any social rented units not used to rehouse Love Lane tenants may be rented at higher rents than social rented housing, at level between target and affordable rents;
- The council requires [45] shared equity homes to be offered to resident leaseholders on the Love Lane Estate;
- The council would like Homes for Haringey or the Borough-wide Delivery Vehicle to manage the new affordable properties; and
- The council requires residents to have one move only.

Land

- Transfer of the housing land will need to be conditional on obtaining Secretary of State's consent to dispose;
- Housing Act Demolition Notice served on 9th February, expires 5 years later with possible 2 year extension. Creates requirement to demolish all secure council housing tenants 2nd January 2022.

Development

- The council wishes the developer partner to deliver the affordable housing and community infrastructure, the council does not wish to take direct development risk;
- The council seeks innovation in masterplanning within AAP parameters; and
- The council requires financial transparency and open book accounting.

3.8 It is important that these parameters are fixed before the OJEU notice is issued and the formal procurement process is begun.

4. Delivery Options

4.1 In the context of the strategic case set out in Section 2, the following section explores the options available for a delivery approach which meets the council's objectives and fixed scheme parameters at HRW.

Should the HRW project be part of Borough-wide Joint Venture Vehicle?

4.2 Consideration has been given as to whether HRW (as well as the Northumberland Park – NP - project) should be included as part of the Borough-wide Delivery Vehicle package.

4.3 However, at this stage it has been concluded that the projects will remain separate due primarily to the following:

- The council would like to accelerate delivery across both HRW and NP. Putting them into the same vehicle is likely to lead to more of a sequential approach to both estate renewal projects (given proximity and similarity in nature); and
- The council has high ambitions for qualitative outcomes on both projects. Delivering both through a single JV partner or consortium may create risk in this regard due to a number of factors including lack of diversity of product and/or lack of market competition and/or undue pressure placed on single party/consortium to meet programme aspirations.

Type of Delivery Partner Sought

4.4 When considering delivery options the first question to consider is what type of development partner should the council be seeking? This question must be viewed in the context of market participants and the role that development firms are prepared to take when partnering on such estate renewal mixed-use mixed-tenure projects.

4.5 The HRW proposals will require expertise across four principal activities:

- Masterplanning and associated elements;
- Infrastructure/site servicing work;
- Speculative development including;
 - Residential development;
 - Commercial development; and
- Contracting elements including new affordable housing and community infrastructure built on behalf of the council.

4.6 In light of this, the council should initially consider the type of partner it is seeking under any prevailing delivery structure/route (i.e. development partnership or JV):

1. A single delivery partner or single consortium of parties

- There are relatively few single developers fully capable of providing an integrated development solution in all four activities in a way that maximises efficiencies and best practice.
- A consortium approach would rely on developers to 'marry up' in appropriate groups and would not necessarily enable the council to pick the most advantageous solution from each activity.

2. A lead delivery partner, most likely to be led by a partner specialising in some but not all activities

- Provide a single well-financed lead partner who could drive overall development strategy.
- Typically the lead developer would be responsible for masterplanning, planning and delivery of key infrastructure to the site which would serve all development plots/ uses.
- The lead partner may also choose to undertake a proportion of development activity (e.g. commercial development) or engage with specialist developers.

3. Separate structures for delivery of the infrastructure, commercial and residential components

- This maximises the council's control over selection of the residential and commercial development partners.
- Selection of separate development partners by the council for the commercial and residential components of the site could be run in parallel procurement exercises.

4.7 Based on the strategic case for delivery, as well as the council's current objectives and parameters for delivery, at this stage it is our opinion that Option 2 (a lead development partner, most likely to be led by a partner specialising in some but not all activities) represents the optimum approach, due to the following reasons:

- Has the advantage of placing risk with the lead partner but, but with appropriate measures put in place also ensures that the council's retains some ability to control selection of the downstream development partners.
- Allows for more control by council and lead delivery partner over delivery programming and design outcome.
- Enables more diversity in the development design outcome given likelihood that development will be delivered by a range of parties.

- The access and design layout on HRW is likely to require the delivery of common infrastructure which is not easily separable and requires a more integrated development solution, which in this case can be delivered by a lead development partner that may or may not then wish to undertake some or all of the other development activities on site (e.g. residential & commercial development).
- Could be compatible with a range of delivery structures including Development Agreements or Joint Ventures.

4.8 These factors are not necessarily mutually exclusive to the other two options available. In any case at this stage the council does not need to decide which of these options it absolutely needs to pursue; rather the assessment of these factors helps shape the analysis of available delivery structure options.

Delivery Structure Options

4.9 Taking into account the above analysis and findings (as regards the type of partner the council is seeking), in this sub-section we explore three possible delivery and legal structures as follows:

- Conventional Development Agreement;
- Partnership Development Model; and
- Joint Venture.

4.10 These are presented as distinct options but the reality is the council may elect to evolve a hybrid approach, particularly under the Development Agreement arrangements. There are also many variables in each structure but for the purposes of this report we have summarised the broad principles underpinning each.

Option 1- Conventional Development Agreement

4.11 There is no formal single definition of a “development agreement”, and the detailed circumstances and arrangements of each case are likely to be different. Typically though, the council enters into a Development Agreement with a Development Partner (DP) or Lead Development Partner (LDP), with land transfer usually conditional on planning and other matters (i.e. conditions precedent). Once the conditions precedent have been met, the DP/LDP is typically granted a long lease for the land and the land is transferred, or alternatively a building lease/licence is granted as appropriate.

4.12 The DP/LDP in this scenario will typically lead on and perform the majority of activities within the development cycle, including the delivery of masterplanning and infrastructure/site servicing work, as well as at least one of either the residential or commercial development (or combinations within

– e.g. just PRS and pre-sold commercial development). In this way the DP will extract returns through a combined profit on cost approach (e.g. Return on Capital Employed); typically in the region of 20% - 30%.

4.13 The DP/LDP may also use Internal Rate of Return metrics to assess the risk/reward balance. DP/LDP therefore takes control of the development and incurs all costs associated with planning, servicing and installing infrastructure to facilitate land sales, as well as construction and delivery of some/all of the speculative development aspects.

4.14 This approach proposal provides the council with contractual delivery from the DP/LDP but on an arm's length commercial basis. This reduces the risks to the public sector (relative to other options discussed), other than that which is crystallised upon land transfer. There is also the option in this scenario of creating a governance structure (for example by way of a Steering Group) that allows the council some influence over high-level development decision making.

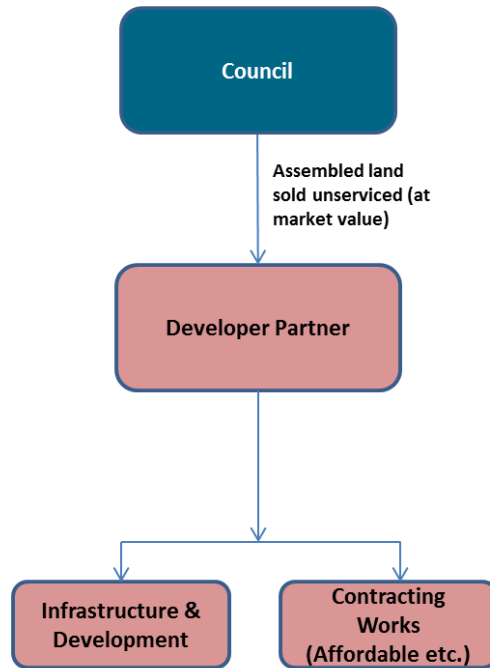
4.15 In these respects, the council could seek to engage its development partner for HRW to perform the following roles:

- Develop a masterplan and secure detailed planning consent;
- Take a transfer of the council's land, meeting the council's best consideration and State Aid criteria;
- Commit to achieving the council's required Quality Standards (and future specified standards);
- Procure, fund and manage infrastructure and site enabling works;
- Manage the overall development programme, dependent on agreed masterplan option;
- Commit to developing out the scheme within a specified timeframe.

4.16 Whilst the council may not legally contract to dispose of the site or phases within the site until relevant planning consents are granted, the development partner would fund the planning application process.

4.17 A structure diagram for this option is provided below:

Conventional DA



Option 2- Partnership Development Model

- 4.18 Sometimes referred to as a 'gain-share' approach, the council enters into a Partnership Development Agreement (PDA) with a Lead Developer Partner (LDP), with land transfer usually conditional on planning and other matters (i.e. conditions precedent). The PDA contains a Development Management (Services) arrangement by which the LDP delivers masterplanning and infrastructure/site servicing work.
- 4.19 The private sector partner acts as LDP, so that land is planned, serviced and sold off based upon the joint vision for the project. The LDP works closely with other specialist developers to ensure that quality is delivered and then maintained in perpetuity. Once the land is sold, the PSP doesn't seek returns from the house building, albeit the LDP may require the right to undertake a proportion of the development.
- 4.20 The LDP incurs all costs associated with planning, servicing and installing infrastructure to facilitate land sales. For this service the LDP receives a Development Management fee (typically £250,000 - £350,000 pa) which may rise in line with RPI over time. The Development Management Fee would only become payable upon the sale of prepared land, and only after the re-payment of pre-

agreed development costs incurred by the LDP related to the project (i.e. for planning, servicing and installing infrastructure etc). Once all costs and management expenses are reimbursed the remaining value is subject to a share between the LDP & council. This split is typically weighted heavily in favour of the council (e.g. 90%). Land revenue (through sales of serviced plots) above certain (agreed) threshold might be subject to a lower gain share to the LDP (e.g. 7% instead of 10%).

4.21 This proposal provides the council with additional controls and influence over decision making relative to Option 1, working alongside the LDP who is a long term partner but without the structure or bureaucracy of a corporate Joint Venture Company. This control could include business planning, planning application, construction specifications, quality and design and timescales for delivery.

4.22 One of the benefits of this structure is that it aligns the interests of the two organisations in terms of:

- Optimising cashflow;
- Delivering Value – but not at the expense of long term benefits;
- Long term benefit of place making; and
- LDP taking a reduced margin in lieu of not buying all of the land.

4.23 There is also more flexibility to create potential for further income streams to the council, such as providing debt funding to the scheme, engaging with Joint Ventures with developer partners, developing PRS on site etc.

4.24 Under this model there is the potential to deliver development on a phase by phase basis but crucially in a controlled manner which maintains the integrity of the original vision. But importantly the LDP ensures that all development partners deliver the scheme as designed by having a series of controls in place (e.g. selling land with detailed planning consent and ensuring that developers buy land on the basis that they have to build out the scheme in hand).

4.25 All of the above is protected legally and is made clear at the point of seeking a partner for a phase. Furthermore plot covenants may be imposed in each land transfer which seeks to protect the community by setting out some basic rules of what is and what isn't acceptable.

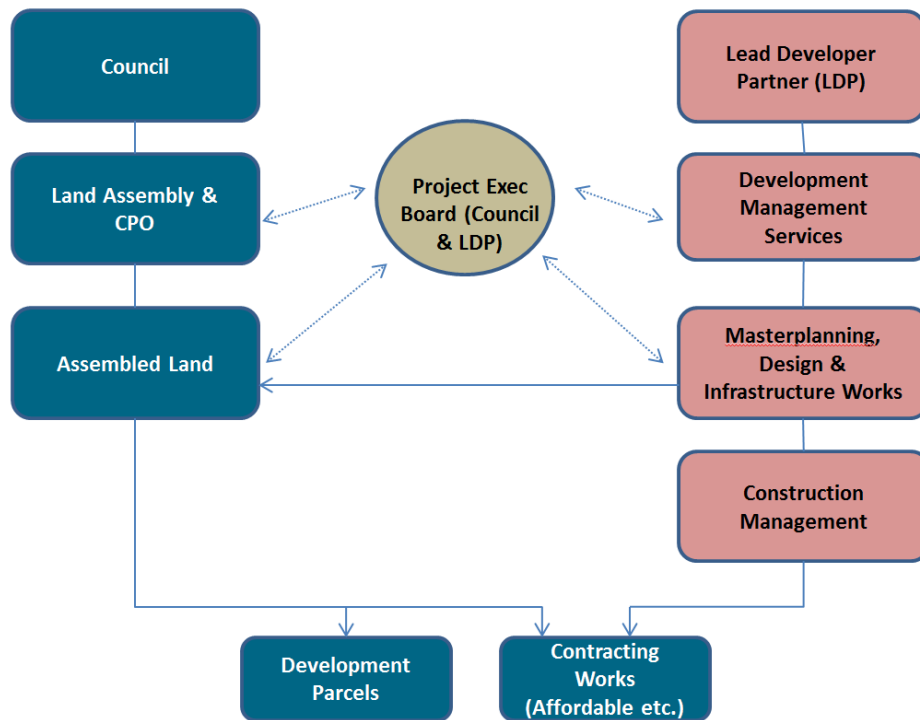
4.26 In this scenario the LDP may provide a service which addresses:

- Strategic site wide planning;
- Establishment and implementation of site wide strategies such as the marketing, branding, PR, and communications;

- Preparation and implementation of the delivery plans;
- Delivery of infrastructure required to facilitate the delivery of serviced plots for houses, schools and the district centre;
- Delivery of site wide and off-site infrastructure;
- Property & asset management;
- Project management of the contracting and professional team; and
- Monitoring of the developer parties delivering the on-site products (e.g. new homes, schools, care facilities)

4.27 A structure diagram for this option is provided below:

Partnership Development Model - DA



4.28 Please note that this is a simple structure for the purposes of comparison and does not by any means represent the only way that a Lead Development partner could be engaged. During the procurement process we would seek to refine and improve on this structure and bring in innovative ideas from the Private Sector to increase the benefits to the council.

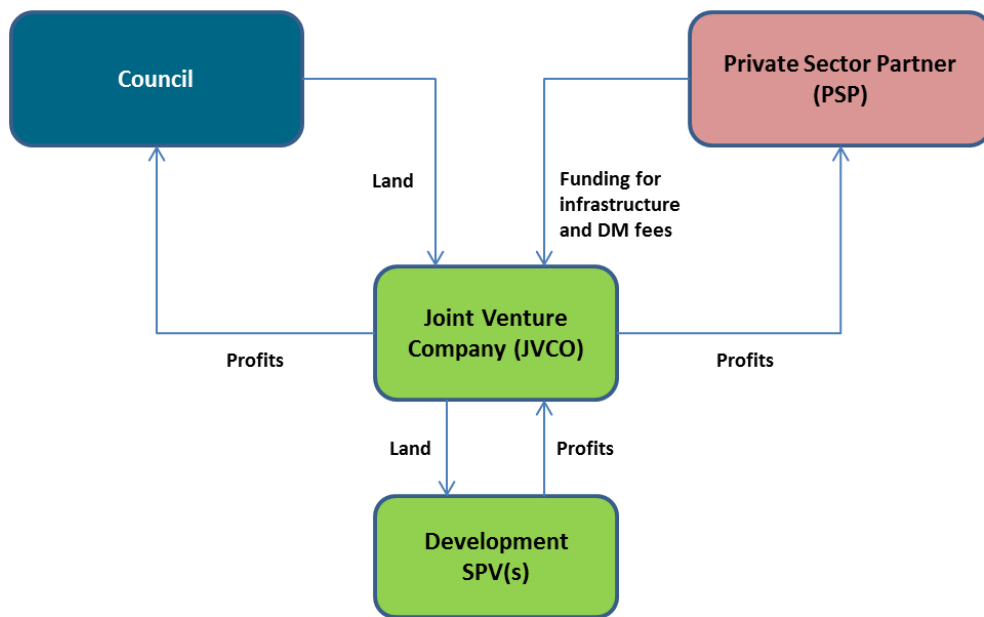
Option 3- Joint Venture

- 4.29 In this approach the council would sit in a joint venture vehicle which would be taking some or all of the development risk. The council would structure a Joint Venture with the private sector which would share in profits, taking into consideration risk and reward to both parties.
- 4.30 The Joint Venture itself would drawdown land from the council as required, and the partner would provide the necessary funding for infrastructure provision in return for a return on its investment. Construction and other service including project finance may be undertaken by the partner or procured by the Joint Venture.
- 4.31 The Joint Venture could decide to develop a phase itself through the House Building SPV i.e. a 100% owned subsidiary of JV; sell the phase to the partner; sell the phase to a third party house builder/developer; or joint venture the phase with a third party. Where the Joint Venture elects to develop directly, each serviced phase may have its own Development SPV. There may also be a requirement for the council and partner to provide further equity funding to the Development SPV(s) as required depending on the level of debt funding secured for the development phase.
- 4.32 Land would be sold to the Joint Venture by the council on a phased conditional land sale agreement basis (i.e. as with DA arrangements). The Joint Venture would also have a building licence granted over all the land to permit infrastructure works to be undertaken by the Joint Venture on land still held within the council's ownership (to be transferred in future phases). Land phases will be drawn-down from the council to the Joint Venture either upfront or when the phase has reached a state of readiness and conditions precedent are satisfied. Such conditions precedent could include:
- Detailed planning consent;
 - An agreed development appraisal;
 - Agreed in principle third party funding, if required, to deliver the development site; and
 - End Users.
- 4.33 In determining the land sale value, it is proposed that any works undertaken by the Joint Venture on the council land to be transferred and contributions made for the wider servicing infrastructure, either completed or on future phases, will be taken into account. The council would most likely leave its land in the vehicle as equity alongside the funding.
- 4.34 The Joint Venture would consist of a jointly owned master development organisation plus a series of wholly owned housing development subsidiaries. The Joint Venture would also enter into a Development Management Agreement with the partner for it to undertake development services

for both the Joint Venture and the proposed Development SPV(s) (a subsidiary of the Joint Venture for the purposes of developing serviced sites) in return for a fee. Development management services may also be provided by the council to the Joint Venture although on a limited basis. The JV could be 50/50 in decision making terms notwithstanding the economics between the parties, thereby providing control to the council.

4.35 A structure diagram for this option is provided below:

JV Model



5. Delivery Options Analysis

High-Level Financial Assessment

5.1 BGVA has undertaken high-level modelling of the three scenarios to estimate the possible returns to the council in undertaking each partnering scenario. The output of this modelling does not necessarily represent the actual cost of the development to the council; it is our estimate given the current development proposals and values. It is possible that the introduction of competitive tension and the expertise of the private sector would improve the financial position. However, the financial assessment does indicate the relative performance of each of the options and is therefore useful as a tool for comparison.

Key assumptions

5.2 In order to test the options against one another we have made some universal assumptions as to how the development is undertaken. These again reflect the strategic case context, BGVA's viability analysis undertaken to date, as well as the council's stated objectives and scheme delivery parameters. Some of them may be changed going forward however. The underlying assumptions are as follows:

- **The council transfers the assembled land to a partner/developer/JV vehicle with the benefit of vacant possession** and with good and marketable title, having assembled the land/property at a cost equivalent to full compulsory purchase (i.e. market value + compensation and disturbance), estimated to be circa £93m. Note that the CPO strategy, including how the process will be resourced and managed, has yet to be determined.
- **Land is transferred from council to partner/developer/JV vehicle un-serviced.** In reality the council retains the ability to service land before transfer (for example should this be a more optimal way of deploying public funding on a state aid efficient basis) but we (BGVA) are of the opinion that this is unlikely to be preferred by the council or be an efficient approach.
- **Land assembly is funded through money from the Housing Zone 2 allocation.** As previously stated in this report, the council is bidding for an allocation for the whole of North Tottenham. The application is currently with Treasury and we expect to find out the terms of the funding in November. The precise interest rate of the funding and repayment terms could have a significant impact on the financial viability of each option.
- **The council transfers the land to a partner/developer/JV vehicle at a Market Value that accounts for all predicted future costs and revenues** associated with servicing and developing the development sites thereafter, including requisite returns to delivery 'agents' (e.g.

developer partners). Note that full state aid analysis is required to ensure compliance with the sale of land guidelines for state aid.

In this way the analysis does not currently assume that the council is getting full reimbursement of its land assembly costs. This is because such an approach would render the ensuing development scheme unviable.

The transfer of land to the private sector partner or the Joint Venture will need to satisfy the council's statutory requirements (i.e. S123, best consideration reasonably obtainable and state aid).

- **The council provides no capital funding to deliver any elements of the scheme** beyond the initial site assembly, albeit it will influence the ensuing process to more or lesser extents depending on each structure.

In this way the options assume that the private sector will directly fund all of the development process after the initial site assembly stage. There is the potential for the partner/JV to seek to raise other funding, including debt funding.

Also, the option remains for the council to lend into the scheme in each option, subject to ring-fenced business cases and State aid compliance.

- **Infrastructure costs are estimated in absence of a detailed infrastructure budget.** The current financial model uses an estimate for the infrastructure costs based on an analysis of comparable projects elsewhere. In order to improve the accuracy of this modelling, the council has commissioned an infrastructure cost study for the subject site. It should be noted that should this study indicate that the infrastructure requirements are significantly different from our current assumptions, this will impact the viability of the development scheme.

5.3 Our assessment of the financial implications of the options are summarised in the table on the following page:

Financial assessment of Delivery Options

This assessment is EXEMPT.

5.4 As shown in the table, all three options show a significant negative net balance to the council (shown as net public sector balance owing to the expectation of external Mayoral and/or Central Government funding). The values (including a regeneration uplift) of the completed residential, retail and leisure units that will be constructed are not sufficient to yield a positive net financial position for the council, albeit the proposed delivery structure ensures a viable scheme position (on the basis that the council is underwriting the land assembly costs).

Strategic Review of Delivery Options

5.5 A strategic review has been undertaken of these potential delivery options. The various options have been considered in turn below, by reference to a number of assessment parameters drawn from the following:

- The extent to which they will support the council in fulfilling the aims of the Corporate Plan and Strategic Regeneration Framework for Tottenham;
- The extent to which they meet the required project outputs and objectives of the council; and
- The high level pros and cons of each option.

5.6 Each option is assessed on a score range of 0-5, wherein zero is the lowest performing score relative to the assessment parameter, and five is the highest.

Assessment of Partnership Options against Project Objectives

Assessment Parameter	Option 1 – Conventional DA	Option 2 – Partnership Development Model	Option 3 – Joint Venture	Comment
Balancing the Council's capital receipts with long-term revenue	2	2	3	<p>Option 3 offers the most flexibility to secure long-term revenue. However, this is based on putting the council's capital, i.e. land into the joint venture and returns i.e. profit is not guaranteed.</p> <p>All options offer opportunity for council debt-funding development, which will deliver a margin on lending for the council.</p>
Extent to which option relies upon the skills and experience of council	4	2	1	<p>Option 3 requires significant resource commitment from the council, which will require an on-going revenue budget.</p> <p>Option 2 will also require the same, but to lesser extent.</p> <p>Option 1 requires the least development skills and experience and will have the least revenue costs for the council.</p>
Extent of private sector investment against council investment	5	4	3	<p>In Option 3 there is a share split in investment between public and private sector.</p> <p>Option 2 requires 100% private sector investment (following land assembly) however, the Council's land is placed at some risk.</p> <p>Options 1 requires 100% private sector investment (following land assembly) with no risk being placed on the Council's land.</p>
Extent to which facilitates the leveraging of external forms of public funding	4	2	4	<p>In option 2 the LDP (not owning land) is more constrained in terms of securing external public funding (e.g. Build to Rent Fund).</p> <p>In Option 3, as a private company a JV public/private vehicle is as able to secure such funding as in Option 1.</p>
Deliver a broad mix of tenures including innovative new affordable housing products and PRS in a tenure blind development	3	4	4	<p>Both option 2 and 3 provide opportunities for innovation. Option 1 may meet these objectives but the lower level of control from the council means it will be difficult to control the development post-commercial close.</p>
To ensure the council maintains influence and control, above and beyond planning powers, to deliver the maximum possible public value	2	3	4	<p>In Option 3 the council maintains a veto power on actions of the vehicle, in Option 2 it is able to influence the actions of the developer through a Project Exec Board (or similar).</p> <p>Through appropriate governance structures and contractual bases, in</p>

Assessment Parameter	Option 1 – Conventional DA	Option 2 – Partnership Development Model	Option 3 – Joint Venture	Comment
				Option 1 it may also be possible to secure influence over some key decision making, albeit this is less pronounced than in Option 2.
To ensure that any future development partner is committed to facilitating the delivery of the objectives set out in the Tottenham People Programme	4	4	5	A high degree of control in this respect can be achieved by way of the partner procurement competition (& resulting contract structure); albeit through a JV these powers of control and influence are greater.
The council wishes the developer partner to deliver affordable housing and community infrastructure.	4	4	4	All three options allow the council to specify and deliver such minimum requirements.
The council does not wish to take direct development risk.	5	3	1	In option 1 the council's risk is crystallised at the point of commercial close and it will not participate in development risk. In Option 2 the council takes some land price risk and in Option 3 the JV acts as developer and therefore is fully exposed to development risk.
The council seeks innovation in masterplanning within AAP parameters	3	4	4	Subject to the council providing for such flexibility, all three options allow for innovation in this respect, albeit in Option 1 the partner is typically asked to innovate and crystallise a scheme through the procurement process; whereas in options 2 and 3 the schemes tend to develop more following commercial close.
The council requires financial transparency and open book accounting	2	3	4	All three options allow for open book accounting. However, in Option 3 the council will have full access to the accounts of the vehicle. In Option 2 the council will have visibility such matters via a Project Executive Board. In Option 1 the council will inevitably have less access to the accounts of the developer.
Private sector appetite taking into account nature and scale of development	5	3	1	The relative lack of development scale, complexity of delivery, and extent of competing JV schemes across London (incl. the planned LB Haringey Delivery Vehicle) mean that JV approach carries significant market appetite risk. This noting that JVs of this kind attract a 'narrow field' of interest. Option 1 and 2 are more conventional with wider appeal.
Total score	43	38	38	

5.7 The assessment above shows Option 1 – Conventional Development Agreement Model to be the highest scoring option, followed by the Partnership Development Model and Joint Venture options both five points behind.

6. Preferred Option

- 6.1 The analysis sets out in detail the financial implications of the delivery options considered, as well as the qualitative advantages and disadvantages of each in the context of the council's strategic objectives.
- 6.2 The conclusion from our findings is that the most advantageous route for delivery would be by way of **Lead Development Partner contracted to the council by way of a Conventional Development Agreement**. The option scores the equal highest in terms of financial return to the council and also the highest in terms of our qualitative assessment against the council's corporate and project-specific objectives for HRW.
- 6.3 This approach would contract a development partner or lead developer to deal with site preparation, planning, infrastructure and (should the council so choose) a prescribed proportion of development (e.g. defined by location, use type and/or quantum).
- 6.4 We further set out our rationale for this conclusion below:

Conventional development agreement model

- 6.5 This is preferred over both the partnership development model and the JV because it more closely meets the council objectives and should facilitate a simpler partner procurement process and (potentially) expedite the masterplanning process, given bidders will more likely crystallise a scheme through the procurement process instead of developing one with the council after bidder selection.
- 6.6 By empowering the private sector to deliver a development solution across the site, developers will also have more confidence that the project can proceed without burdensome governance requirements.
- 6.7 The council will set the up-front parameters of the development in the development agreement contract. The evaluation matrix shows that this level of control is sufficient to meet the council's requirements, the must-have elements of the development will be given high importance in the procurement negotiation and ultimately enshrined in the final contract.
- 6.8 This option is simpler than the other two options and is a far more common approach across the development industry. This means that it is likely to appeal to a broader range of potential development partners than the options with more complex governance arrangements. This in turn should lead to more interest and potentially greater competitive tension in the bidding process.

- 6.9 The requirements of the council and the development partner will be fixed at the point of contractual completion. Through the procurement process, the council will be able to adjust the terms of the final development agreement to incorporate innovative ideas that are put forward by bidding parties. In this way the council can refine its control on the development and optimise the form of development that is ultimately delivered.
- 6.10 We must also bear in mind that the council is promoting a separate joint venture development vehicle at the same time; HRW will be competing with this and other partnering opportunities across London (note: we estimate that at least six OJEU/LDP development partnering opportunities will be marketed in Q4 2015/Q1 2015). It is sensible therefore to offer a product to the market which will be cheaper and simpler for developers to bid for and will therefore be likely to attract more commercial interest.

Structure & Operation

- 6.11 The development agreement document will contain details of the following:
- The general administrative obligations and responsibilities of each party;
 - The masterplanning and planning application parameters;
 - The stakeholder consultation requirements of the lead developer;
 - Plot servicing levels and land disposal arrangements;
 - The make-up, meeting intervals and responsibilities of the steering group;
 - Other requirements from each party, as required.
- 6.12 As shown in the structure diagram earlier in this report, the developer contracts directly with the council and so there is no additional decision-making body created. However, we would envisage that the contract dictate a Steering Group be formed which brings the developer and the council together. This group will have a 50/50 split of members from the council side and developer side. It will not have any executive powers per se, but it will be the vehicle through which the council is kept up to date with the operations of the developer and progress of the development.
- 6.13 The group will receive reports on various matters through the delivery process, including for example performance against milestones. It will be for the lead developer to demonstrate that it is fulfilling its contractual obligations to the council to make sure that land draw-downs and other council requirements progress smoothly.

Type of Partner

- 6.14 Although based on our assessment in Section 4 we at this point in time consider that the council may be best suited seeking a Lead Development Partner that might undertake some, but not all, of the required activities on site; we are purposefully not prescribing a particular type of partner at this stage as we do not want to prejudice the procurement process with a foregone conclusion.
- 6.15 The upcoming soft market testing process will explore the aims and requirements of the current market players and will guide the structure of partnership offered to the market. Notwithstanding this, the procurement process will allow a range of potential bidders to come up with solutions within the framework provided.
- 6.16 It is likely that the preferred development partner will be required to meet the following criteria, amongst others:
- Stakeholder and community engagement experience;
 - Land assembly and CPO experience, notwithstanding that actual site assembly costs are envisaged to be met by the public sector;
 - Considerable masterplanning and infrastructure development management experience;
 - Experience of contracting with a public sector body;
 - Experience and track record of managing other developers;
 - Access to necessary levels of equity and debt funding; and
 - Innovative approaches to development delivery.
- 6.17 It should be noted that this is by no means an exhaustive list of council requirements but is intended to show the range of characteristics that an appropriate development partner may have.
- 6.18 There are a number of firms that could meet the criteria ranging from pure housebuilding firms through to contractor/developers. We have designed the soft market testing process to include a range of firms from across the industry to ensure that a broad range of opinions and perspectives will inform the delivery and procurement framework offered to the market.

7. Procurement Options

7.1 The council has instructed Eversheds LLP to provide advice as to the procurement route options available for the High Road West project. This section of the report is extracted from a briefing note produced by Eversheds LLP in September 2015.

Procedures available under the Regulations

7.2 *There are five main procedures available under the Regulations for the award of contracts, which can be categorised broadly as those procedures which are freely available and those procedures which have conditions for entry. The open, restricted, and innovation partnership procedures fall into the former category whereas the competitive procedure with negotiation and the competitive dialogue fall into the latter category.*

7.3 *The open and restricted procedures are available for straightforward procurements where the contracting authority's requirements are known and it only requires tenderers to bid in response to a set specification and contract. In contrast, the competitive procedure with negotiation and the competitive dialogue are considered to be exceptional procedures for complex contracts which can only be used once certain conditions are satisfied. Once a contracting authority determines it has grounds to use one of the exceptional procedures, it has much more flexibility to negotiate its requirements including in relation to its specification, legal documents and financial documents, unlike under the open and restricted procedures. Therefore, we do not consider that the open or restricted procedures are suitable for the development. We do not consider that the innovation partnership is relevant to the development and so do not consider this further in this note.*

7.4 *We have advised previously that we do not consider that any exemptions apply to the development and that the development will be subject to the full scope of the Regulations. We do not propose to repeat this advice here.*

Use of the competitive dialogue procedure

7.5 *Regulation 26 provides that the grounds for use of the competitive dialogue and competitive procedure with negotiation are the same and provided one or more of the conditions for use are satisfied, contracting authorities have a free choice between using the competitive dialogue and the competitive procedure with negotiation. Our view is that the competitive dialogue would be preferable to the competitive procedure with negotiation for the proposed procurement of your developer partner. This is on the basis that under the competitive procedure with negotiation it would not be possible to carry out any negotiations with the preferred bidder following the*

submission of final tenders. In comparison, there will be greater flexibility for at least some further discussions at that stage in the context of a competitive dialogue procedure. We can provide further detail in relation to this if required.

7.6 The grounds for use of the competitive dialogue and the competitive procedure with negotiation are as follows:

- With regard to works, supplies or services fulfilling one or more of the following criteria:—
 - The needs of the contracting authority cannot be met without adaptation of readily available solutions;
 - They include design or innovative solutions;
 - The contract cannot be awarded without prior negotiation because of specific circumstances related to the nature, the complexity or the legal and financial make-up or because of risks attaching to them; and
 - The technical specifications cannot be established with sufficient precision by the contracting authority with reference to a standard, European Technical Assessment, common technical specification or technical reference.

7.7 Each of the grounds has been subject to detailed consideration in case law and academic commentary, as the circumstances are similar to those previously contained in the Public Contracts Regulations 2006 (as amended), which preceded the Regulations. We can provide further detail in relation to this if required but it is our view is that given the council's objectives and the fact that the council's requirements and contract documents will need to be negotiated with tenderers, the council can rely on the circumstances described in 4.2.1.1 (needs of the contracting authority cannot be met without adaptation of readily available solutions) and 4.2.1.3 (requirement for negotiation because of the specific circumstances related to the nature, the complexity or the legal and financial make-up).

7.8 Under the Regulations, it is up to the council to self-certify that one or more of the above grounds apply if it wishes to use the competitive dialogue procedure. The council will need to include its rationale for use of the competitive dialogue in its regulation 84 report and we also recommend that the rationale is included in the contract notice published in the Official Journal of the European Union and the procurement documents.

Conclusion

7.9 We do not consider that any exemptions apply to the proposed development and that the development will be subject to the full scope of the Regulations.

7.10 *Given the complex nature of the council's requirements for the development and the need to engage with tenderers on the legal documents, we consider that the competitive dialogue procedure is the most appropriate procedure available under the Regulations.*

8. Conclusions & Next Steps

Conclusions

8.1 We have set out the case for the preferred option of a Development Agreement model and have described why it is the best fit for the council's objectives at High Road West. We recommend that the council resolves to proceed with the procurement process on this basis.

8.2 This option constitutes a high-level strategic approach, it is not a fully worked up proposal but instead is designed to provide a sanctioned framework to the procurement process. We expect that the objectives and the delivery strategy will not undergo significant change between now and the signing of the development agreement. However, it is worth noting that they may be focussed and refined in light of the following:

- The findings of the soft market testing process;
- The output of the infrastructure cost review;
- The terms of the Housing Zone 2 funding allocation;
- Further refinement of the councils objectives to inform bid evaluation criteria; and
- The Competitive Dialogue procurement process itself, in which innovative solutions will be sought from bidders and negotiations will be carried out to further refine the delivery solution.

Next Steps

8.3 Assuming the council provides its approval to proceed with the procurement, the next stages in the process will involve the council, BGVA and Eversheds LLP working closely together to undertake the following actions, amongst others:

- Complete Soft Market Testing;
- Prepare evaluation criteria and assessment matrix;
- Agree communication strategy;
- Prepare Heads of Terms for development agreement; and
- Prepare all other procurement documents and begin formal procurement.

8.4 We are aware that the council is in the process of procuring a project manager to support the current officers throughout the forthcoming process. OJEU procurement processes are resource intensive and we would therefore emphasise the importance of this appointment, as well as consideration of the resource requirements through the delivery of the HRW scheme itself.