Appendix 1 – Delivery Models

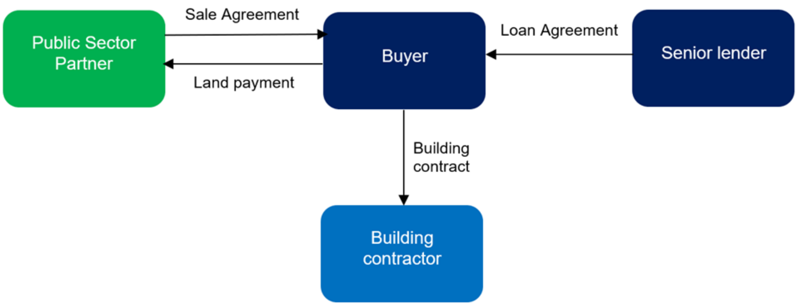
1. Do nothing

1.1 The Council can choose to simply keep the land and not progress development or disposal. This option does not deliver towards the Council's housing objectives, and it could also incur ongoing liability associated with asset management.

1.2 Pros and Cons

PROS	CONS
No resource requirement on disposal	Fundamentally does not deliver at all towards the Council's housing objectives.
	Potentially incur ongoing liability associated with asset management.
	Does not optimise the asset value for the Council.

2. Straight land sale (with or without preconditions to land disposal such as planning)



2.1 Key Features

2.1.1 The Council can parcel sites up together or sell them individually. It will expose them to the open market by way of public advertisement (i.e. advert in Estates Gazette).

2.1.2 Bids are received and the land will be sold to the highest bidder based on price alone.

2.1.3 The disposal can be subject to preconditions such as obtaining detailed planning permission or reserved matters approval (although the landowner could not ultimately prevent the buyer from re-planning the land). However, there are no development obligations in the agreement between the parties.

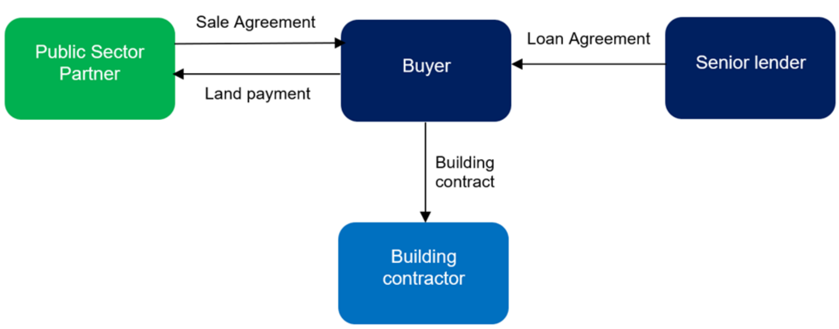
2.1.4 A capital receipt can be received on Day One, or deferred, possibly with additional overage at a later date.

2.1.5 No separate legal entity is created: each party simply contracts as itself.

2.2 Pros and Cons

PROS	CONS
Well understood by the market: a tried and tested model	No ability to control quality or timing of delivery on land (apart from as planning authority in the case of the Council) – no ability to prevent buyers from re-planning sites
Relatively quick and cheap to put in place	Disposing of single sites / parcels means that those that are less viable/attractive will have a limited market unless packaged together
No requirement for OJEU procurement process	Does not prevent landbanking: no assurance of delivery
This is likely to yield the highest, earliest capital receipt for the land – or can be structured with deferred consideration if desired	Limited ability to participate in profit (overage is available but can be relatively difficult to unlock transparently)
The terms of each sale can be tailored to suit that site / parcel	Disposing of single sites / parcels means multiple processes, with attendant resource requirements
There is no direct participation by the landowner in land development, so this option carries a low delivery risk for the Council.	Inflexible: landowner has no ongoing involvement in the development of land once disposed of and so cannot force the arrangements to adapt to changing circumstances
Quick exit - no "trailing wires"	Potentially delivering less affordable housing on the land due to a less onerous planning requirement on the private landowner to deliver the affordable housing quantum.

3. Land sale with 'Negative obligations'



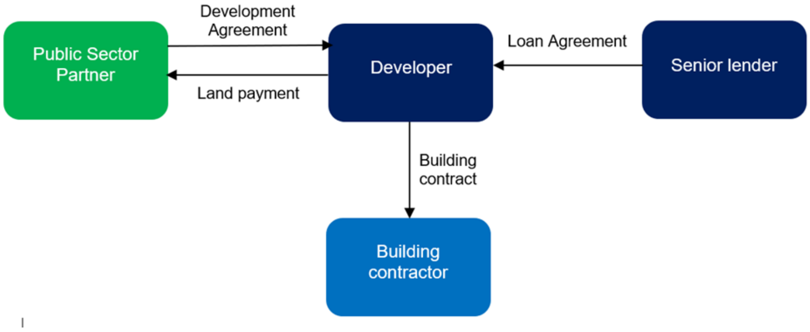
3.1 Key Features

3.1.1 This option has key features as straight disposal, but in addition, the sale agreement contains some degree of control for the landowner through an ability for the landowner to take the land back if, by a long stop date, the buyer has not delivered the requisite development in compliance with its planning permission. However, in practice, developers are likely to require that any option to take the land back must be exercised at market value or only a small discount to market value.

3.2 Pros and Cons

PROS	CONS
Well understood by the market	No ability to control quality or timing of delivery on the land (apart from as planning authority in the case of the Council), except through what could be an unaffordable buy back option: this would be the only method through which the landowner could prevent the buyer from re-planning the relevant site
Relatively quick and cheap to put in place (compared to a partnership arrangement).	In practice, likely to take some time to negotiate the details of the buyback arrangements: this will inevitably be more costly to the landowner than a straight land sale
No requirement for OJEU procurement process	Disposing of single sites / parcels means that those that are less viable/attractive will have a limited market unless packaged together
This is likely to yield the highest, earliest capital receipt for the land – or can be structured with deferred consideration if desired	Does not prevent landbanking: no assurance of delivery
The terms of each sale can be tailored to suit that site / parcel.	Limited ability to participate in profit (overage is available but can be relatively difficult to unlock transparently)
There is no direct participation by the landowner in land development, so this option carries a low delivery risk for the landowner	Disposing of single sites / parcels means multiple processes, with attendant resource requirements
	Inflexible: landowner has no ongoing involvement in the development of land once disposed of and so cannot force the arrangements to adapt to changing circumstances

4. Development agreement



4.1 Key Features

4.1.1 This model is a standard route which has been adopted by the public and private sector over many years. It can be described as a joint venture; however, it is a contractual rather than a corporate joint venture. This means that no separate legal entity is created: rather, the public sector partner enters into a contract with its private sector developer partner under which the private sector developer will commit to develop land upon satisfaction of conditions, on a sequential basis.

4.1.2 The public sector can specify quality and design standards, as well as pace and order of delivery. If the developer fails to perform, the public sector can potentially take land back (albeit no doubt via a purchase, perhaps at a discounted value), and in any event terminate the agreement and prevent further land drawdowns.

4.1.3 This model could either involve the disposal of individual sites, multiple sites (sequentially or together), or individual serviced plots to individual developers.

4.1.4 There is therefore some flexibility in terms of how this is structured depending on how much exclusivity the public sector wishes to give. That question will no doubt be driven by commercial considerations.

4.1.5 This model will require the public sector partner to run a fully regulated procurement exercise to identify its partner.

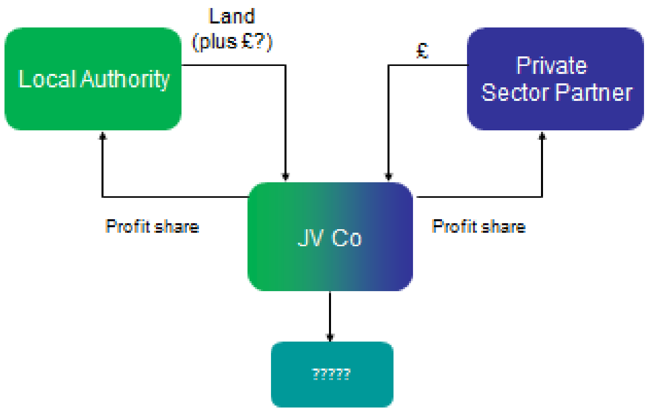
4.2 Pros and Cons

PROS	**CONS**
Well understood by the market: a tried and tested model.	Limited ability to adapt to any changing requirements as to what is delivered on the relevant land; or in future.
If one master developer, or a developer for multiple sites, may be only one procurement exercise.	Limited ability to inject equity in order to generate profit returns in the future (as compared to corporate structure).
Can ensure receipt of up front capital sum or deferred consideration.	Profit share unlikely to be transparent in practice (overage can be difficult to extract)
Public sector partner can share in the success of the scheme through overage.	A fully regulated procurement is necessary – likely Competitive Dialogue or possibly Competitive Procedure with Negotiation.
Public sector partner can control the timing, pace and quality of delivery on the land through imposing long stop dates, quality requirements etc in development agreement.	
Public sector partner can control land drawdown/terminate the agreement if land not built out to its stipulated requirements.	

PROS	CONS
Public sector partner does not directly participate in the scheme and so has a low level of development risk.	

5. Corporate Partnership

5.1 This model is widely adopted within the local authority market. The basic structure is as set out below:

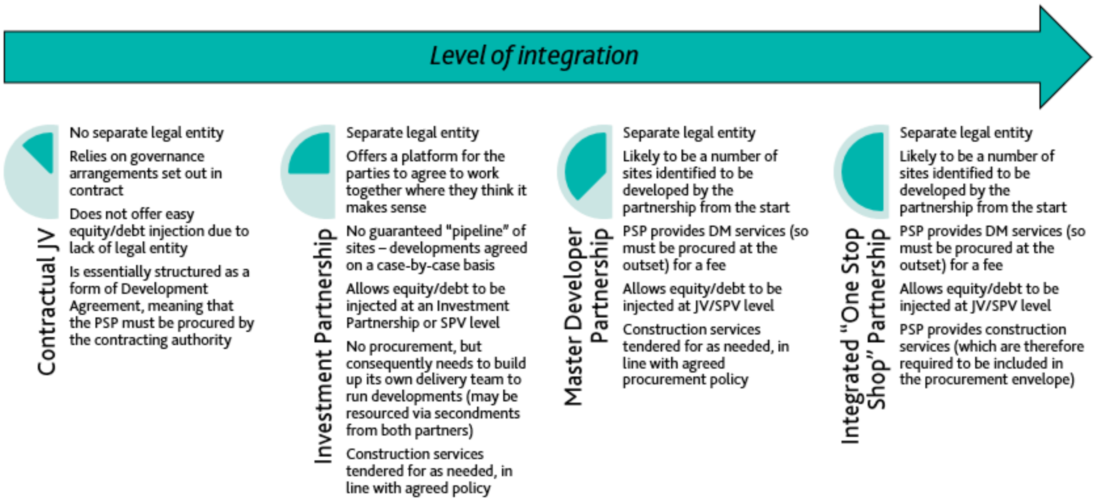


5.2 Once the decision to set up a separate legal entity has been taken, the choice becomes how flexible or prescribed do the parties wish it to be.

5.3 The three models of this set up range from an IP through to a fully integrated JV, each of which is more integrated than the last.

- IP
- Master Developer Partnership
- Fully Integrated Partnership (which the Council and BH understand as a "JV").

5.4 This is shown on the spectrum described below (which for completeness includes reference to a Contractual JV).



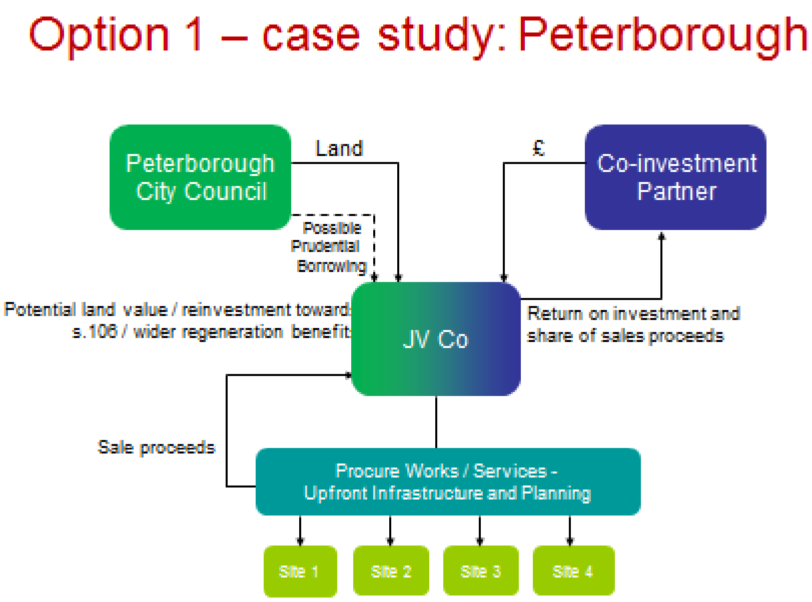
5.5 The key features that are common to all Corporate Partnerships are set out in the table below:-

FEATURE/ISSUE	COMMENTS
Nature of vehicle	Commonly these are set up as Limited Liability Partnerships which are tax efficient. An analysis on powers is necessary but as a general point, the LLP route should be available here.
Decision making	It is likely that the vehicle will be a 50/50 deadlock structure. This means that neither party can force a decision through that the other does not wish to take, but equally either party can veto a proposal that it is not comfortable with.
Land	The public sector partner can contribute land to the vehicle (likely in tranches upon satisfaction of preconditions). The value of the land contributed is anticipated to be in cash (or a promise to pay cash when needed) by the PSP. The vehicle is thus endowed with land plus cash, enabling it to take forward the promotion of the land.
Business planning and objectives	The Corporate Partnership will adopt business plans which will underpin its business activities. These business plans have at their heart the objectives that the parties have agreed on Day One, which will reflect the public sector's own objectives.
Governance	The agreed governance structure, processes and procedures for the IP would be set out in a Members' Agreement (MA), which is the equivalent of a Shareholders' Agreement in the context of an LLP structure. The MA will determine the terms of reference for the Board, who oversees the operation of the

	partnership, the decision-making process and the day to day operation of the Corporate Partnership. Key decisions, including approval to bring a site forward, and approval of a business plan for any given site, are reserved to the two partners represented by their members.
Ability to adapt	Because the Corporate Partnership is a standalone business entity in its own right, it can make decisions and adapt to changing circumstances (whether internal or external).
Profit sharing	Assuming that the vehicle is a 50/50 structure, profits are distributed on a pari passu basis to reflect the 50/50 nature of the vehicle. Profits are typically distributed proportionately to the relative investments of the partners in the vehicle.
Procurement issues	Because of the 50/50 nature of the vehicle, with no overall control for the public sector, the vehicle will be assumed to comprise a private sector entity and thus will not be bound by the Public Contracts Regulations 2015. This will need to be monitored as thinking develops, but this would be the starting assumption.

5.6 A detailed description of the pros and cons of each corporate partnership option is set out in the section below.

5.7 Option 1: Investment Partnership



5.7.1 Key Features

5.7.1.1 The partners are creating an investment platform. The public sector partner is seeking an investment partner as its PSP, which is willing to share risk in relation to sites and to match the value of sites with cash.

5.7.1.2 The public sector partner is not procuring any works or services from the PSP: it is simply seeking its expertise in making joint decisions within the Corporate Partnership about how best to maximise the financial and economic value of sites.

5.7.1.3 Once these decisions have been made and an investment strategy adopted, the IP itself will put together its team of consultants in order to ready sites for the market, in whole or in parts. It will pay those third-party consultants in the usual way (service level agreements etc).

5.7.1.4 The IP may even decide that it is prudent to carry out some of the infrastructure works in order to maximise value: it would be open to it to assemble the delivery team to do this.

5.7.1.5 Profits generated to the partners will comprise the uplift in value of the land through getting planning permission etc.

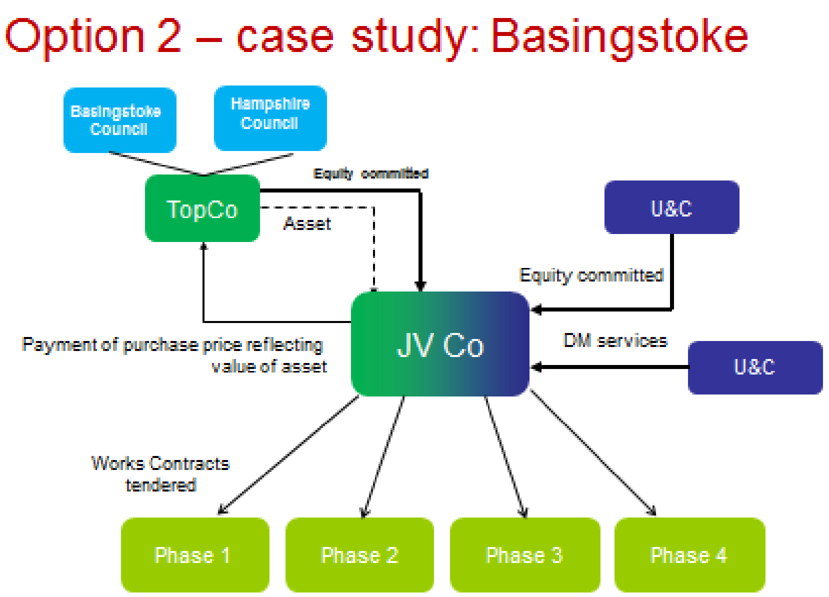
5.7.1.6 Under the model, the Council can choose which site(s) it wishes to transfer to the IP. The Council, or the partner, can veto whether a scheme proceeds or not once it has been appraised. The Council retains control of the freehold of the land and its value as it can choose, or not, whether it requires the freehold to remain with the Council.

5.7.2 Pros and Cons.

PROS	**CONS**
No regulated procurement is required, as the public sector partner is not procuring works or services from its partner: it is simply identifying the right investor with the right skills to come up with a strategy together that will maximise the value of the proposition. That said, the public sector partner may want to run some form of competition to identify the right partner.	With limited risk comes limited up-side. This Option may limit the public sector's ability to share in full development returns from sites.
The process to put an Investment Partnership in place should be relatively quick and straightforward.	Integrated developers will not be interested in this Option. This will only be of interest to businesses that are not driven by the pipeline opportunity for delivery.
The public sector partner is not limited to one developer as it is the IP itself that will decide how best to bring forward sites (perhaps even by commissioning the infrastructure and then parceling up plots for disposal and development).	Given that it is the IP itself that will select the team of consultants to work with it to develop the proposition to the market and the overall strategy for sites, the public sector partner's control over this will be diluted to a "veto" right only (as opposed to being able to test all of this through the procurement process itself). So the public sector will have "50% control" over the selection of the design and delivery team: it

PROS	CONS
	cannot control this through the process of selecting its PSP (as opposed to Option 2 and Option 3).
As such this Option limits the potential exposure of the IP as it is not taking development risk or end-occupier risk.	Given the absence of a regulated procurement to select the PSP, it must be recognised that the Investment Partnership cannot be a way of the public sector buying development management services (the sourcing of which by a contracting authority is subject to the PCRs) from the PSP.

5.8 Option 2: Master Developer Partnership



5.8.1 Key Features

5.8.1.1 In this Option, the public sector partner is getting a PSP on board who can not only invest equity into the scheme, but can also provide master developer/development management services.

5.8.1.2 The Master Developer Partnership will obtain planning permission for sites and perhaps even put infrastructure in, creating serviced plots that can be marketed to occupiers/developers. The public sector partner may decide that it is happy for the Master Developer Partnership to take a ringfenced number of plots forward itself but must expose others to the market.

5.8.1.3 This Option is therefore interesting to the developer market that wants to have some "skin in the game" in relation to the developments they become involved with.

5.8.1.4 The PSP is paid not only through its ultimate equity return, but also under a Service Level Agreement to provide master developer/DM services to the Master Developer Partnership.

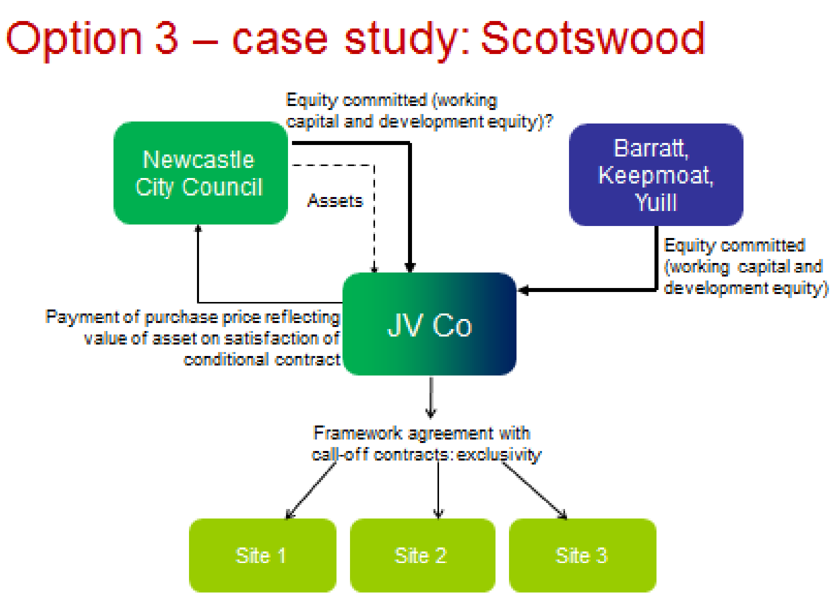
5.8.1.5 Because the public sector partner is buying services from its selected PSP, this Option will involve a fully regulated procurement under the Public Contracts Regulations 2015.

5.8.1.6 The Master Developer Partnership will make its returns through the planning uplift in land value, and enhanced value of serviced "oven ready" plots. It may also take development returns if it builds out any plots itself.

5.8.2 Pros and Cons

PROS	CONS
This model is interesting to a wider range of market participants than Option 1.	A fully regulated procurement is necessary – likely Competitive Dialogue or possibly Competitive Procedure with Negotiation.
The public sector partner can enshrine its objectives and any design requirements/standards into the procurement process and governance so that it has created the platform for a masterplan that it is comfortable with.	The public sector partner, through the vehicle, is sharing master developer risk (ie planning and infrastructure risk).
The public sector partner can test the development expertise of potential partners through the procurement process – helping it to get comfortable that it has the "right partner" on board who will deliver against its objectives.	

5.9 Option 3: Integrated partnership, known by the parties as a Joint Venture



5.9.1 Key features

5.9.1.1 This model is what the Council understands as a “Joint Venture” or “JV”.

5.9.1.2 In this model, in addition to the roles for the PSP described in the Master Developer Partnership, the JV acts as a developer, and as a consequence the PSP will bring the supply chain (ie construction contractors etc) with it, and this will be tested/benchmarked as part of the procurement process.

5.9.1.3 A developer who has a supply chain within their group of companies, or a consortium, may become the PSP.

5.9.1.4 The PSP will act as master contractor for delivery of the project. It will typically use its established supply chain to maximise efficiencies and drive prices down for the JV. It is possible (and advisable) to carry out further benchmarking/market testing on a project by project, and/or periodic, basis, to ensure ongoing sufficiency of skills and resource from the PSP.

5.9.2 The PSP will take its return in three ways: -

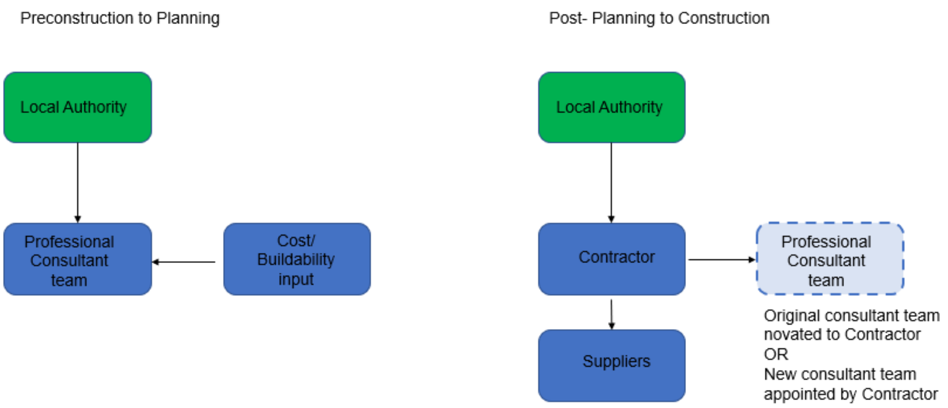
- It will take an equity return from the profits made by the JV itself.
- It will provide development and/or estate management services to the JV: it will charge a fee for this.
- It will also head up the supply chain (as building contractor) where again it will take a return for works carried out.

5.9.3 Pros and Cons

PROS	**CONS**
This model offers a "one stop shop" whereby the public sector partner is procuring all of the skills and resources needed to deliver the entire scheme in one exercise.	It can be difficult to demonstrate true value for money over time where the supply chain is part of the PSP's group – the PSP may try and obscure profits through its downstream arrangements for delivery. This needs to be fully tested through the procurement process.
Because the public sector partner is sharing in the full range of risks that can be involved, it has the potential to receive the greatest returns.	It can be difficult to secure top performance of the supply chain over time. We recommend KPI's are put in place which will regulate and monitor the performance of the construction supply chain. It is important to structure appropriate protections from “cross-default”, in order to protect the public sector partner (i.e. if the PSP is in default "wearing one hat", what should the consequence be for its other roles and the overall partnership?) This can all be

	worked through but is more complex than in the other models.
The public sector partner can enshrine its objectives and any design requirements / standards into the procurement process and governance so that it has created the platform for a masterplan that it is comfortable with.	The public sector partner is sharing in greater risk here – the whole range of risks that are represented through the life of a development (planning, ground risk, viability, construction and sales).
The public sector partner can test the development expertise of potential partners through the procurement process – helping it to get comfortable that it has the "right partner" on board who will deliver against its objectives.	A fully regulated procurement is necessary – likely Competitive Dialogue or possibly Competitive Procedure with Negotiation.

Self Delivery



5.10 Key features

5.10.1 In this model, the public sector landowner acts as a developer itself. It employs contractors and a professional team to deliver development on its own land.

5.10.2 Traditionally, the Council's self delivery is usually by means of the Council appointing the design and development consultants directly for the pre-construction work up to the planning stage. Once planning permission has been granted, a Design and Build procurement route would see a contractor appointed by the Council as the single point of responsibility to undertake the detailed design then construction. The original professionals would then either be novated to the Contractor or the Contractor could appoint their own design team. This is widely used in the industry to safeguard quality as well as managing cost and risks.

5.11 Pros and cons

PROS	CONS
The landowner has control over delivery.	This option has already been tried by the Council through its previous self delivery plan

	but has proven not to be viable or deliverable in practice
A cohesive scheme can be delivered to the public sector’s exact requirements	The Council takes all delivery risk (e.g. ground conditions, planning, construction risk, sales risk)
Minimises profit leakage to the private sector (save for the contractor's level of profit priced into building contracts)	This will be extremely resource-intensive, both in terms of procuring the contractor and professional team, but more importantly throughout the entire life of the project as the Council will need to be an "intelligent client" to the contractor and professional team, monitoring performance, giving instructions, and making payments. The Council will also need resource for the sales process
	Regulatory issues will apply to tenancies created through this model (e.g. right to buy and inability to hold PRS units for the Council)