

ASSESSMENT OF THE DELIVERY
OPTIONS FOR THE BRIMSCOMBE
PORT DEVELOPMENT

13 September 2018



**STROUD
DISTRICT
COUNCIL**
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Document History

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1.0 EXECUTIVE SUMMARY

Brimscombe Port presents a significant placemaking opportunity that will not only deliver much needed housing in the District, but also create a new waterside destination for both the local community and visitors alike. First considered by Stroud DC and Homes England¹ about 8 years ago, it is expected that the current scheme will:

- Restore the canal and basin at Brimscombe Port, providing a centrepiece for the remainder of the development
- Deliver new infrastructure to provide improved access to the Port and mitigate flood risk on the site in anticipation of the more substantive development to follow
- Deliver a residentially-led mixed use development of more than 170 dwellings, together with more than 1,000m² of commercial space.
- Create new community facilities as an integrated part of this development in partnership with the Parish Council

Over this period of time, stakeholders in the scheme have developed a vision for the new Brimscombe Port and aspirations on what it may deliver in terms of place and product. The intellectual and financial investment from these stakeholders also means there is a preference that the public sector should remain a partner in the delivery phase to help realise this vision into reality. Part of the work undertaken to inform this report has sought to clarify this vision and these aspirations and test the deliverability of these with potential supply chain partners. Through a soft market test exercise, stakeholder aspirations have been found to be broadly deliverable alongside a strong support for a partnership-led scheme comprising both public and private sectors.

The primary cause for concern identified by potential partners is viability of the scheme, not only in terms the basic economics of the scheme but also having a delivery programme that allows new houses to come to market at a sustainable rate. In this report, the viability of the scheme has been assessed and, at this early stage, it is anticipated that the scheme is deliverable with an acceptable level of “headroom” in the appraisal. This provides some confidence that further investment to advance the scheme is merited.

Given the preference of both stakeholders and the market to deliver the scheme in partnership and having provided comfort over the deliverability of the scheme, this report recommends that SDC now move into a preparatory phase to procure a partner. To expedite the scheme in the most efficient way, there are a number of activities that can be undertaken alongside the planning processes to prepare procurement documentation in readiness for commencing procurement in early 2019 once planning consents have been secured. The processes to select a delivery partner will need to be cognisant of market concerns on viability articulated above, and efforts will need to be made to provide comfort to the market that these points have been addressed to ensure there is sufficient market response once the procurement is launched. In the short term, this will manifest itself through the continued pursuit of planning consents for the infrastructure that will support the scheme as this represents a very significant de-risking of the scheme.

The preparatory work will require both financial and people resources to deliver, but should enable a partner to be secured during 2019. This procurement process will further develop proposals, providing greater comfort to SDC prior to any significant commitments being made. Once engaged, SDC and their partner can then move forwards positively and with an expectation of commencing on the realisation of the new Brimscombe Port in 2020.

¹ Previously the Homes & Communities Agency

2.0 PURPOSE AND SCOPE

2.1. Purpose of this Report

The purpose of this report is to:

- consider the deliverability of the Brimscombe Port development, which has previously been the subject of market failure in 2012;
- consider the options available to Stroud District Council (hereafter “SDC”) to deliver the Brimscombe Port development and recommend the most appropriate route having regard to all of the relevant factors.

In doing the above, it is hoped that SDC can progress the site as soon as possible and minimise the risk of committing significant time and resources to the scheme only to meet with market failure once more.

2.2. Scope of Activity

In completing this report, Gleeds has been engaged by SDC to undertake the following activities;

- Provide advice and support in assessing the delivery options available to SDC and determining, through engagement with senior stakeholders, which of these would be the most appropriate means of progressing the scheme having regard to:
 - Time;
 - Limitations on Council resources: time and money (recognising any competing demands and corporate priorities);
 - Appetite for risk.
- Development of a delivery strategy for the Council based on the outcomes from the above integrated with the current design activities and pursuit of consents for flood alleviation and masterplan works, in particular:
 - Developing financial structures based on the preferred option from above;
 - Refining the scale, mix and tenures of accommodation to be provided to optimise the scheme in line with Council expectations and the requirements of the market through a range of development appraisals that reflect these different commercial structuring options.
- Undertaking soft market testing (SMT) with potential partners to establish market appetite and refine the proposition as might be appropriate in order to stimulate competition in the OJEU process to follow. This market consultation would be undertaken consistent with best practice and is reflective of ensuring fairness and transparency in the subsequent tendering process.

3.0 CONTEXT AND BACKGROUND

3.1. Historic and Current Status

Brimscombe Port was at one time the largest inland port in the Country dating back to the 1780's. Following the decline in canals the Port became redundant. The canal was in-filled in the 1930's and the site developed as an industrial estate during the 1960/70's.

Today the industrial estate is now dilapidated and the land that it sits on has a legacy of contamination following the tipping of waste into the old canal basin.

3.2. Current Opportunity

Brimscombe Port offers a residential led development opportunity on a 7-acre brownfield site owned by SDC.

The scheme presents a number of opportunities and challenges;

- Funding has been secured from Homes England (HE), supplemented by funding from the Council to restore the canal that originally passed through the site, which would create a significant focal point for any scheme. This includes for a basin development that will house a number of moorings, some of which could be residential. The Stroud Valleys Canal Company (hereafter "SVCC") was established to manage this and retain long term ownership and stewardship of the restored canal which would include the section and basin at Brimscombe Port.
- A significant proportion of the site currently sits within the 100 year flood plain of the River Frome which also flows to the [southern] edge of the site.
- The site is already designated for residential use within the Local Plan and therefore is consistent with SDCs aspirations. The scale of potential development is such that some commercial and/or leisure uses would be appropriate as part of a residentially led mixed-use development.
- New access arrangements would be required from the A419, including a bridge crossing on Brimscombe Hill [spanning both the canal and river]. The A419 is sited at a considerably higher level than the site, which is broadly level and is currently mainly occupied by industrial units. SDC has confirmed that it is able to secure vacant possession of these units and is currently planning to achieve this no later than January 2020.
- Within the site are a number of listed buildings. These can in all likelihood be beneficially integrated into any development to enhance the setting.
- The scheme is supported by the Parish Council, who have made a commitment to consider funding new community facilities within any development to replace the existing aged nearby facility.

3.3. Funding Sources

Funding has been secured from several sources:

- SDC have pledged contributions totalling £4.1m. £1m has been spent on the scheme to date, in particular the work to develop a solution to the flood plain and to maximise the developable area of the site. The balance remains available to invest in the scheme and is included in the financial appraisals.
- A loan agreement has been signed between SDC and HE which provides £2m of loan funding for the scheme, repayable by SDC from any development proceeds². This agreement dates back to November 2015 and given the passage of time, a number of the provisions within it have become out of date. SDC is in the process of renegotiating this agreement with HE and it is anticipated that this report will act as an informant to that renegotiation with particular reference to the timescales for the development.

² The terms of this agreement as drafted also provides that SDC make further payments from development proceeds up to a further £7.7m in consideration of the original transfer of the site from SWRDA to SVCC.

- The Parish Council commitment to fund new community facilities has been confirmed in principle but the amount of support to be provided is yet to be ascertained.

The scheme was originally taken to market in 2012, but only one bid was received that had a negative land value of between £3.5m to £5m. This was prior to the above financial commitments being made. In the intervening period, SDC has also applied for funding from the Local Enterprise Partnership but has not been successful.

4.0 SCOPE OF THE PROJECT

4.1. Scope Requirements

The complexity of the scheme and the challenges it presents means a diverse range of activities that will be required in order to successfully deliver the Brimscombe Port development. In summary these comprise:

- Professional services: design team services including substantial engineering input to bring forward a deliverable scheme;
- Ecology and sustainability works – site surveys: ground investigations, environmental investigations, etc;
- Demolition works – existing warehousing, etc;
- Infrastructure works (including any temporary works) to cover;
 - excavation and construction of the new canal channel and basin including lock and towpath
 - construction of the flood alleviation works to the River Frome including culverting proposals, overflow weir, etc. as it connects with the reinstated canal
 - construction of new highways and public realm, including bridges over both the canal, river and surface water drainage proposals and access onto the A419
 - potential earthworks to adjust site levels, construction of retaining walls, etc. This ideally includes distribution of arisings from the above works, including the stretch of canal from Brimscombe Hill to Gough's Orchard lock
 - utilities diversions and potential upgrades
- Construction works – new community building/facility;
- Developer activities – housing – multiple archetypes and potential products, commercial premises, etc.

4.2. Site Constraints

The site is within a flood zone and therefore extensive flood alleviation measures will need to be implemented to maximise land available for development. A detailed scheme has been designed by Atkins in consultation with the Environment Agency to achieve an outcome that permits the scale of residential development envisaged. This is due to be submitted for planning consent in Q4 2018. This consent is a key element in de-risking the scheme before engagement with the market.

4.3. Works Undertaken

SDC has committed to de-risking the scheme and has commenced on some of the above activities at the “front-end” of the development process including:

- Selected ground investigations, topographical, utilities and drainage surveys;
- Selected environmental/ecological surveys;
- Arising from the above, the design and shortly the implementation of bat preservation arrangements prior to selected demolition of an existing dilapidated structures;
- Conceptual/master-planning of the site, a development brief and design guide.

5.0 SCHEME IMPERATIVES AND ASPIRATIONS

5.1. Understanding Stakeholder Requirements

A consultation workshop was held on 9th July in the Ebley Mill Council Offices. Attendees included a mixture of Members, Officers, SVCC and Brimscombe and Thrupp Parish Council members.

Through a facilitated workshop arrangement (a copy of which can be found in Appendix D), the following matters were explored in relation to the nature of the Brimscombe Port development and how it might be delivered;

- Development imperatives, constraints and parameters
- Development aspirations and priorities
- Identification/validation of key stakeholders
- High level overview of delivery options
- Planning strategy

5.2. Development Imperatives, Constraints and Parameters

The workshop established that first and foremost, the absolute imperative was to ensure the development can be delivered as one of the key strategic housing sites for SDC. To meet this imperative, the stakeholders acknowledged that there was some flexibility in most variables however a number of key considerations were noted that reflect commitments and messaging made to date;

- Reinstatement of the canal and associated infrastructure including the towpath, site remediation and flood alleviation is obviously at the core of the development. The canal will act as a key placemaking component and will provide an attractive setting for the community and a potential visitor destination. Nothing in the development should materially compromise the premise that the canal regeneration is at the heart of the scheme. Delivery of the scheme is expected to act as a catalyst for adjacent development alongside the reinstated watercourse and provide an impetus to ‘Stage 2’ of the canal restoration to connect Stroud to Stonehouse, currently planned to commence 2019/2020 for a 2023 opening and for which provisional funding has been secured by SDC and SVCC through the Heritage Lottery Fund (it is hoped that the success of this development will secure additional funding for the remaining stretches of the original canal to be reinstated – the missing gap).
- A low density “executive home” type residential development will be dismissed. Consistent with the above, a higher density development will not only provide greater choice and opportunity for the community but it will also add to the sense of place. It will also provide housing that will address current housing need i.e. 2 – 3 bedroom dwellings through a mixture of homes and apartments.
- There is a commitment to provide new community facilities, albeit no commitment exists in terms of the form and scale these may take. As a minimum (and assuming that the existing nearby community facility is replaced) then any new facility must include community meeting space broadly on a like-for-like basis to maintain the commitment of the Parish Council.
- There is a requirement for a small amount of accommodation for the facilities for boaters and SVCC will have a pre-emption right for the Salt House building for these.
- Whilst there is no definite idea on commercial/retail units/offices, there is an expectation that there will be a ‘mixed use’ element, again linking back into the placemaking objectives above.
- With the exception of affordable housing provision which will clearly be subject to the overall viability assessment, the general standards of development sought by SDC through the planning function (sustainability, etc.) should be respected as a minimum requirement.

5.3. Development Aspirations and Priorities

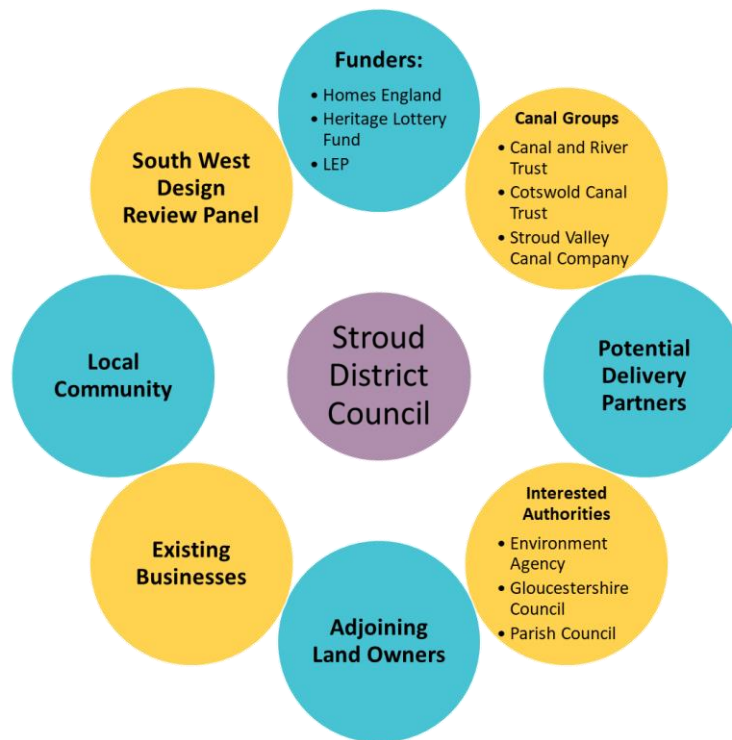
Over and above the imperatives above, the stakeholders expressed a range of features that they would like to see as part of any development solution. It was recognised that the delivery of some or all of these was highly dependent on the ultimate viability of the scheme and the workshop concluded that none of these were so fundamental as to become a “showstopper” were they not to be achieved.

- Maximise affordable housing provision up to policy level in support of SDC’s affordable housing target.
- Achieve completion of the Brimscombe Port development at the earliest opportunity, ideally no later than 2022/23 consistent with the programme previously developed by SDC.
- Based around the community facility, create a more substantial community “hub” that potentially ties in more expansive community uses, retail/leisure uses, facilities for canal boat users, etc.
- Recognising that through the planning function, there are controls in place that ensure designs will be of an acceptable standard, there is an aspiration to go beyond this and deliver an ‘exemplar design’ to act as a ‘beacon’ for other developments within the District.
- Enable job creation with local enterprise and business opportunities. It was acknowledged that this could take many forms, but ideas included:
 - Small business units to compliment those already provided in the Old Mill, perhaps targeting certain types of businesses or focusing on business incubation;
 - A vibrant retail offer, supporting the desire to create a visitor destination.
- Provide residential moorings on the canal (these will be provided and maintained by SVCC) to increase the diversity of the residential offer.
- Drive higher standards of sustainability, noting that the bar on issues such as Sustainable Urban Drainage Systems (SUDS) will already be high as a result of the flood plain issues.
- Provide additional ‘public realm’ space where possible including children’s play facilities.

In addition to the above and through the debate, it was also established that there may be some benefit in exploring whether or not alternative housing products could/should be included as part of the development. Examples cited included private rental, extra care, over 55 living, etc.

5.4. Key stakeholders

The following key stakeholders were identified and/or confirmed during the workshop. A stakeholder engagement plan will need to be developed at the next stage to support the delivery of the development.



5.5. Delivery options

Through the workshop, the discussion on delivery options primarily focussed on:

- The desire of the public sector to directly control and influence the nature of the development beyond that it may be able to do so using only SDC’s statutory powers as the planning authority.
- The appetite of the public sector to participate in a risk/reward structure and share in development risk. This extended to the ability and appetite of SDC as the lead authority to financially invest in the scheme over and above its current commitments to assume a greater share of the risk/reward arrangements.
- The ability of the public sector to assemble and coordinate the skills, capability and capacity to drive the development forwards in an optimal fashion.

In summary the stakeholder conclusions were:

- The extent of investment made to date in the work undertaken to design the infrastructure solution, assemble the stakeholders and develop the masterplanning principles means that there is now a clear vision that should be preserved as the scheme matures. The best way to do this was for SDC to retain a material role in any delivery arrangements to protect this investment and act as a conduit for wider stakeholders.
- Further to the above, the principle of an active involvement is further reinforced by the fact that through SVCC and potentially both SDC and the Parish Council, the public sector may retain a long-term interest in managing various elements of the completed development and therefore appropriate control needs to be in place to understand and shape the outcomes accordingly.
- It was equally recognised however that as a relatively small local authority SDC does not:
 - have access to substantial financial resources that could be speculated on the success of the development. There may be some appetite for taking a greater role in development risk/reward but this would need to be understood fully before any commitments could be

made.

- have the internal resource capacity or capability to manage a development of anything like the scale of Brimscombe Port. This capacity could potentially be secured through consultancy support however this would still require substantial management and oversight that is beyond a “business usual” activity. As such, there is a clear need for suitable resources to be secured and managed with a level of expertise that could be appropriately provided by a suitable private sector partner.

On balance, the view of the workshop is that a development partner would be needed and given that the public sector would not wish to cede all control to a developer, some form of partnership arrangement would offer the best solution.

It was noted that Brimscombe Port is unlikely to be the first of several development opportunities: other sites in public sector control are both limited in number and much smaller in size. Based on this, it was agreed that any partnership arrangement would be a one-off.

5.6. Planning Strategy

The general consensus of the workshop is that, consistent with the intended strategy, the infrastructure design to address the flood plain issues should be submitted to secure planning consent once completed. This would represent a significant de-risking of the scheme for any potential delivery arrangement to follow.

In terms of the residential development, two different strategies were considered during the workshop:

- Option 1: Development Brief. Given that the site is already allocated in the Local Plan for residential uses, a development brief has been developed and could be adopted to provide guidance on the nature of development to be delivered. This development brief could then act as a reference point in any planning discussions.
- Option 2: Outline planning application. SDC could use the 2017 masterplan/conceptual design (subject to any amendments that it may wish to make) to secure an Outline Planning Consent with the intent of demonstrating the acceptability of a mixed-use development and establishing an “in-principle” layout and massing arrangement.

It was concluded that there is no compelling reason to prioritise one of these options over the other as both had their merits and disadvantages. It was acknowledged however that the strategy needed to:

- Keep the solution flexible to allow the market the opportunity to deliver a creative solution;
- Outline the vision and scope of key deliverables to safeguard their delivery.

It was agreed that these options would be explored with potential partners during the Soft Market Test to see if there was a market preference.

6.0 POTENTIAL PARTNER VIEWS

6.1. Soft Market Test Process

A Soft Market Test was held in August 2018, engaging with a number of potential delivery partners to:

- test the draft development strategy
- secure feedback on opportunities to make the scheme more attractive
- understand the general appetite to bid for the scheme.

A range of Registered Providers (RPs), local/regional and national developers and niche/specialist developers were contacted as part of the SMT. The numbers of consultees was increased to reflect the holiday period and the likelihood of a lower response rate as a result of this. Consultees are listed below.

[REDACTED]

To facilitate the SMT, each of the consultees was provided with a prospectus for the development. A copy of this can be found in Appendix A. Within this prospectus, consultees were invited to respond to a number of questions relating to scheme content and delivery strategy. With reference back to the masterplanning work and the outputs of the stakeholder workshop, each of the questions was designed to either validate thinking to date or to establish market preferences where no firm views had been formed.

Having issued the prospectus on the 14th and 15th August 2018, responses were requested for 3rd September 2018. This provided consultees with a window in which to respond that recognised the holiday season and increased likelihood of the right people being away from the office. Alongside the issue of the prospectus by email, additional follow up was made by telephone.

Out of the 41 potential delivery partners, a total of 18 actively responded (a response rate of 44%). Of the respondents, 10 organisations confirmed that they would not be interested in the scheme and therefore would not be submitting a full response. Primary reasons for non-interest were:

- site location being out of their usual operating geography
- the scale of the development either being too big or too small
- concern that the scheme did not present a proposition that would deliver the required corporate returns (viability)
- lack of appetite to tender through an OJEU process.

The following organisations provided written responses:

[REDACTED]

6.2. Key Themes

Through the SMT (including some limited follow up to clarify matters raised), the responses from potential delivery partners identified a number of 'key themes'.

Viability	Concerns over viability were consistently identified within the responses. It is unclear whether these concerns are purely as a result of the previous market failure or whether respondents had undertaken any form of analysis. Given that many later expressed potential interest in becoming a development partner, it is assumed the former is more likely.
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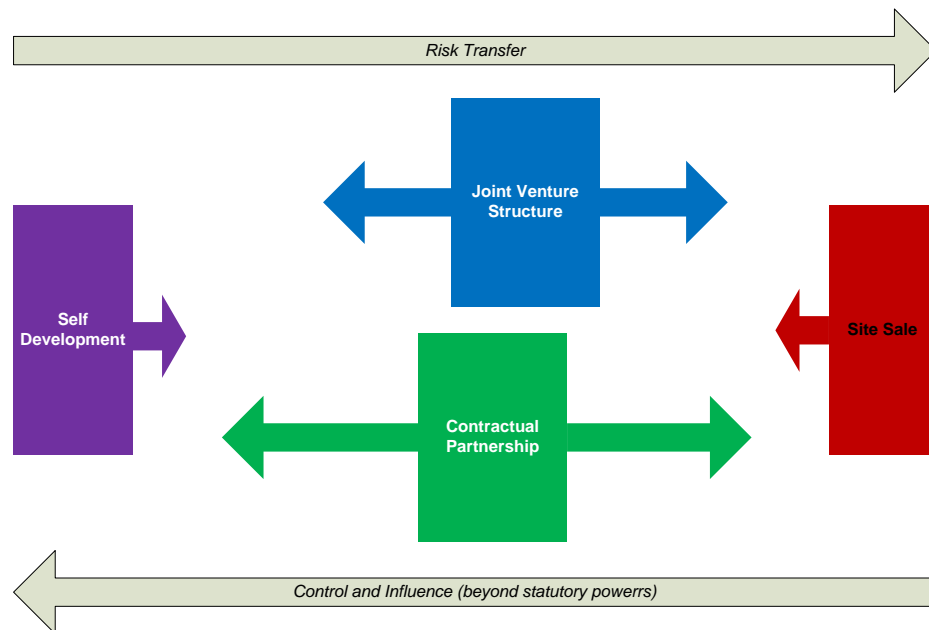
<p>Nature of residential offer</p>	<p>A higher density residential development was generally considered to be suitable for the site and location however some concerns were raised regarding the number of apartments and the ability to sell this volume. The potential to introduce a broader housing offer including private rental, extra care, over 55's housing, etc. was seen as a potentially valid way of reducing reliance on private sale apartments.</p>
<p>Alternative housing products</p>	<p>A number of responses noted that products such as over 55 housing and/or extra care would work particularly well at Brimscombe Port, due to its canal and riverside setting. It was noted that to ensure the success of this type of housing suitable leisure facilities will be required e.g. dining, recreation and communal gardens.</p> <p>Live/Work units were generally seen negatively and a challenge to sell: a better solution would be to provide suitable workspace as part of the development that could be accessed (on suitable commercial arrangements) by residents.</p>
<p>Community facilities</p>	<p>Community facilities were generally considered to 'add value' and enhance the local community. That said, responses confirmed the need to clearly define and co-ordinate community facilities within the wider context of the proposed development and should have a robust business plan to ensure that the facility could be sustained in the long-term. Further consideration was suggested on how to better align the delivery of the community facilities with the wider development instead of this being a separate activity to improve integration and confidence in delivery.</p>
<p>Car Parking</p>	<p>It was recognised in the feedback that the site will require reliance on cars due to the out of town location. Whilst the number of parking spaces for residential units was largely considered to be acceptable, the number proposed for visitors was questioned with a link clearly made to the scale/extent of the wider site leisure/commercial activity and the volume of visitors this may drive.</p> <p>Whilst the parking solution will largely be driven by the residential offer, and the overall masterplan, delivery of a cost-effective solution must be considered. A number of potential delivery partners questioned the affordability of under-croft car parking and whether this was viable.</p>
<p>Commercial Offer</p>	<p>A number of respondents noted the benefit that a suitable commercial offer will provide to the development, and the range of offer that could be provided. Views on the most appropriate nature/scale of commercial offer varied however, it was recognised that any offer needs to be:</p> <ul style="list-style-type: none"> • Viable for 12 months a year • Be suitably 'competitive' given the sites location and the alternative options visitors have • Enhance the community offer and link to the residential offer.
<p>Planning Strategy</p>	<p>There was no consistent view expressed in terms of the optimal planning strategy. Analysis shows that views are likely to be tied to the nature of organisation responding, their appetite for risk and their appetite for a partnership arrangement. Some responses proposed a 'hybrid' application which could offer the market security of the planning consent for the canal and basin works and provide a loose but flexible framework for the residential and commercial development that would at least establish the basis of not residential uses (A1-5, B1, C2).</p>

Delivery Models	The general consensus is that some form of partnership between public and private sector would be the most appropriate model to deliver the scheme, reflecting not only the optimal delivery strategy but also the requirement for the public sector to retain a long term management interest in the resultant development.
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7.0 PROPOSED DELIVERY STRATEGY

We have set out a number of potential delivery structures that could be adopted by the Council; these options consider the scale and nature of the development and the risk appetite of SDC as illustrated below. The four main delivery options considered for this development are;

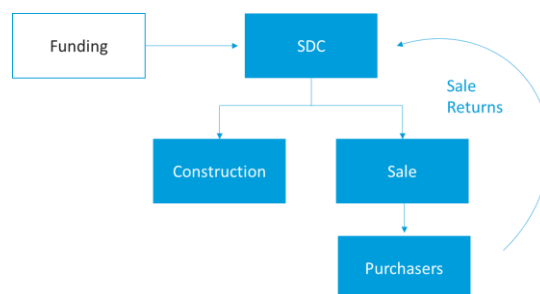
- Self-Development
- Contractual Partnership
- Joint Venture Structure
- Site Sale



7.1. Self-Development

A self-development approach would see the Council taking full development risk. The approach has the potential to generate the highest level of return as the Council retains all land value and development profit, but the returns come from the increased level of risk taken. This risk would include all cost risk, design risk and demand risk from the sale of the developments.

Given the scale and complexity of the site and consistent with the appetite expressed in the stakeholder workshop (section 5.5), we would question whether the Council has both the appetite and the resources available to take the sites forward or underwrite any potential losses. Resources can clearly be bought into the Council to increase capability but 100% of the delivery risk would reside with the Council.

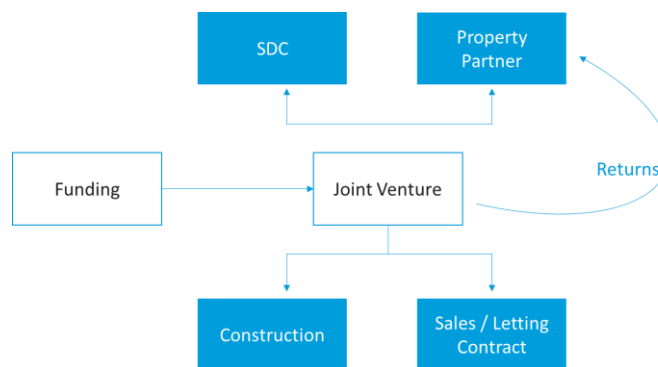


Under this option the Council has total autonomy on the structure of the developments and whether the assets created are sold or held as revenue generating investments (subject to affordability and viability).

7.2. Joint Venture Structure

Joint ventures (hereafter “JVs”) have been a popular route for property development for Local Authorities across England for a number of years and have been used to develop housing, commercial office space and retail development. JV’s can vary vastly in scale and complexity and can come in a number of legal forms such as limited companies and limited liability partnership.

The majority of JV’s follow the basic principles that a new organisation is created in which the Council invests its land holding into the JV and this land value is matched by an equivalent investment by the Private Sector Partner (hereafter “PSP”) to create a 50:50 partnership. The JV undertakes a range of development activity and the partners share the development returns based on their percentage ownership of the JV. It is anticipated in this case, in addition to the land the investment would also include financial contributions from the public sector as set out in Section 3.3.



Nuances on the JV approach would include the Local Authority acting as a funder to the JV (at commercial State Aid compliant rates which would in itself potentially provide a positive cashflow position for the Council based on current Public Works Loan Board (hereafter “PWLB”) rates) or the Local Authority accepting completed assets rather than capital receipts as a commercial return from the venture.

The key advantages of JV’s are:

- SDC would be able to exercise a level of influence and control as a major stakeholder in the JV. Note that to allow the JV flexibility, the public sector could not hold a majority shareholding nor reserve rights of veto as a condition of its shareholding.
- SDC is able to rely on the delivery capability and capacity of the JV partner – their “know how” – these transferred skills could be valuable to the Council in future commercial schemes).
- In accounting terms, only a proportion of the debt raised would be on the Council’s balance sheet therefore increasing the Council’s overall funding capacity.

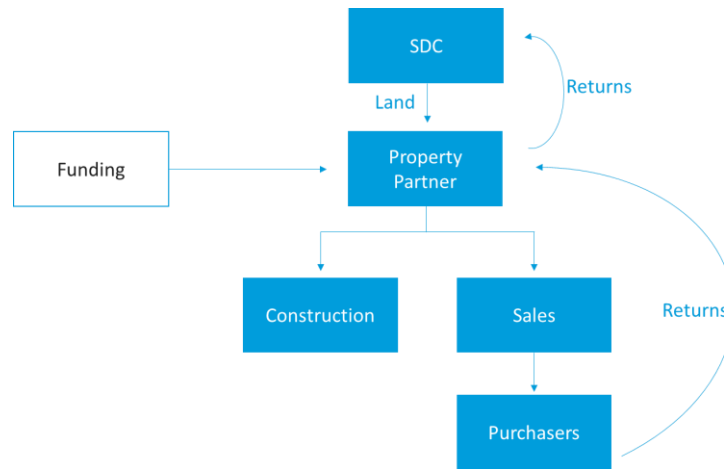
Formal JV’s can be complex to establish and are often used when Local Authorities have a significant property portfolio or a major pipeline of development activity (e.g. 10 years). Given that Brimscombe Port is likely to be a one-off scheme, options around unincorporated JV’s might also be explored.

7.3. Contractual Partnership

Under a contractual partnership, SDC would appoint a development partner: this is in effect a JV established by a contract rather than a body corporate. The Council would be able to establish, via the development agreement, its expectations on quality and design for the scheme. The development partner would then develop the site within these parameters and retain share the development returns with the Council on an agreed basis (including assets in lieu of cash as per the JV option above).

Advantages are similar to that of the JV (above), however, operation and management are different (both are complex and time consuming). In addition, it is likely that unless some form of framework could be utilised

(such as the Homes England Developer Partner Panel which has been successfully used on similar schemes) that the JV or Development partner would need to be procured under current European Union procurement rules.



Should the Council wish to shield itself entirely from development risk, then the return for SDC would be consistent with the land sale option. However the key advantage of this option over the land sale option is that the Council retains a higher element of control over the pace and quality of the development whilst not directly taking development risk. The Council does however have the option of sharing risk either on a whole development or individual element basis: this would need to be agreed at the procurement phase of the project.

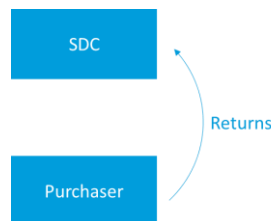
7.4. Site Sale

This option is a low risk route that requires minimal further investment by the Council. SDC would market the site(s) and dispose of them to generate a capital receipt.

Consistent with the work undertaken to date, SDC could enhance the value of site by taking it through the planning process to obtain outline planning consent (notably for the flood alleviation and infrastructure works). The approach de-risks the site for the end buyer.

The approach has the ability to generate short term capital receipts but gives the Council minimal control over the future development of the site beyond its statutory role as planning authority. The Council therefore has no control over the creation of quality developments that have a wider community benefit.

The potential to share in the development proceeds (beyond the land receipt and any overage provisions which are notoriously difficult to structure and “police” effectively) or generate revenue income from the development can also not be realised through this option.



7.5. Summary of Options

The table below summarises the delivery arrangements detailed above and compare the relative complexity, resource input, skills, funding, risk and control required.

	Site Sale	Joint Venture	Development Partner	Self-Development
Complexity to deliver	Low complexity	High to medium complexity to deliver, including structuring and constitution of JV entity.	High to medium complexity. Approach based on a development agreement and programme with lesser structuring required to JV.	High complexity as the Council has sole responsibility to manage all aspects of the programme.
Timescale to Deliver	Shortest option as simple disposal arrangement.	Requirement for OJEU will increase the programme but this can cover selection of partner and delivery.	Requirement for OJEU will increase the programme but this can cover selection of partner and delivery.	Any works/services packages will be subject to OJEU unless SDC establishes an arms-length commercial vehicle
Resource level required	Minimal required	Some resource required within the JV (say 1 FTE).	Will likely still require 1 FTE to work with the developer plus client-side external team.	A significant amount of resource is required (either internal and external resource used)
Skills and expertise required	Minimal required	Approach is to rely on the expertise of the partner.	The Council can rely on developer expertise	Development expertise is required to maximise value and value and also manage all risks.
Funding requirement	Limited funding needed, potential to progress sites through planning (outline) to increase value.	Funding likely limited to the value of the sites being invested. The partner would raise development finance.	Project would need to be cash flowed to fund the community facilities and infrastructure. Potential to use developer finance (at a cost)	The Council would be self-funding the development costs for all project and taking the risk that this could be recouped from the sale of individual housing and commercial units

	Site Sale	Joint Venture	Development Partner	Self-Development
Risk	Low risk delivery via a simple process but risk of non-delivery by purchaser. Development gains will be difficult to capture through overage.	Shared development risk with the JV partner. Potential to lose land value. Also potential to share in any development gain.	Low risk if the developer takes all development risk. The Council has options here on a site by site basis. Also potential to share in any development gain.	High risk and likely unacceptable to the Council on larger projects. Any development gain would be wholly retained by SDC.
Control	Limited control after land sale beyond planning powers.	Shared control with the JV (50:50 deadlock is common)	Shared control via the development agreement.	All control resides with the Council.

Based on the stakeholder engagement outcomes as summarised in section 5.5 and linked to the characteristics of the options outlined, it would seem apparent that the optimal routes to delivery for SDC would be either a JV or contractual partnership arrangement. This is also consistent with the feedback from the soft market testing.

8.0 DEVELOPMENT APPRAISAL

8.1. Development Appraisal (“Land Sale” or Base Position)

The development appraisal was completed based on the latest known position accounting for the following:

- Previous iterations of the development appraisal. As part of this, previous assumptions have been challenged as might be appropriate drawing upon various sources of benchmark data. Note that this does not include the sales values, which have been transposed across and relied upon.
- The masterplan as currently presented and including for:
 - 178 dwellings, with 81 houses and 97 apartments. Of these, 30 are affordable (20 houses and 10 apartments)
 - Circa 1,000m² of commercial space comprising a mixture of retail, office and workshop/gym uses
- The agreed flood alleviation measures, which will dictate the available ‘developable’ land.
- Only phase 1 of the infrastructure works is included. Phase 2 is excluded to maintain a “like for like” comparison.
- The financial contributions/sources as detailed in section 3.3. Note that both grant funding and costs of the restoration of the canal have been excluded from the assessment at this stage, and it is assumed that this component of the scheme is self-contained and requires no additional financial support.
- Correction of errors noted in the previous appraisal where these affected the outcome.

The table below summarises the new appraisal contrasted against the original appraisal.

[TABLE REDACTED]

The following assumptions have been made in completing the revised appraisal:

- Consistent with previous iterations of the appraisal, the base position on affordable housing is 17%. This is lower than the SDC policy position of 30%.
- Affordable housing contribution is equivalent to 50% of that on an open market value basis. This has been carried through into the consideration of the developer margin.
- Public funding has been reduced as discussed to the levels set out in 2.3.
- There is no discrete payment to SDC for the land or repayment of the cash investment that SDC has made to enable the scheme.
- Based on Gleeds benchmarks, the “all in” capital cost assumption for the construction of residential and commercial buildings has been reduced from £2,400/m² to £1,800/m². This benchmark accounts for construction norms but would not necessarily account for any abnormal costs that may be required to deal with ground conditions, etc. This change is the primary driver in the significant betterment in the appraisal outcome.
- £1.1m has been allowed for undercroft car parking, for 173 units, based on the original SDC financial appraisal in 2015.
- In the absence of a programme, the impacts of cashflow through the development period haven not been accounted for. This may have modest impacts (positive or negative) on the outturn position.

The latest appraisal suggests that instead of being unviable, the scheme is capable of delivering a reasonable level of return and give some comfort that any movements in costs will not lead to the scheme becoming unviable.

We are aware however that the final position for SDC may be cost neutral (i.e. a return of £nil) given that:

- The current expectation of partners is that the infrastructure for Phase 2 is also delivered within the funding package assembled. This equates to an additional £3.2m which would reduce development returns accordingly.
- Increasing the affordable housing contribution to the policy position of 30% has a negative impact of approximately £1.6m on the assessment outcome.
- SDC's agreement with HE means that HE will get the first call on any development margin to both repay the loan and subsequently make a contribution to the land originally transferred to SDC for nominal consideration. On the understanding that this obligation is capped at a value in excess of £9m, it is unrealistic to expect any residual margin to be realised by SDC.

8.2. Impact of Alternative Delivery Options

Different delivery options have different impacts on the development appraisal. The table below shows how the options set out in section 7.0 affect the development receipts received by the public-sector dependent on the model selected. Note that the JV/Contractual Partnership is a mid-point position (assuming 50% shareholding) and this could in reality flex to any point between the land sale and self-development receipts depending on the extent to which SDC wishes to engage in the risk/reward with the partnership arrangement.

Given that it would set an unwelcome precedent for SDC to reduce its affordable housing contribution below policy when the appraisal suggests no commercial basis for doing this, we have assumed in all of the following that the 30% policy position is delivered. All other assumptions remain as section 8.1.

[TABLE REDACTED]

There is potential for a further option based around a headlease arrangement. This has at this stage been discounted as whilst it may provide financial benefits for the commercial elements of the scheme it is less beneficial for the overall mix proposed and given that the commercial element is in the minority it is not considered an appropriate means of delivery.

9.0 CONCLUSIONS AND NEXT STEPS

9.1. Conclusions

Analysis of the feedback from both the stakeholder group and SMT, together with the outcomes of the site appraisals and assessment of delivery models has led to the following conclusions:

- The majority of organisations interest in bidding for the scheme believe that it is best delivered in partnership with SDC and therefore the stakeholder aspiration for such a model is deliverable. Appraisal of such options shows that this could generate a gross development surplus in the order of [REDACTED], which should provide sufficient headroom to allow:
 - The delivery of the full scope of infrastructure works (i.e. both Phase 1 and Phase 2);
 - Allow for the loan arrangement with Homes England to be serviced;
 - Allow SDC sufficient confidence that there is sufficient headroom to manage any unexpected costs as the scheme is developed and delivered.
- The market remains concerned about the viability of the site, despite the analysis in section 8.0 demonstrating that the site is indeed viable. Whilst the participation of the public sector in a partnership delivery model will assist in creating more positivity around the scheme, the procurement strategy for that partner must provide opportunity to promote a more positive view on viability and provide potential partners with a greater level of confidence in the scheme. This will ensure market interest is appropriately stimulated to secure a robust procurement process.
- A higher density residential solution is appropriate to the site and its location. On a note of caution however and linking back to the previous point, the final scheme needs to either:
 - Increase the time period over which the scheme is to be delivered, thereby slowing the supply of market sale units (notably apartments) and reducing the risk around sales rates to an acceptable level and/or;
 - Diversify the residential offer, reducing the number of similar units being offered for sale at any one time. Alternative residential opportunities such as extra care³ and over 55 living would appear to offer strong prospects to diversify the product type. The masterplan may also benefit from some alternative house/apartment archetypes.

Either of these solutions would require more detailed consideration and development and as such, retaining flexibility in the masterplan would appear very important at this time. This would in turn suggest that pursuit of an outline planning consent on the current masterplan scheme may be of limited value (see below).

- The overwhelming view is that community facilities need to be delivered as an integrated element of the development aligned with the residential and commercial offer, mitigating the risk of non-delivery, avoiding duplication of facilities (for example with an extra care development) and providing the potential to create a more holistic community hub. To achieve this, it is likely that Parish Council resources will need to be directed through SDC, as to extend participation in any partnership is highly probable to slow progress.
- Further work is required to understand whether the benefits of increased density are offset by the need to provide more expensive means of car parking to satisfy the overall requirement. The same may be true of any retail offer unless there is an acceptance that any significant parking needs in support of this can be satisfied by accepting there will be an increased demand for on-street parking in the wider environs surrounding the site.
- Feedback confirms that the nature of the environment and the scale of development clearly necessitates a retail/leisure offer. There is however no dominant view on what this might be at this stage, with a range of opportunities cited. This is likely to be a key point of discussion in the selection process for a partner where additional expertise can be drawn in to develop a strategy that integrates with the final residential offer.

³ This would also require discussion with Gloucestershire County Council to establish how this might fit into their Older Peoples strategy.

- There are clearly a number of variables that have yet to be properly assessed and resolved and therefore the likelihood of the final scheme reflecting the current masterplan as presented is significantly reduced. Furthermore, it is possible that a number of non-residential (C3) uses may be brought forward as part of the final masterplan. A hybrid planning application would seem the most appropriate position as this would offer SDC and the market the comfort that planning has been secured for:
 - the canal and basin works;
 - the infrastructure necessary to allow the site to be developed (access, flood mitigation, etc.);
 - an overarching outline for residential (C2, C3) and retail/commercial development whilst providing the market the flexibility required to develop the most feasible development solution.
- It is recognised that the infrastructure planning application is potentially ready for submission in the very near future and this should not be delayed given the statutory consultation requirements associated with this. If the hybrid elements on the nature of development cannot be completed in a complementary timescale, then a separate concurrent application could be submitted for these elements so as to minimise any programme delays.

9.2. Next Steps

Given that the scheme presents as viable, SDC can have increased confidence in making further investment in order to realise it. The next steps to achieve this are as follows:

- Secure planning consent for both the infrastructure solution and the range of potential site uses through a hybrid or a concurrent planning application. This should be completed prior to the commencement of any material competitive process for a partner as it represents a very significant de-risking of the scheme that will encourage greater interest from potential partners.
- In preparation for the engagement of a development partner, more fully articulate:
 - The requirements of SDC in any partnership arrangement;
 - The arrangements between SDC and the other public-sector stakeholders to allow alignment and integration of all activities into any final development vehicle.
- Develop and execute a procurement strategy for a delivery partner. Given that the Council wishes to maintain a level of control and influence over the development beyond its statutory powers, it is recommended that this procurement is undertaken in accordance with the OJEU procedures. Given the diversity of views through the soft market testing on issues such as commercial activity, it is prudent that this process is run as a Competitive Dialogue procedure as this supports a more interactive approach with tenderers that will allow issues to be properly discussed and agreed through the process. As a requirement of OJEU is to provide all documentation at the outset of the process, an early start on this will be highly beneficial in terms of delivering the shortest possible timetable to commencement on site.

10.0 Appendices

A. ~~Soft Market Test 'Brochure'~~ SMT Blank Questionnaire

B1. [REDACTED]

B2 [REDACTED]

B3 [REDACTED]

B4 [REDACTED]

B5 [REDACTED]

B6 [REDACTED]

B7 [REDACTED]

B8 [REDACTED]

C [REDACTED]

D 9th July Workshop Presentation