Church Street Site A

Outline Business Case Update

Reaffirming the delivery route for Church Street Site A as set out in the August 2020 Outline Business Case Part 2

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Church Street Site A

Purpose of this report

Church Street Site A is the first site in the second phase of the Council's Masterplan for Church Street, first published in 2018.

This business case builds on the Outline Business Case (OBC) Part 2, approved by Cabinet Member in August 2020. The original OBC set out the preferred option for Site A which has been developed by the Council alongside its Multi-Disciplinary Consultant Team (MDCT) to a scheme that has achieved planning consent. Alongside this, the Council has commenced procurement of a Joint Venture (JV) partner in line with the partnership delivery option approved in the OBC.

It is prudent to revisit decisions and confirm they remain valid, particularly ahead of a significant decision point, i.e. the outcome of the JV partner procurement. This document focuses on reaffirming the partnership delivery route by returning to the elements of each case within the OBC that are pertinent to the delivery options.

The OBC concludes that the Council has the finances, track record and the resources or the ability to procure the necessary expertise to successfully self-deliver Church Street Site A if necessary. Partnership delivery however provides an opportunity to balance risk and reward, time, quality and cost. It therefore remains the preferred route, subject to the proposed partnership being on terms that achieves the Council's objectives and delivers a fair distribution of risk and reward.

Strategic Case

The Case for Change

The OBCs from 2019 (Part 1) and 2020 (Part 2) centred on the development of Church Street Sites A, B, C, and the Church Street Market, all integral to the broader Church Street Masterplan, a housing led regeneration programme within the Church Street area of Westminster.

This update of the OBC focuses primarily on the delivery route for Site A, for which the preferred option is partnership delivery, i.e. a Joint Venture. However, it should be noted that the Council intends to offer as part of the suite of legal documents associated with delivery of Site A, a Future Sites Agreement which gives WCC complete discretion to choose to award the delivery of Sites B and C to the JV Partner for Site A.

Church Street is a vibrant, unique, and extremely diverse part of Westminster and London. Around half of the residents of Church Street were born outside the UK, a significant proportion of residents are Arabic, Bengali and Kurdish speaking and this cultural and ethnic diversity is evident in the character of the area.

As highlighted in the OBC (August 2020) the area suffers from social and economic exclusion and a poor-quality built environment. It has poorer health outcomes and lower than average rates of economic activity than neighbouring areas. The ward currently struggles from a range of socio-economic issues including high rates of unemployment, low levels of skills and education, poor well-being and health outcomes, high rates of crime, poor quality housing, and has a lack of access to public open space. The latest Church Street Equalities Impact Assessment (EqIA) updated in October 2023 sets out that Church Street is located in one of the 20% most deprived areas in England and Wales.

The OBC (August 2020) set out consultation which had taken place to date. Since that OBC, extensive engagement with the local community has continued (for further detail please refer to July 2023 Cabinet Report on the Church Street Compulsory Purchase Order Resolution.) A summary of key consultations which have taken place since August 2020 are set out below:

- **Design Update 2020** – In response to consultation feedback key changes to the design of Site A included the increased provision of open space and new public realm (known as New Street Gardens) created between the two residential blocks in order to offer more green space, better accessibility and more daylight onto Church Street.

- **Pre-planning Consultations 2021 (March)** - Following the decision to progress with Option 3 (part development and part refurbishment (redeveloping many blocks in Sites A, B and C, excluding Kennet House which would be refurbished)), the Council worked with residents to further develop the initial design proposals for Church Street informed by the feedback.

- **Pre-planning Consultations 2021 (June - July) -** The design proposal was presented in greater detail by the design team, based on feedback received as part of the initial design consultation. Key themes identified which were responded to in design development included increasing the size of the new library.

- **Resident Ballot 2022 (November – December)** -The Council balloted residents on its plans for Site A towards the end of 2022 to ensure a strong community support for WCC plans. The outcome was a 73.1% “Yes” vote with a turnout of 56% of the residents.

Changes to the Policy context since 2020

The OBC (August 2020) set out that the proposals for Sites A, B and C and the Church Street Market demonstrated compliance with the local and wider planning policy context.

Since that OBC, hybrid planning permission was granted on the 30th of June 2023 (detailed for Site A and outline for Sites B & C as well as the Church Street Market). Since the OBC (August 2020) there have been a number of updates to key local and planning policy, the approved planning permission sits within the context of these including the National Planning Policy Framework (adopted September 2023), the London Plan (adopted March 2021), and Westminster’s City Plan (April 2021).

Following a change in the Council's political leadership in May 2022, the Council launched its new Fairer Westminster strategy in October 2022, which sets out how the Council will work with the local community to support them and tackle inequality. Fairer Housing is a key pillar of the strategy and aligned with the recent Truly Affordable Housing Cabinet report which set the Council’s objectives to provide more truly affordable housing.

Vacant Possession

Westminster have been in ongoing discussion and negotiation with occupants of Site A since 2019 with the aim of achieving Vacant Possession of the whole of Site A to enable the regeneration.

Westminster have acquired 145 residential properties and 15 commercial properties through these negotiations. The council currently have 3 remaining residential leaseholders and 4 remaining commercial tenants and are in ongoing discussions with the remaining interests.

Given the time required to complete the Compulsory Purchase process, it is considered sensible to proceed with the making of a Compulsory Purchase Order in respect of the Order Land (broadly any required rights related to Site A) in order to meet the aims of delivering the Church Street regeneration.

Cabinet approval was granted on 10th of July 2023 to proceed to make a Compulsory Purchase Order (CPO) and to assemble the remaining interests in the Order Land, which are not owned by the Council and secure the rights necessary to enable the CPO Scheme to be delivered. On the 31st of October 2023, the Council officially ratified making of the CPO. The CPO objection period came to an end on the 4th December 2023. The Council is in the process of responding to the objections received. If required, a CPO inquiry is anticipated to be held by Summer 2024.

Conclusion

There remains a strong case for change, the Council has taken firm steps towards achieving the preferred option with the support of the community, and planning permission has been approved.

While there has been a change in the policy environment these have been reflected in the developed design and the consented scheme remains the best way to achieve the Council’s objectives. The Council has commenced the CPO process and has an achievable path to vacant possession, enabling development.

Economic Case

The Preferred Option

The economic case seeks to determine a preferred option by assessing the economic benefits and costs of a range of options. The Council determined the preferred option by assessing a shortlist of options, which itself originated from a long list tested in a Strategic Outline Case. This resulted in preferred option: “Part development, part refurbishment”. This option proposed to redevelop many buildings in Sites A, B and C, with the exception of Kennet House, which would be refurbished.

In line with Treasury Green Book Guidance the preferred option was tested against the benchmark options of “Do Nothing” and “Do Minimum” in the August 2020 Outline Business Case. This guidance was then applied to assess the relative economic benefits and costs of the preferred option and the benchmark options. This demonstrated that Partial Refurbishment and Partial Redevelopment resulted in the best outcomes for Church Street.

In the following three years, the Council have, with its Multi-Disciplinary Consultant Team, developed that option, with reference to the changing regulatory environment and changing resident needs, into the proposed scheme which was granted planning permission in June 2023. This Outline Business Case update refers to this preferred option as the “Planning Approved” option.

Commercial Case

The Delivery Options

The commercial case seeks to demonstrate that the preferred option, i.e. the planning approved option, will result in a viable procurement and a well-structured deal between the Council and its service providers.

The August 2020 OBC part 2 sought to inform a decision for the best delivery route for Church Street Site A. It considered:

- Developer Led
- Partnership model
- Direct (self) Delivery

It concluded that the partnership model was the most appropriate for the site. The partnership style delivery route was formally approved by Cabinet Member in August 2020.

The purpose of this update to the commercial case is to revisit those assumptions, confirm they have been borne out and reassess the delivery route, as is prudent to do even at this point in the procurement process.

Overview of Delivery Routes:

There are three broad delivery routes for the Council's development:

Development Agreement (DA): Sells the land to a developer but with a DA restricting what can be built based on the Council's requirements for the developer to deliver the Council's scheme. Some control will be lost, and the Council will trade development risk for a fixed land value.

Joint Venture Partnership (JV): Creates a 50-50 joint owned vehicle, e.g. a Limited Liability Partnership (LLP), to enable the Council to deliver alongside with a developer partner, sharing risk and reward.

(Direct) Self Delivery: The Council takes the development risk and reward, employing a building contractor to build the site on their behalf.

Each delivery route trades off a number of factors which are summarised below:

	DA	JV	Self-Delivery
Risk	1 - Lowest	2	3 - Highest
Benefit	1 - Lowest	2	3 - Highest

If self-delivering, the Council bears all risks and benefits associated with the project. As it moves towards DA it transfers that risk and reward to a third party, reducing the range of potential downside and upside outcomes. E.g. in self-delivery the Council would manage the private sales, carrying the risk and benefits of its performance, however in the DA this risk would be transferred to the 3rd Party.

However, transferring that risk is not free, and it is expected that the third-party will price it into the land value its willing to pay. Therefore, the Council pays a premium to reduce its risk exposure. It should also be noted that by virtue of being the landowner and Local Authority to residents, the Council always carries the ultimate risk of project failure.

	DA	JV	Self-Delivery
Control	1 - Lowest	2	3 - Highest

Similarly, as the Council transfers risk it also relinquishes control. In a DA the Council would have reduced control over what was delivered at Church Street, and it would need to define those items at the commencement of the project. Any further changes would be at the agreement of the developer and would carry a cost to the Council.

In a JV the Council would have control, either contractually, or by virtue of being a member of the JV. However, it will require approval of the partner in most matters, although the inverse allows the Council to exert control by maintaining the status-quo.

If self-delivery the Council has the greatest control, albeit restricted by time, price and quality, as well as the willingness of the contractor market.

	DA	JV	Self-Delivery
Complexity	2	3 – Highest	1 - Lowest

Joint Ventures are necessarily complex as all the legal, financial and governance arrangements have to be put in place prior to completion of legal agreements, and the Council has to be clear with its requirements and anticipate issues that may arise and how they can be dealt with. Each Joint Venture will have unique aspects. However, this complexity is usually before contract and the collaborative nature of JVs means that the legals serve as a framework and a fallback rather than governing the actions that the Members take together.

Development Agreements and self-delivery have different types of complexity, similar in a DA the Council needs to be able to capture all of its requirements upfront, but then it has very limited ability to influence the scheme. In self-delivery the Council takes on responsibility for the whole scheme and while riskier it is potentially simpler than a DA.

	DA	JV	Self-Delivery
Resource Requirements	1 - Lowest	2	3 - Highest
While the Council's resource requirements grow as you move towards self-delivery, the type of resourcing changes between delivery routes. Both the DA and JV route will requirement more legal and commercial support for key activities ahead of legal completion, but then require less throughout the scheme. Self-delivery is more resource intensive, requiring commercial, legal, financial, sales and development team resources throughout the project.			

Is Partnership delivery still relevant to Church Street Site A

The Outline Business Case Part 2 identified several drivers for Partnership delivery:

- The cost of developer's profit is low considering the scale of Church Street;
- Partnership allows the Council to leverage private sector debt to reduce the Council's exposure;
- The Council's wider programme commitments, i.e. self-delivering Ebury and other developments, means the Council is already exposed to significant development risk, particularly private sale;
- Market testing showed there was significant interest in a larger scale, complex, central London regeneration scheme such as Church Street, and the majority of that interest favoured the developer role over the contracting role;
- Control of the future of Church Street is of utmost importance to the Council to ensure that the community remains at the heart of the decision-making process.

Its notable that none of the drivers above rule out self-delivery, but a preference to mitigate risk across the Council's portfolio. The Council at its core delivers a wide range of services to residents and needs to ensure any development activity does not jeopardise the wider Council's financial position.

The Council has progressed to procure a partner for a 50/50 joint venture in the form of the LLP. Initially the partnership will be for Site A, but a Future Sites Agreement will allow the Council to continue a successful partnership onto subsequent sites at its discretion.

The JV LLP approach will achieve these drivers:

- **Relatively low profit compared to scale.**

The Council's internal model forecasts a developer profit of 17.5% on cost, approximately £35m. The Council would retain half of this as member to the JV, with the other £17.5m going to the developer. While a significant amount of money, the Council will externalise all development risk to the joint venture, effectively reducing any risk by 50% but also leveraging the experience and supply chain of the partner to mitigate risk further. Albeit as noted previously, the Council as landowner and the Local Authority can never fully external risk of project failure.

In a development agreement, the developer would take 100% of the profit and the Council would have to rely on overage to ensure that the appraisals on which the deal was struck were realistic, whereas in a JV the Council always received 50% of the profit, whether this grows or falls through construction

The Council will also gain the expertise and experience of the partner, whom will have a vested interest in the success of the scheme beyond that of a contractor. It is expected that the partner will enhance the value generated by the scheme and actively work to limit costs by leveraging its supply chain, reducing the overall cost to the Council of delivering Church Street Site A.

- **Funding from Non-Council Resources**

As noted in the 2020 OBC the Council's development programme places a significant call on the Council's financial resources, with projects on the scale of Ebury running in parallel with Church Street Site A. This has been compounded by the global factors such as the invasion of Ukraine, high, persistent inflation and rising interest rates which have worsened viabilities across the programme.

In addition, wider pressures on the existing estate such as fire safety works, net zero targets and remedial works to tackle damp has stretched the HRA Business Plan further, highlighting the importance of alternative funding strategies.

While the Council could deliver through the general fund or indeed independently seek third party funding, delivering through a joint venture is cleaner, with a clear separation of assets from the rest of the Council, and utilises expertise and experience of raising debt for development projects. This resource would otherwise need to be brought into the organisation.

A development agreement would reduce the call on Council resources even further, however the nature of the existing planning permission and its significant negative land value would reduce its attractiveness to the market unless the Council offered freedom to a developer to make significant changes.

- **Exposure to Development and Sales Risk**

The Council development programme is significant with over £2bn of expenditure over the next 15 years and circa £1.0bn of private sales. While the Council are actively managing risk on each project, it is prudent to seek opportunities to externalise risk where possible and appropriate.

A Joint Venture partner will share both development and sales risk by virtue of its funding requirement and the profit margin it receives from the project, any degradation in values, delay in programme or increased costs will directly impact the partner. The Council will still be exposed but only to half of the impact. The joint venture requires the partner to risk its own equity and to provide resources to the joint venture, incentivising it to deliver to programme and cost.

A partner will be exposed to some reputation risk but it is very difficult for a Local Authority to transfer this effectively, as the development is one of the Council's landmark projects and part of a legacy of regeneration in the area. This adds to the Council's need to control the project to minimise the potential for reputational damage.

This inability to completely transfer risk weakens the risk transfer of a development agreement. While in theory the developer would fully take on cost and income risk, the Council has a vested interest for the project to be delivered to a high quality which can be used against it as a negotiating tool should market conditions worsen.

- **Market interest for a joint venture partner**

Through the development of Church Street, the Council has undertaken several rounds of market testing which has shown a strong desire from developers to be involved in the scheme. The nature of the scheme, an estate regeneration, lends itself well to a partnership arrangement, balancing the commercial expertise of the private sector with the knowledge of the community and its history from the Council.

The procurement received sufficient interest to show that there is market interest for the project.

- **Other Benefits of a Joint Venture partner compared to alternative delivery routes**

Procuring a developer goes beyond sharing risk and reward. A developer is expected to bring a strong team and a breadth of experience and knowledge. While the Council could procure this knowledge through a development manager or professional team, a developer brings a unified team in with experience of delivering together with a vested interest, i.e. capital at stake, in the scheme. By procuring a partner the Council ensure it retains control while leveraging their resources' ability and experience.

A developer partner will:

- **Provide knowledge of exemplar sustainable development** by sharing experience and lessons learned from similar estate regenerations. The Council can utilise the ideas generated to better Church Street while respecting the design principles of the project.

- **Identify options for additional value across private units** by taking a fresh look at the Council's design and utilising their experience of the market, examples of similar schemes and a tried and tested approach to the market. Value optimisation may be at the detriment of the placemaking ability of the scheme or the quantum of affordable homes. The Council will balance this gain against the overall objectives of the regeneration, ensuring the decisions of the JV respect these.

- Developers will **drive value by focusing on unit efficiency** to increase their financial return which the Council will share as development partner. However, the Council will ensure its minimum requirements are not diluted in pursuit of return and that the homes built are to a high, lasting standard. The Council having a voice in the JV board ensures these principles will be maintained.

- **Improve buildability** through the early engagement of their construction arm (or chosen contractor) to ensure designs are well considered and achievable once on site, driving **cost reduction and design efficiency.** Developers, targeting a return will minimise expenditure that does not add value, and the Council will safeguard against a degradation of the non-income generate benefits derived by the Council and its residents.

- **Bring expertise on Net Zero.** A partner would be expected to work with the Council to ensure the Development complies with Council ambitions under the Climate Action Plan.

By being in a joint venture the Council can ensure that the scale and massing principles tested through planning and with the community are recognised and respected, ensuring the design principles and place making aspirations are embraced.

Self-Delivery

The Council has a strong record of delivering developments in-house through a building contractor. Success at schemes like 300 Harrow Road and Ebury shows the Council's ability to deliver at scale and it has the resources both financial and technical or the ability to procure them.

Financially a self-delivery scheme will always perform better on paper, however the benefit of a joint venture is the ability to share and mitigate risk, either through the profit margin or by bringing on experience. On balance, a Partnership with fair terms that result in a share of risk and reward remains the favoured option.

Changes in Market Condition

The global economic environment and market have experienced several, significant shocks since the OBC was written in 2020. While written during the Covid pandemic the full implications of this and the following invasion of Ukraine and the emerging conflict in Gaza have had significant impacts on the housing market. The "cost of living crisis" and the many fold increase in interest rates has weighed heavily on the private sales market at a time of sustained high inflation pushing build costs up. Changes in regulation, i.e. the Building Safety Act and the fallout of Covid and inflation are leading to developers pricing in a more risk aware approach than pre-Covid.

Despite this adverse environment, there remains strong interest in Joint Ventures from the market. An estate regeneration with vacant possession, planning permission and a highly motivated Local Authority is a strong selling point, especially when the forecast practical completion is sufficiently far off that a lot of the current market shocks may have been recovered from. Both the partner and the Council will benefit from risk sharing.

Procurement Process

The Council have commenced its procurement process and will report on the outcome of this separately.

The Financial Case

The financial case seeks to determine whether the preferred option is affordable within the Council's resources by considering the revenue and capital implications of Church Street Site A.

The Financial case assumes deliver of the Council's planning approved scheme for Site A through a 50/50 Joint Venture Partnership.

The Scheme

Tenure distribution

Tenure Distribution	Units	%
New Social Rent	73	17%
Social Rent Reprovision	98	23%
London Living Rent	42	10%
Subtotal – Affordable Homes	**213**	**50%**
Market Sale	215	50%
Total	**428**	**100%**

The above table reflects the planning approved tenure distribution for Church Street Site A, the redevelopment of which will deliver 428 homes with 50% affordable across Social and London Living Rent and 50% Market sale as well as commercial space and a new library.

The Council intends to:

- Hold all the social rent in the HRA, renting them to existing tenants at existing rents levels and to new tenants at target rent levels
- Transfer the London Living Rent homes to Westminster Builds which will rent them to qualifying residents
- Sell the market homes on the open market to subsidise the affordable provision
- The Council will lease back and operate the library and commercial space

Budgeted Position

The Outline Business Case Part 2, approved by Cabinet Member in August 2020, set the preferred delivery route of partnership, i.e. the Joint Venture model, and the current budget for Site A reflects this. The budget assumes the HRA will take the role of landowner, funding the scheme up to the creation of the JV (assumed to be a limited liability partnership) after which it will take a monitoring role, ensuring the scheme is delivered as per the Joint Venture Development Agreement.

Separately the Council holds a budget in the general fund to provide the Council's share of funding to the Joint Venture. This currently assumes the general fund provides the debt to the JV, at market terms. This follows the model of Luton Street and will be reserved as an option but not an obligation for the Council.

	Site A – HRA	Site A – GF Partnership
Expenditure	£144m	£96m
Funding/ Income	(£94m)	(£105m)
Net Cost	**£51m**	**(£9m)**
Peak Debt		£102m

The HRA budget includes funding for Site A vacant possession costs, design costs up to RIBA stage 3, demolition, buyback costs of completed Social and commercial units and also subsidy funding to the JV to offset the anticipated project deficit. The requirement for subsidy stems from the 50% affordable, high-quality build and placemaking and the costs of estate regeneration in central London. The Council is drawing from the affordable housing fund and receiving grant from the GLA. It intends to provide a single grant to the JV that is independent of its funding. This grant will be subject to subsidy control.

The General Fund budget reflects a partnership model delivering the Council's planning approved scheme and is informed by an Arcadis cost plan, Savills sales forecasts and the Council's assumptions on the structure of the joint venture.

Joint Venture

During the procurement of a partner, it has become apparent that, whoever the partner, there will likely be planning amendments to the approved scheme. The Council has also gained a clearer understanding of the metrics and hurdles expected by prospective partners, however as this is not uniform across potential partners the Council has chosen to retain the status quo position until a preferred bidder has been selected.

Any budget amendments will be made post appointment, and reported to CRG and Cabinet Member as appropriate. Where these affect the general fund, the Council feels comfortable the impact on budget can be managed, as the project holds a number of contingencies. For example, the Council has chosen not to budget for a profit from the JV even though this is likely to be a significant amount. However, the impact on the HRA will need to be considered in the context of the wider business plan and what levers the Council has to mitigate increases.

Within the procurement for the JV the Council retains the rights to become the senior lender for the development. The council budget includes this 50% within the partnership funding line and further 50% budget is required.

Self-Delivery

The benchmark option for Site A is self-delivery, i.e., that the Council develops the scheme itself and employs a building contractor.

	HRA	GF-Self-Delivery
Expenditure	£127m	£279m
Funding	(£94m)	(£66m)
Income		(£213m)
Net Cost	**£34m**	-
Peak Debt		£212m

Self-delivery results in a overall net cost to the Council of £34m, compared to a deficit of £42m in partnership option (including the General Fund surplus of £9m). However, the Council is required to provide a much bigger investment, shown by the peak debt. For self-delivery the Council would have a maximum exposure of £212m compared to £102m in partnership. The Council would therefore have more resources committed to self-delivery and would be more exposed to additional finance costs from programme delays.

Self-delivery would be very challenging in the current HRA business plan without changes to the rest of the programme. While HRA self-delivery has a better end position for the HRA, it does not have the capacity to bear the additional borrowing. This could only be achieved by reducing its major repairs programme or would require alternative delivery routes for other development schemes. Its highly unlikely that this could be achieved without detrimental impact on current residents and the state of housing stock and is not considered a palatable option.

Self-delivery could be more feasible in the general fund. The Council has taken advice from Trowers and Hamlin's to support the potential funding of housing regeneration schemes in the General Fund. The General Fund would appropriate the land from the HRA, fund the project before appropriating the completed social housing to the HRA. The General Fund would carry the build and sales upside and downside risk, ensuring the HRA has a known, fixed cost.

The Council's General Fund holds contingencies and future scheme allowances in its Capital Strategy to ensure a long-term affordable programme, although some of these budgets have been allocated to other capital schemes. These could not and do not need to be fully allocated to Church Street, as they fund a wide range of needs and pressures and ensure the Council can continue to grow its Capital programme. But it does demonstrate the potential capacity in the General Fund.

Local government accounting and specifically the minimum revenue provision (MRP) creates a cost to self-delivery beyond that shown in the development appraisal. This will need to be considered in a self-delivery scenario.

Whilst contributions to the JV under the partnership route will also attract an MRP charge, these will be less than self-delivery given the lower levels of borrowing and peak debt.

Ultimately, the Council could use private sector debt, for example through an income strip model. While this is not explored in detail in this OBC, it should be noted that financing a development should not be an impediment to self-delivery in itself, as the Council could use its covenant to secure favourable project specific lending.

Recommended delivery route

It is recommended that the delivery approach is a Joint Venture approach with a commercial partner in order to mitigate some of the risks surrounding the project, especially as this is a long-term project, fluctuations in the market could mean large movements in costs or income which could mean that the Council is unable to support other future developments.

Although the deficit is higher under the JV route (£42m vs £34m) than in a self-delivery example, the peak debt is £110m higher in the self-delivery route which is a large amount of borrowing to undertake. As explored above, this in itself is not an impediment to self-delivery but increases the Council's exposure to risk and the need to explore less normal funding structures. Both of these are important considerations when choosing a delivery route.

Please note detailed risks and mitigations will be provided in the Cabinet report prior to the J/V appointment. Risks will be monitored and updated during the pre-unconditional period.

Implications of the Council's finances

HRA

The impact on the HRA would be the same irrespective of the decision made. The current net budget of £31m would remain.

It should be noted that the above provision is related only to Church Street Site A and further capital provision is required for Site B & C separately.

GF

There is a capital impact on the GF of £96m, which would be mitigated by an income line from the JV in respect of the return of equity and profit from the Joint Venture The profit is not currently budgeted. Please also note the capital will be subject to MRP charges and would have revenue impact.

Under the self-delivery option, the increased debt would mean that an additional spend budget of £183m would be required as well as utilising a larger capital receipts budget of £180m. Although this looks to reduce the overall scheme deficit, MRP charges would equate to c. £5m, which is a revenue charge.

Westminster Builds

Westminster Builds Board approval is required for the scheme to be included within the Westminster Builds business plan. This is solely for the acquisition of the intermediate rental units.

3.7 Considerations /Risks for the Council

- Resourcing
- Additional layers of complexity
- Legal documents
- State Aid
- Taxation – benefits of an LLP
- Sales risk
- Financing costs – impact of delays and interest rate changes

Management Case

The Management Case seeks to demonstrate that robust arrangements are in place for the delivery, monitoring and evaluation of the project. The operation of the Joint Venture will depend on the preferred bidder but this case sets out the Council's own management as well as its published, starting position for the JV management.

The Partnership Vehicle

The Council will operate in two distinct roles in the partnership transaction.

WCC as Landowner – Here the Council acts as the freeholder of the land, of which it disposes of a leasehold interest to the JV for a consideration, likely to be £1 (reflecting the project's viability gaps). Alongside this lease will sit a Joint Venture development agreement which dictates what and how the JV will deliver Site A on the Council's behalf. To enable the JV to deliver this the Council will provide a subsidy to the JV.

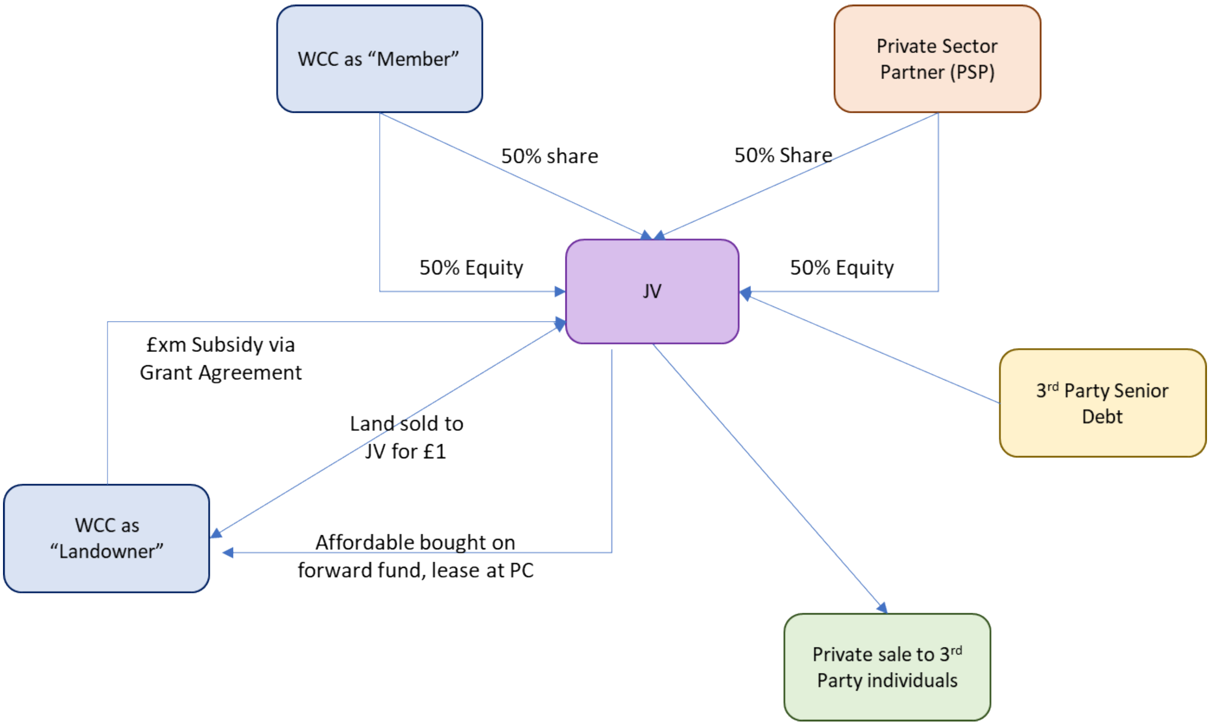
The Council will acquire the completed affordable homes, library and commercial units, the "retained assets".

The Landowner role allows the Council to retain control through its development agreement with the Joint Venture and reserved decisions.

WCC as Member – Here the Council will act as a 50/50 shareholder in the JV and will fulfil its funding requirements. Westminster will appoint three representatives who will act as directors of the JV along with three partner representatives. These representatives will vote on behalf of the Council but will be required to act in the best interests of JV.

The partnership will be a Limited Liability Partnership, a separate corporate entity from the Council and partner.

The diagram overleaf sets out the roles of the Council and the principles of the partnership transaction.



LLP Governance

The LLP is anticipated to have three levels of governance:

Day to day the project will be run by Council officers working alongside partner's officers making project decisions within a delegation framework and implementing directions of the board

JV Board will consist of six representatives (effectively directors), three from each partner. They will make decisions with each partner allocated equal voting rights (regardless of number of representatives present). Most of the business of JV will be done through this board, delegating decisions down to officers. The Council representatives will operate within agreed parameters and delegations from Cabinet/Cabinet Members and will revert back to the Council's governance where required.

Executive Oversight from senior officers will be through lower frequency meetings without decision making power. This will ensure that senior officers from both parties remain engaged and in dialogue, without the resource commitment of attending regular boards. These meetings will provide strategic steer down to the Board.

Council Governance

The Joint Venture sits within existing Council governance rather than replacing it. However, to effectively operate the officers who represent the Council at the JV Board need the delegated authority to make most decisions, especially as the Council will demand the same of its partners.

The project will follow all normal reporting and governance arrangements, reporting through the Regeneration and Development team monitoring with updates and decisions taken to Cabinet Members as necessary.