



Meeting	The Scrutiny Committee
Date and Time	Wednesday, 14th August, 2019 at 6.30 pm.
Venue	Walton Suite, Guildhall, Winchester

AGENDA

PROCEDURAL ITEMS

- 1. Apologies and Deputy Members**
To note the names of apologies given and deputy members who are attending the meeting in place of appointed members.
- 2. Declarations of Interests**
To receive any disclosure of interests from Members and Officers in matters to be discussed.

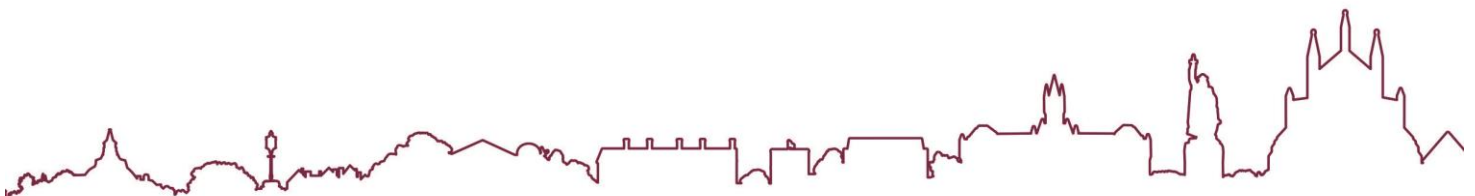
Note: Councillors are reminded of their obligations to declare disclosable pecuniary interests, personal and/or prejudicial interests in accordance with legislation and the Council's Code of Conduct.

If you require advice, please contact the appropriate Democratic Services Officer, prior to the meeting.

- 3. Chairman's Announcements**
- 4. Minutes** (Pages 5 - 12)
Minutes of the meeting held on 4 July 2019.
- 5. To note the Work Programme for 2019/20** (Pages 13 - 16)

BUSINESS ITEMS

- 6. Public Participation**
To receive and note questions asked and statements made from members of the public on matters which fall within the remit of the Committee.



7. **Station Approach - Proposals for Delivery and Further Public Realm Development (less exempt appendix) (SC009)** (Pages 17 - 82)
8. **EXEMPT BUSINESS**
 - i) To pass a resolution that the public be excluded from the meeting during the consideration of the following items of business because it is likely that, if members of the public were present, there would be disclosure to them of 'exempt information' as defined by Section 100 (l) and Schedule 12A to the Local Government Act 1972.
9. **Station Approach - Proposals for Delivery and Further Public Realm Development (Exempt Appendix 4a)** (Pages 83 - 98)

Lisa Kirkman
Corporate Head of Resources and Monitoring Officer

Members of the public are able to easily access all of the papers for this meeting by opening the QR Code reader on your phone or tablet. Hold your device over the QR Code below so that it's clearly visible within your screen and you will be redirected to the agenda pack.



6 August 2019

Agenda Contact: Claire Buchanan, Senior Democratic Services Officer
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**With the exception of exempt items, Agenda, reports and previous minutes are available on the Council's Website www.winchester.gov.uk*

MEMBERSHIP

Chairman: Brook (Conservative)

Vice-Chairman: Lumby (Conservative)

Conservatives

Griffiths
Horrill

Liberal Democrats

Gordon-Smith
Gottlieb
Hiscock
Laming
Power
Tod

Deputy Members

Scott and Weston

Clear and Craske

Quorum = 4 members

Relevant Cabinet Members:

Having regard to the content of the agenda, the Chairman requests that The Leader and all relevant Cabinet Members attend meetings of the committee

PUBLIC PARTICIPATION

A public question and comment session is available at 6.30pm for a 15 minute period. There are few limitations on the questions you can ask. These relate to current applications, personal cases and confidential matters. Please contact Democratic Services on 01962 848 264 in advance of the meeting for further details. If there are no members of the public present at 6.30pm who wish to ask questions or make statements, then the meeting will commence.

Voting:

- apart from the Chairman, every Member has one vote when a matter before the meeting requires a decision.
- in the event of an equality of votes, the Chairman may exercise a casting vote and that vote may be exercised in any way seen fit.
- a Member may abstain from voting, or vote differently from how they may have indicated during the debate, without further explanation.
- the way each Member voted will not be recorded in the minutes, unless a motion to have a Recorded Vote has been passed.

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THE SCRUTINY COMMITTEE

Thursday, 4 July 2019

Attendance:

Councillors
Brook (Chair)

Gordon-Smith
Gottlieb
Griffiths
Hiscock
Horrill

Laming
Lumby
Power
Tod

Others in attendance who addressed the meeting:

Councillors Thompson (Leader and Cabinet Member for Communications and Transformation), Cutler (Cabinet Member for Finance and Risk), Learney (Cabinet Member for Housing and Asset Management) and Murphy (Cabinet Member for Environment)

Others in attendance who did not address the meeting:

Councillor Gemmell

1. **APPOINTMENT OF VICE-CHAIRPERSON FOR MUNICIPAL YEAR 2019/20**

RESOLVED:

That Councillor Lumby be appointed Vice-Chairperson for the 2019/20 Municipal Year.

2. **DECLARATIONS OF INTERESTS**

Councillors Hiscock and Tod both declared a personal (but not prejudicial) interest in relation to various matters on the agenda, particularly in respect of recycling, due to their role as County Councillors having been previously involved in discussions.

3. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairperson welcomed all those present to the first meeting of The Scrutiny Committee and outlined the changes to the Committee following the review of the Council's Constitution. The role of the Scrutiny committee was one of critical friend and Cllr Brook proposed that the work plan include investigations and enquiries into the work and policies of the council. Although this largely meant the committee would consider matters retrospectively, there was opportunity to review items and proposals under development to provide a view for Cabinet. The committee had the

formal power of call in The Business and Housing Policy Committee and the Health and Environment Policy Committee would largely be policy development committees and support the work of the scrutiny committee by reviewing matters before decision by Cabinet.

4. **MINUTES**

RESOLVED:

That the minutes of the meeting held on 20 March 2019, be approved and adopted.

5. **TO NOTE THE DATE AND TIME OF FUTURE MEETINGS OF THE COMMITTEE**

The Chairperson informed the Committee that an additional meeting had been scheduled on 14 August 2019 to give consideration to the disposal options for the Station Approach site prior to a decision being taken at an additional meeting of Cabinet, due to take place on 28 August 2019.

RESOLVED:

That the date and time and future meetings for the 2019/20 municipal year, be noted as set out on the agenda and outlined above.

6. **PUBLIC PARTICIPATION**

At the invitation of the Chairperson, Ian Tait addressed the Committee. In summary, Mr Tait raised concerns regarding the integral role of TACT in the new governance structure and their continued involvement in the development of the Housing Revenue Account (HRA) and other associated housing matters. In addition, Mr Tait made comments regarding the further consideration of the 12 court sports hall and the need to ensure continued transparency and engagement in this matter with the residents of Winchester.

In response, the Chairperson confirmed that she would liaise with the Leader to clarify the continued engagement of TACT and mechanism for their involvement going forward.

7. **HOUSING REVENUE ACCOUNT AND CAPITAL PROGRAMME OUTTURN 2018/19 (SC007)**

(Report SC007 refers)

The Committee gave consideration to the Report which provided an update on the financial performance of the HRA in 2018/19 and the associated Housing Capital Programme.

Members raised a number of detailed questions and sought clarification in a number of areas which were responded to by the Cabinet Member for Housing and Asset Management and the Head of Housing Finance accordingly, these included:

- The material variances as a result of the level of vacant posts arising during the year – The Head of Housing Finance clarified that the 2019/20 budget assured a mix of staff with a review in progress;
- Refurbishment of 84-86 Sussex Street – It was confirmed that this would be available at the end of the Summer with the lease agreement currently being finalised;
- Capacity to address Universal Credit A successful appointment had been made to the role of Money and Benefits Advisor.
- Installation of WIFI systems - The Head of Housing Finance advised that a number of WIFI systems had already been installed and the provision of quality broadband services for residents would be monitored;
- Right to Buy and the number of units sold –a schedule setting out this information would be provided and
- Housing Capital Programme – It was considered fundamental to ensure engagement with residents and the community to establish potential for additional sites currently unallocated. In response, Councillor Learney clarified that other available sites would continue to be programmed into the existing list of housing units that were due to come forward over the next ten years. Land acquisition would continue to be explored as a priority in conjunction with the establishment of a Housing Company.

The Committee welcomed the report's content and expressed its thanks to officers for the positive work carried out.

RESOLVED:

1. That Cabinet be asked to formalise a mechanism to enable TACT to feed into the housing process; and
2. That the Leader and other relevant Portfolio Holders notes the comments of the Committee set out above

8. **Q4 FINANCIAL AND PERFORMANCE MONITORING REPORT (SC002)**

(Report SC002 refers)

Councillor Cutler introduced the Report which summarised the Council's performance and financial position during the final quarter of 2018/19. The report gave updates against major projects, the Council Strategy outcomes and key performance measures. A financial summary set out the detail of the General Fund revenue and capital budgets as well as the Housing Revenue Account (HRA).

Members raised a number of detailed questions and sought clarification in a number of areas which were responded to by the Cabinet Member for Finance and Risk and the Strategic Director: Resources accordingly, these included:

- New Burdens Grants – The Council would bid for additional funding made available from the Government to be distributed across local authorities for spend in the new financial year, wherever possible;

- Commercial activities: Property –The current policy enables the the Council to purchase property within the EM3 Local Enterprise Partnership (LEP) boundary, however, to date, all purchases had taken place within the District.
- Central Winchester Regeneration and Supplementary Planning Document (SPD) Progress – Councillor Learney clarified that next steps for this project were under review, the SPD had been completed and progress going forward would run in in parallel to work by JLL, who had been appointed as Strategic Placemaking Consultants, and a revised timeline would be established.
- Transport Budget – The Strategic Director: Resources clarified that this figure was not spent and was included as a saving as part of the budget setting for 2018/19 which was separate to the Movement Strategy and therefore had now been removed.
- Car Parking Strategy – Discussions were ongoing with Hampshire County Council (HCC) and an update on Car Parking Strategy would be made available in due course. In respect of the report, it was considered that the Car Parking Strategy for the Winchester town centre should differentiate from that in market towns like Alresford to provide clarity in the monitoring process.
- Article 4 Directions – Members expressed concern regarding any further losses of family homes to Houses of Multiple Occupation (HMO's). In response, Councillor Thompson stated that the Article 4 Directions would be further reviewed in due course, particularly in Winchester itself where the rise in HMO's continued to be an issue.
- Access to Superfast Broadband –Figures of the access percentages achieved in rural locations to be provided.
- Nitrates across the Southern Parishes in respect of festivals, events etc – The Chief Executive provided a brief update to the Committee on the discussions of the recent meetings of Partnership for South Hampshire (PFSH) and the Hampshire and Isle of Wight Local Authorities (HIOWLA) where this matter had been debated at length.
- Homes England Grant – Members congratulated the Housing Team on securing the grant which was testimony to their partnership working practices.
- Performance Indicators - With regard to staff sickness levels and staff turnover, it was reported that levels had reduced since the last quarter and it was noted that levels remained consistent and were not considered to be of particular concern.

In respect of the processing of new Housing Benefit claims, it was reported that fluctuations in this area were as a result of the delays regarding Universal Credit.

- Universal Credit – It was considered that the impact on peoples lives needed to be addressed as a result of the delay to Universal Credit and it was suggested that contact be made with the Department of Work and Pensions (DWP) to assist

the Council in supporting local residents with the challenges they faced wherever possible.

RESOLVED:

That the Leader and other relevant Portfolio Holders notes the comments of the Committee, as set out above,

9. **MEDIUM TERM FINANCIAL CHALLENGE (SC008)**

(Report SC008 refers)

The Committee gave consideration to the report which set out the medium term financial planning challenge that the Council faced and highlighted a range of high level forecasts and scenarios over the medium term to address how the Council could best respond to the uncertainty currently facing local government.

Members raised a number of detailed questions and sought clarification in a number of areas which were responded to by the Leader and the Strategic Director: Resources accordingly, these included

- Enterprise M3 LEP funding – In response to questions regarding the Station Approach project, the Leader clarified that early meetings had taken place with the LEP to discuss the Council's position and to receive confirmation that the anticipated £5m M3 LEP funding was still available.
- Winchester Sports and Leisure Centre – the Leader stated that the finances of the new Leisure Centre had been reviewed and excessive costs would not allow for the sports hall to be extended at this time. As a result, building would progress as previously agreed.
- In respect of key projects in the General Fund such as the replacement Doctors Surgery and Coitbury House, the Committee were informed that these projects were moving forward and would be included within the budget into the future.

RESOLVED:

That the Leader and other relevant Portfolio Holders notes the comments of the Committee, as set out above, but that no items of significance to be drawn to the attention of Cabinet.

10. **SCRUTINY WORK PROGRAMME FOR 2019/20 (SC001)**

(Report SC001 refers)

The Committee referred to the work programme which would continue to be updated to reflect other business coming forward throughout the 2019/20 Municipal Year.

In respect of the Committee's request that external speakers be invited to attend future meetings, the Chief Executive asked Members to set out the details of which aspects were of particular focus to enable officers to feed this back to the relevant speaker in advance of the meeting date and/or Member briefing date, as appropriate.

Members requested that an external speaker from the NHS be invited to attend and address the Committee in respect of health and social care issues as a priority and agreed to discuss this matter and seek advice from officers in order to progress this request.

RESOLVED:

That the Scrutiny Work Programme for 2019/20 be noted.

11. **MONITORING REPORT - EXCEPTIONS TO FORWARD PLAN (SC006)**

(Report SC006 refers)

The Committee gave consideration to the annual monitoring report which set out the number of Key Decisions that came forward for decision, which had not been included in the Forward Plan. It was noted that the number of exceptions to the Forward Plan had reduced significantly over the years.

RESOLVED:

That the Report be noted.

12. **DRAFT ANNUAL SCRUTINY REPORT (SC004)**

(Report SC004 refers)

The Committee noted that the Report represented a succinct summary of the main work it had carried out during the previous municipal year.

RECOMMENDED:

**THAT COUNCIL NOTE THE ANNUAL SCRUTINY REPORT
FOR 2018/19.**

13. **APPOINTMENTS OF EXTERNAL BODIES RELATED TO SCRUTINY
(SC005)**

(Report SC005 refers)

RESOLVED:

That the following appointments be made the external bodies listed below:

- i. Portsmouth City Council – Health Overview and Scrutiny Panel: Councillor Achwal (deputy Councillor Clear).
- ii. Centre for Public Scrutiny (CfPS) – Scrutiny Champions Network: Councillor Brook.
- iii. Partnership for South Hampshire Overview and Scrutiny Committee: Councillor Hiscock (deputy Councillor Clear).
- iv. Environmental Services Joint Scrutiny Committee (with East Hants DC): Councillors Achwal, Ferguson and Laming (deputies: Councillors Bronk, Clear and Gordon-Smith)

The meeting commenced at 6.30 pm and concluded at 8.10 pm

Chairperson

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THE SCRUTINY COMMITTEE - WORK PROGRAMME 2019/20

14 AUGUST 2019 – ADDITIONAL MEETING					
	BUSINESS	LEAD OFFICER	COMMITTEE DATE		STATUS/COMMENT
			Original	Revised	
	Station Approach –Proposals for Delivery and Further Public Realm Development	Ian Charie	14 August 2019		CAB3172/SC009 – Exempt Appx 4a
9 SEPTEMBER 2019					
	BUSINESS	LEAD OFFICER	COMMITTEE DATE		STATUS/COMMENT
			Original	Revised	
	Q1 Financial and Performance Monitoring Report	Simon Howson	9 September 2019		
	Annual Report: Local Government and Social Care Ombudsman 2018/19	Simon Howson	9 September 2019		
	Housing Company	Richard Botham	9 September 2019		
27 NOVEMBER 2019					
			COMMITTEE DATE		STATUS/COMMENT

	BUSINESS	LEAD OFFICER	Original	Revised	
	Q2 Financial and Performance Monitoring	Joseph Holmes	27 November 2019		
	Housing Revenue Account Budget Options 2020/21	Richard Burden/Richard Botham	27 November 2019		
	Draft Council Strategy – TBC	Simon Howson	27 November 2019		
	Medium Term Financial Planning	Darren Kennedy	27 November 2019		
5 FEBRUARY 2020					
	BUSINESS	LEAD OFFICER	COMMITTEE DATE		STATUS/COMMENT
	Medium Term Financial Strategy	Joseph Holmes	5 February 2020		
	General Fund Budget 2020/21	Joseph Holmes	5 February 2020		
	Capital Investment Strategy	Joseph Holmes	5 February 2020		
	Treasury Management Strategy 2020/21	Joseph Holmes	5 February 2020		

	Housing Revenue Account Budget 2020/21 and Business Plan 2020/2050	Richard Botham	5 February 2020		
	Q3 Financial and Performance Monitoring	Joseph Holmes	5 February 2020		
	Annual Emergency Planning Report	David Shaw	5 February 2020		
	Community Safety Partnership Performance Review	Sandra Tuddenham	5 February 2020		
	Asset Management Plan	Kevin Warren	5 February 2020		

Items to be allocated onto work programme later during 2019/20 (Meeting dates to be confirmed):

	Theatre – Review of Year	Susan Robbins	Date TBC
	Hampshire Cultural Trust – Review of Year	Susan Robbins	Date TBC

Whilst the work programme is currently populated with the annual reporting of known reports, the Scrutiny Committee has met informally and has begun to articulate additional items that they wish to programme.

Possible External Speakers:	Health
	The Police
	Homelessness organisations
	Public Transport
Possible Work Initiatives:	Rural & High Street Economy

	Fly Tipping
	Affordable Housing
Possible invitation to a Cabinet Member for Discussions within their area of responsibility:	Environmental Services Contract
	Climate Change Action Plan
	Local Plan
	Movement Strategy and the wider district
	Ward Member engagement

Work is ongoing in terms of the scope of these possible work programme items.

REPORT TITLE: STATION APPROACH PROPOSALS FOR DELIVERY AND FURTHER PUBLIC REALM DEVELOPMENT

1 AUGUST 2019

REPORT OF CABINET MEMBER: CLLR ANNE WEIR, CABINET MEMBER FOR LOCAL ECONOMY

Contact Officer: Ian Charie Tel No: 01962 848420 Email icharie@winchester.gov.uk

WARD(S): ST PAULS / ST BARTHOLOMEW

PURPOSE

The Council has been leading the development proposals for the Station Approach Carfax site. This is the opportunity for a market-leading, low carbon office building in the heart of the city which will underpin the city centre economy for decades to come, creating a new hub of vibrant activity and acting as a catalyst for future regeneration opportunities. The project has now reached the stage of several key decisions:

- scheme delivery through disposing of the site to a purchaser who will then develop the scheme
- preparing the site and progressing the adjoining public realm improvements with the benefit of a £5m grant from the EM3 Local Enterprise Partnership
- ensuring that the development links strongly to the city centre by improving accessibility, particularly focused on the connection along Upper High Street and Sussex Street

Following approval of the Outline Business Case in March 2019 (CAB3144(SA)) additional work has been undertaken to further investigate the three approaches for disposal of the Carfax site, to test the market appetite for this type of development, and to progress design development for the public realm proposals.

This report has 3 objectives;

1. To set out the options for disposal of the Carfax site, on suitable terms that

enables the market to respond positively and deliver an office-led development which provides long-term economic benefits for the city.

2. To set out the RIBA equivalent Stage 3 (Developed Design) work for the public realm improvements linked to the £5m EM3 Local Enterprise Partnership (LEP) Grant and recommend progression of this work to RIBA equivalent Stage 4 (Technical Design) to meet the LEP timetable for spend of the awarded grant, subject to signing the Grant Agreement.
3. To further enhance public realm in and adjacent to Station Approach by improving the links from the Carfax site to the city centre by foot and cycle.

RECOMMENDATIONS:

1. That the Scrutiny Committee consider the contents of this report along with the proposed recommendations to Cabinet (below), and make any comment and that these be brought to the attention of the Cabinet Member.

That Cabinet:

Notes

2. That this report concludes the review of the Station Approach scheme led by the Cabinet Member: Local Economy.
3. The amendments made to the outline planning application, including reduced height, reduced parking and additional areas of active frontage to the public route through the site.
4. The introduction of an Open Forum to continue stakeholder engagement in the development of this proposal.
5. The feedback from the soft market testing as detailed in Appendix 3.
6. The RIBA equivalent Stage 3 report and cost plan for the Public Realm project.

Approves

7. The allocation of a revenue budget of up to £220,000, as set out in Appendix 1, to undertake the selection process to enable the site disposal.
8. The progression of the Public Realm project to RIBA equivalent Stage 4 (Technical design) and Stage 5 (Construction Management) and that this work proceeds at a financial risk to the Council (see para 2.8).
9. That a request be progressed for the allocation of up to £500,000 CIL funding

to enable development of public realm works to improve connectivity between the Station area/Carfax site and the High Street and Sussex Street.

10. That the Strategic Director: Place be authorised to enter into the necessary agreement with Hampshire County Council to progress public realm design and construction management work.

Approves, contingent on the approval of the outline planning consent

11. The disposal of the Carfax site to a selected purchaser by way of a long leasehold, subject to agreed terms and conditions following a competitive selection process.
12. That detailed arrangements for the selection process for disposal are subject to a further report to Cabinet.

Recommends to Council

13. Approval to agree and to enter into the LEP Grant Agreement for a total sum of £5M based on the Heads of Terms (Appendix 6), with final amendments to be delegated to the Strategic Director: Place in consultation with the Cabinet Member for Local Economy.
14. Approval to incur capital expenditure in stages totalling £5M to be funded from the LEP Grant recognising the terms and conditions attached to the grant agreement and that such expenditure will be subject to payback to the LEP should the scheme not progress and achieve the grant objectives.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 Successful regeneration of Station Approach/Carfax is central to fulfilling high value, private sector employment opportunities to deliver the Council Strategy (2018-20). It also will be a landmark exemplar of sustainable office development in the heart of the city and act as a regeneration catalyst for other development and enhancements, as well as being of wider economic benefit to the city and district.

2 FINANCIAL IMPLICATIONS

- 2.1 A revenue budget of £1.5 million was set by Full Council on 02 November 2016 (CAB2852) to commission the masterplan and a public realm strategy for the Station Approach area encompassing the Carfax and Cattlemarket sites, and the design work and other professional services for the Carfax site.
- 2.2 Following completion and approval of the public realm strategy (CAB3021(SA) refers), the Cabinet (Station Approach) Committee approved an additional revenue budget of £225,000 to take forward the initial design work for the public realm adjacent to and in support of the Carfax design development as a first phase of implementing the wider strategy. The Enterprise M3 LEP has agreed to a £5 million grant for works to support the development of office accommodation on the Carfax site, subject to conditions which include the requirement: that Planning Permission for the Carfax development is issued by 31 October 2019 with confirmation of the delivery model the Council intends to pursue, and that the grant has to be spent by the end of March 2021.
- 2.3 Full Council approved in February 2019 (CAB3134) a budget of £5m (2019-21) for implementation of the Station Approach public realm project subject to appraisal. This budget is contingent on the LEP £5m grant being confirmed through signing the necessary Grant Agreement with EM3
- 2.4 A capital budget of £1.8m was agreed in February 2018 to take the Carfax development project through planning and detailed design. In October 2018 (CAB3083(SA)) approval was granted to draw down £400,000 of this capital budget to cover work for planning application preparation, submission and follow up work for the Carfax site.
- 2.5 The current expenditure for the project is set out in Appendix 1.
- 2.6 To select a site purchaser, the budget requirement is set out in Table 4 of Appendix 1 and Cabinet is asked to approve the necessary revenue budget of £220,000 for undertaking the disposal of the Carfax site.
- 2.7 For the public realm works, the budget requirements set out in Tables 3 and 4 are estimated to take this part of the project forward through RIBA equivalent Stages 4 and 5 at an estimated cost of circa. £575,000. These works are to

be financed from the EM3 LEP £5m grant following the signing of the Grant Agreement. Works must be agreed and carried out in accordance with the Grant Agreement before the spend is claimed back as a drawdown for completed works, or, by agreement with the LEP, a contract for works placed. It is important to note that if the works are then *not* carried out, any drawdown would be re-payable to EM3 LEP, including if the end outcome of the built Carfax scheme is not achieved. There is no new budget request required for these works, but the Council is retaining funds in the Major Investment Reserve to cover for an eventuality should the LEP grant not be drawn down of up to £1m. Once the LEP monies have been successfully drawn down and approved this reserve can be released into other Council11 and activities for the Council.

- 2.8 There is, therefore, a critical interdependency between signing the LEP Agreement enabling the drawdown of LEP grant), and the next stage design work to be undertaken. This has implications for meeting the LEP deadline for grant spend to be completed by 31 March 2021. To stay on programme to meet this deadline, RIBA equivalent Stage 4 design work needs to start promptly – in advance of any grant of outline planning permission for Carfax and final signing of the LEP grant agreement, but at financial risk to the Council. HCC Stage 4 Design spend, ahead of the LEP Grant Agreement being signed may amount to approximately £40,000.
- 2.9 To deliver wider public realm and connectivity works, as set out in paragraph 11.30, a recommendation has been included noting the submission of an application for CIL funds of up to £500,000. This is being further progressed through the CIL approval process, and from a technical point with HCC as Highway Authority. As the works are proposed to be funded by CIL, there will be no ongoing borrowing costs to the Council but any money allocated reduces the amount of CIL available for other schemes across the district.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Council has statutory powers to bring forward regeneration proposals by reliance on its powers under the general power of competence provided for in Section 1 of the Localism Act 2011, as well as its powers to dispose of land under Section 123 of the Local Government Act 1972 and Section 233 of the Town and Country Planning Act 1990.
- 3.2 Recommendations 11 and 12 are that the Council follow a competitive selection process to enable site disposal, based upon successful negotiation of a legal agreement under which it is proposed at this stage that the Council commit its existing land interests to the scheme, on a conditional and time limited basis. Officers are to bring a report to Cabinet setting out details of selection process(s) available within statutory guidelines.
- 3.3 External legal advice has been obtained (Browne Jacobson LLP) which confirms the principle of such arrangements, to be lawful. The advice is on the basis that the Public Contracts Regulations 2015 (PCR) do not oblige the Council to pursue an OJEU process where the main object of the transaction

is land disposal. Only where the purchaser is under an enforceable obligation to carry out specified works (conferring pecuniary benefit on the authority) will that obligation arise.

- 3.4 The proposal is to enter into an agreement where the main object is land disposal. No services are proposed to be provided by the potential purchaser to the Council for payment. The proposed legal agreement transferring the land interests will therefore serve to regulate the transfer of Council's land interest to the purchaser so that they may carry out the Scheme based upon the outline planning permission for which they will secure reserved matters planning permission(s).
- 3.5 In pursuing the scheme and the agreement with the purchaser, the Council will observe its statutory duties, including in regard to the duty to obtain best consideration on the disposal of land, and duties to consult. It should be noted that by carrying out a competitive process to select a purchaser to acquire the site, the Council will be in a stronger position to demonstrate compliance with the duty to obtain best consideration.
- 3.6 Legal risks identified relate to a potential challenge brought under PCR on the basis of ineffectiveness and a risk of a judicial review challenge to the direct award. Recent case law has set a high bar for bringing such a judicial review and procedural steps below to mitigate the risks are included by officers:
- (a) Ensuring there is a fully documented audit trail to justify the transaction being undertaken outside of the PCR.
 - (b) Conducting the competitive process to select a purchaser in a manner which clearly demonstrates the intention to enter into a land transaction (Recommendation 12, the purchaser selection and appointment process is to be brought back to Cabinet for consideration).
 - (c) Ensuring that the legal agreement entered into satisfies the relevant tests and is therefore not a contract for works or services.
 - (d) If/when an agreement with the selected purchaser is successfully negotiated, publishing a "voluntary transparency notice" in the Official Journal of European Union, describing the nature of the agreement to be entered into and the reasons for not publishing an OJEU.
- 3.7 Recommendation 9 is for Cabinet to approve progression of a request for allocation of CIL funding which will enable public realm works to improve public connectivity between the Station and High St. Confirmation of a CIL funding approval request is by way of separate governance procedures.

4 WORKFORCE IMPLICATIONS

- 4.1 The budget request set out in Section 2 of this report is necessary to ensure adequate resources are allocated to both the Carfax site and adjacent Public Realm projects.
- 4.2 Day to day project management will be retained by the Council's project team and contracted consultants. Further support from the Design Team (led by LDS) and their technical consultants will be necessary to progress the agreed delivery route.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The report sets out (Section 11) the recommended option for disposal of the Carfax site.
- 5.2 The future development of the Carfax site will be viewed as a litmus test for future development opportunities in the City. The process of engaging with the market has so far been successful to date and will hopefully give investors confidence to consider further investment in the district should opportunity arise.

Soft Market Testing – purchaser information event

- 5.3 On 7 June an information event was held in the Guildhall Winchester for prospective purchasers and investors. The Council widely publicised the potential opportunity and sought informal views of the development market. Twenty four people attended and there were presentations from WCC, HCC, Propernomics (WCC Economic/Development advisors) and JLL (Strategic Placemaking Consultants). Interest in the market came from purchasers and investors locally and nationally. Feedback forms were sent out after the event asking questions on the three potential disposal options, parking provision, phasing/timeline for letting and development, carbon neutral development, and other environmental best practices. Valuable feedback was obtained from interested parties. A summary of feedback is included in Appendix 3.

6 CONSULTATION AND COMMUNICATION

- 6.1 As reported at Cabinet (Station Approach) Committee on 25 March 2019 CAB3144(SA)), a series of public consultation and stakeholder engagement events were held in March 2019, giving people the opportunity to provide feedback on the emerging design proposals for the Carfax development and surrounding public realm. Over 210 people attended public drop-in events at the Old Registry Office, and an unstaffed exhibition in the Winchester Discovery Centre over a week long period. Feedback forms were provided, and responses sought.
- 6.2 At O&S Committee in March 2019, the Committee asked to see a developed response to this public engagement and for more information regarding the means by which the Council might be assured that its objectives for the

development of the site would be met. Subsequently as part of the submission of the outline planning application, a Statement of Community Involvement was submitted which provided the information on the engagement events. This can be found on the Council's planning webpages <https://planningapps.winchester.gov.uk/online-applications/applicationDetails.do?activeTab=documents&keyVal=POB2Z0BP0SC00>

- 6.3 The outline planning application has been consulted upon and 51 public responses and 12 consultee responses have been received and are being reviewed and considered by the project team as well as the Local Planning Authority.
- 6.4 Responding to the public consultation, the planning application has been modified to reduce maximum height by 2m (with an amended rendered view of the scheme submitted from a key viewing point), maximum number of parking spaces reduced (from 135 to 95) and a revised plan to indicate active frontages to the scheme along the key pedestrian route within the scheme.
- 6.5 Previous public consultation and stakeholder engagement also took place in Autumn 2017 and Spring 2018.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 The project brief identifies that the project will be designed to contribute towards the Council's objectives to build a low carbon economy. The BREEAM method of assessing the building design and impacts will be used to measure and test the designs as they evolve.
- 7.2 Local Plan Part 1 Policy CP11 Sustainable Low and Zero Carbon Built Development sets an aspiration for non-residential development to meet BREEAM 'Outstanding'. The outline planning application will demonstrate that the development can achieve BREEAM Excellent with full details secured at reserved matters stage. In addition, measures have been proposed at the current Outline stage (and will be further developed) which show how it will meet other requirements within BREEAM Outstanding where feasible.
- 7.3 The design will also be in accordance with BCO (British Council for Offices) standards, which similarly set a high 'best practice' requirement for environmental and other target areas for producing high quality, sustainable office development.
- 7.4 The proposed development achieves an overall 24.1% improvement over the Building Regulations Part L2A:2013 operational Carbon Dioxide Target Emission Rate. A number of measures have been adopted by the proposed development, including passive design and energy efficiency to reduce energy demand, systems to enable operational monitoring and benchmarking, and circa 180m² of photovoltaic cells at roof level to offset CO₂ emissions from energy consumption, following a review of low and zero carbon technologies.

- 7.5 A key part of the design progression is addressing parking in the wider context of key objectives in the Movement Strategy and key issues such as reducing traffic congestion, improving air quality and improvements for pedestrians, cyclists and public transport users. The Consultation document, Autumn 2018, for the emerging Movement Strategy notes that 'Current proposals for Station Approach are supportive of the emerging Movement Strategy'. The outline planning application includes up to 95 car parking spaces (reduced from the initial submission of up to 135 spaces), this being a reduction from current public and leased parking spaces of 84. In addition, HCC is proposing to cease the use of the HCC owned land for their pool car area ('the Mini Cooper area'), timescale to be confirmed.
- 7.6 A key part of the upcoming site purchaser selection process will be for bidders to state how they would approach provision of a scheme promoting carbon neutrality. The Council is considering how to include this as part of the evaluation criteria in selecting a purchaser.
- 7.7 In addition to establishing strong environmental sustainability credentials, including an approach to carbon neutrality, at the current concept design/outline planning application stage, there is considerable scope to further meet best practice in these areas through the future detailed design/reserved matters submission stage. The aim is to secure the scheme as an exemplar of a very low carbon office-led mixed use development.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 An Equalities Impact Assessment (EqIA) scoping process has been undertaken for the project. The EqIA scoping identified potential impacts for people with physical impairments or health problems. Through liaison with accessibility and disability groups, the work on the public realm design has addressed these impacts related to accessibility needs.
- 8.2 An Accessibility and Inclusion section in the Stage 2 report for the public realm prepared by Lifschutz Davidson Sandilands sets out design improvements for accessibility, particularly addressing the needs of older people and those with mobility challenges.
- 8.3 Accessibility and inclusion issues which are appropriate to consider through future design stages of the project have also been identified through this process and include the following:
- The design of the pedestrian areas outside the station and in the adjacent roads and Carfax scheme
 - The siting of bus stops (given the site is sloped)
 - Taxi rank and pick-up/drop off points and bay length for ramp use
 - Building entrance design and accessibility

- 8.4 The overall purpose of the public realm project is to enhance public accessibility by creating a pedestrian-friendly area together with a suitable area in terms of levels for bus stops and pick-up/drop-off points, and seating areas to provide rest points. . Implementation of the public realm works will enhance compliance with the statutory equalities requirements through enhanced pedestrian and accessibility vehicular flow.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required at this stage of the process. However data protection is ongoing and will be continuously re-evaluated, in particular throughout the selection process.

10 RISK MANAGEMENT

- 10.1 This project has a full risk register which is managed by the Head of Programme.
- 10.2 The key risk headings are listed below and detailed in the Key Risks Register in Appendix 2. The full Risk Register is listed as a Background Paper. The main risks relate to potential changes in the commercial market and construction costs including post Brexit. The risk of a no-deal Brexit and the possibility of a general election has recently increased with potentially more significant implications for the project in terms of increased cost and financing of the project. It is not possible to mitigate all these risks as there is currently a high degree of uncertainty in the United Kingdom political and macro-economic environment. These risks could have significant consequences on: 1) the cost of materials and labour affecting construction prices, 2) the required financial return (viability) (e.g. if sufficient office pre-lets are not secured and at the target rental values), 3) changes in the investment market, and 4) changes in financial markets /general economic sentiment including in to the cost of borrowing available to the Council.
- 10.3 Key Risks (the full Risk Register is available as a background document):
- Change in commercial market and/or financial markets affect finance, costs, pace of letting and/or rents.
 - Outline planning application decision delayed or refused, designs are rejected and gateways not approved.
 - Public realm design stages are rejected and gateways not approved.
 - Delays to agreement to disposal route/appointment of site purchaser.
 - Project does not result in development.
 - Pressure on delivery timescale to ensure securing tenants for site, LEP Grant and retain public support.
 - Change in Project Scope.
 - Network Rail governance and HCC approval or delivery process: Public realm design and implementation work delayed or agreement for works cannot be reached in a timely manner on land controlled by 3rd

parties (Network Rail, HCC), results in not being able to meet required LEP spending programme.

- Risk of challenge to the proposed disposal of the site being via a land transaction not being conducted under a procurement process (eg. by OJEU),

11 SUPPORTING INFORMATION:

Disposal options for the Carfax site

11.1 The council has been leading the regeneration proposals for the Station Approach Carfax site for some years. The site presents the opportunity for a market-leading, low carbon office development in the heart of the city that will underpin the city centre economy for decades to come, and act as a catalyst for future regeneration opportunities. The project has now reached the stage of several key decisions

- delivery of the scheme through disposal of the site to a purchaser who will then develop the scheme;
- preparing the site and progressing the adjoining public realm improvements with the benefit of a £5m grant from the EM3 Local Enterprise Partnership; and
- ensuring that the development links strongly to the city centre by improving accessibility, particularly focused on the connection along Upper High Street and Sussex Street.

11.2 This section of the report focusses on an assessment of the three disposal options for the site, leading to Recommendation 12 in this report. The Council's Strategic Placemaking Consultant has reviewed the options for disposal available to the council and their technical report is attached in Appendix 4.

Summary of options available.

11.3 The Outline Business Case (OBC) considered by Overview & Scrutiny Committee (OS225) and Cabinet (Station Approach) Committee (CAB3144(SA)) in March 2019 considered in detail, the following four options against a baseline 'do nothing' case for how the Council may deliver the Carfax site.

- Sell with Outline Planning Permission
- Joint Venture
- WCC Develops Site
- Income Strip

11.4 The OBC also confirmed the strategic objectives for the project:

- Achieve greater economic performance from land uses
- Maintain or improve the City Council assets
- Improve the aesthetic and environmental impact of the area

11.5 Following the approval of the OBC, CAB3144(SA) (25 March 2019), the Cabinet Committee authorised that further work be undertaken to investigate further the two preferred delivery approaches of

i.. income strip or

ii. sale with planning permission.

Option ii). Is further identified as either a Freehold or Leasehold sale thus creating three different options.

11.6 The site is currently used predominantly for car parking (108 public spaces, 71 leased spaces); therefore annual revenue income of approx. £348,000 will be lost when these uses are terminated following the required notice process. , The Outline Business Case has already set out the benefits from more sustainable development of the site to meet Council Strategy objectives. Typical 2018 and 2019 occupancy levels for the Centre Ring of parking (including Gladstone St and Tower St Car Parks) are 87% and 90% respectively. For 'All' spaces in the city (including Inner ring, eg Cattlemarket, and P&R parking sites), the capacity figures are 80% and 86% respectively. There is therefore capacity within city centre car parks, including the most adjacent to Station Approach, ie Tower Street.

The table below summarises the key benefits and risks for the potential delivery options:

Table 1: Summary of key benefits and risks for each option

Option	Benefits	Risks
Sale Freehold	<ul style="list-style-type: none"> • Low financial risk • Meets LEP programme requirements 	<ul style="list-style-type: none"> • Lose ownership of the site (and any retained rights); statutory planning authority rights remain. • Loss of management over the development

Sale Leasehold	<ul style="list-style-type: none"> • Low financial risk • Meets LEP programme requirements <ul style="list-style-type: none"> • Landlord rights retained 	<ul style="list-style-type: none"> • Additional time may be needed to agree long-lease; could risk delivery within LEP time requirements • Loss of management over the development
Income Strip	<ul style="list-style-type: none"> • Ownership of the site reverts to WCC at the end of the income strip period (typically 30 to 40 years) • Greater financial gain to the Council (though with significant additional risk) • Greater Council control over the development 	<ul style="list-style-type: none"> • A more complex site disposal process would be required. • Longer process, and therefore may not meet LEP grant deadline for spend on Carfax site preparation – element of LEP grant funding may be lost, and viability adversely affected • The Council would have to find tenants for the buildings and meet the cost of refurbishment in future years based on the terms of their lease • Financial obligations may exceed the income from rents posing less overall income and potential long term financial risk

1. Sale of Leasehold interest option

- 11.7 A leasehold sale will enable the Council to retain ownership of the land, while allowing the market to invest in the site and provide the wider economic benefits which will arise from site development, as set out in the OBC. The Council can retain necessary and appropriate rights over the site through mechanisms such as a conditional agreement for lease and negative covenants, but the details of any such process would need to be subject to legal and strategic development advisor review.

- 11.8 The soft market testing undertaken demonstrated that the principle of a leasehold sale option was supported by most of the respondents, dependent on the terms of the lease.

Key points raised through the soft market testing included:

- The terms of the lease will dictate how attractive this option is to the market (for example, covenants and ground rent levels).
- The lease term would be in the range of 125-250 years.
- A leasehold disposal could have an impact on value, as explained below.

Risks raised included:

- Purchaser may wish to amend planning application
- Onerous terms of the lease could lower the site value with the possibility of non-viability
- Could narrow the market – some international investors won't purchase leaseholds
- Rent sharing leases significantly reduce investor interest and values if too high a gearing is applied.

- 11.9 Further to the consideration set out in the Outline Business Case, the Council should note the following:

- This option retains long-term ownership of the site for the Council.
- The option has lower financial risk for the Council when compared to an income strip and lower financial opportunity.
- In comparison with undertaking the development itself (and therefore having full control), the Council will instead be relying on terms to be included in a lease to regulate, as appropriate, the development of the site, this in addition to, and separate from the local planning authority planning powers. Further legal and strategic advice on the best mechanisms for ensuring that this approach delivers the project's strategic objective of economic benefits will therefore be imperative.
- A leasehold disposal could be at a premium or a geared ground rent, where a percentage of the market rental of the development would be paid to the Council, or a combination of both. If a geared ground rent is secured the Council will benefit from future increases in rental value, which would not be possible if the lease was sold at a premium.

Summary conclusion – Leasehold sale:

- 11.10 There is considerable interest in this option in the market, but the Council will need to carefully consider the terms of the lease to ensure it does not impose terms that are unacceptable in the market, or significantly adversely impact on potential financial return to the Council. It is considered that this option can give the Council the level of assurance it seeks on the development to be

delivered on this site, while allowing the market to progress a viable and innovative scheme suitable for their investment requirements.

2. Sale of Freehold option

- 11.11 A freehold sale is a straight land transaction, where the asset is conveyed to the purchaser. The Council therefore retain no interest in the asset, other than through the imposition of covenants which have a limited impact over time or via its other regulatory roles. As per the sale of a long leasehold interest, a freehold sale can be conditional on planning. The soft market testing clearly showed this option as being of greatest interest to the market, but the Council must note the risks to delivering the project's strategic objective and the Council Strategy outcome sought.

Key points raised through the soft market testing included:

- Preferred option in market, although many respondents indicated it wasn't a prerequisite
- Ensures best financial value for the site
- Simplest route

Risks raised included:

- Purchaser may wish to amend planning
- Risk that it will not achieve the Council's strategic objectives
- Entails 'outright' sale, and therefore no retained rights for the Council as landlord over the site (other than as planning authority)

Summary conclusion - Freehold Sale:

- 11.12 Further information on this option is set out in the OBC, but the key point to note is that there is a significant risk that this option won't deliver the strategic objectives for the project, or that the delivery of these objectives could be significantly delayed if the Council pass ownership of the asset to a third party, bar through their regulatory role as Local Planning Authority. It is therefore not recommended that this option is pursued, unless the Council wish to amend its objectives for the site and its portfolio.

3. Income strip option

- 11.13 In an income strip arrangement, a sale and leaseback arrangement will be agreed. An internal WCC Officer Note is attached as Appendix 5 regarding the Income Strip approach.
- 11.14 An Institutional Fund will need to be found (through a competitive exercise) to purchase a long leasehold interest in the Council's land. An external purchaser enters into a development agreement with the Fund to construct the development. The Council will enter into an occupational lease with the

Fund and would have the option to purchase the reversionary property interest for £1 at the end of the lease term (typically 30 to 40 years).

- 11.15 The agreement in an income strip arrangement would set the rates for the lease at the start of the 40 year agreement. The Institutional Fund would be responsible for, and take on the risk of developing the site but the Council would be locked into the lease rates for the duration of the agreement. There is therefore a significant risk that at some point during the lease term, the Council's obligation to pay for the lease of the building exceeds the rental income it would receive from tenants. The Council would also be responsible for finding tenants for the buildings and meeting the cost of refurbishment in future years based on the terms of their lease.

Key points raised through the soft market testing included:

- some feedback questioned whether this route would be suitable if pre-lets had not been secured
- Could generate the Council a very large capital receipt and/or significant profit rent.
- Some interest in the option. The larger Institutional funders have a strong appetite for this type of disposal and the corresponding yields have a major impact of the fundability of a scheme.
- The speculative nature and size of the office building will be scrutinized to gauge the prospect of early pre- lets.

Risks raised include:

- Council locked into lease payment at start of lease. Risk of negative cash flow
- Council responsible for building occupation and void periods.

Summary conclusion – Income Strip

- 11.16 The level of risk for this option may exceed the Council's risk appetite. This option would provide short term gains but higher long-term risks. If the Council decide to proceed with an income strip arrangement, this decision will need to be referred to Full Council due to the level of financial implications such a decision will have.

Overall conclusion regarding disposal options and way forward

- 11.17 The Council's Strategic Placemaking Advisor, JLL, has considered the appropriate delivery routes, demand for the current office market, and development viability. This is detailed in the JLL report in Appendix 4.
- 11.18 On balance, for the reasons set out within this report, expressed by JLL, and summarised in Table 1, the recommendation is for disposal of the site by way

of a land transfer of the long leasehold interest in the site. The indicative programme for this process is illustrated in Appendix 6:

- Preparation for marketing including data room, marketing material, evaluation approach, commercial documentation and targeted soft market testing – Aug to Oct 2019
- Launch marketing – Nov 2019
- Bids back - mid Jan 2020
- Evaluation (including interviews with shortlisted parties) - mid Jan to early Feb 2020
- Agree contracts - early Feb to end March 2020

11.19 It is important to continually consider the market for office development. This has been set out in previous reports and in the Outline Business Case. JLL has provided an up to date analysis of the office market and an assessment of viability in confidential Appendix 4a which indicates interest in development remains likely. By entering into a long leasehold the council passes the risk of securing tenants onto the developer. The soft market testing indicates a degree of confidence in the development opportunity and the level of interest in the south east market for occupation is set out in the JLL report.

Award of EM3 LEP Grant

11.20 The Council was awarded a provisional £5million grant to support development of the Station Approach Scheme in March 2019. Of this grant approximately £1m is allocated to Carfax site preparation works, including Archaeological works, and approximately £4m for public realm enhancements. The council is in receipt of a Draft Grant Agreement from EM3 LEP. Heads of Terms as contained in the draft Agreement are attached as Appendix 6, As is usual, at this stage, the Draft EM3 LEP Agreement is generic and requires details of the specific scheme to be included. This work is underway and recommendation 14 requests that amendments to the draft Agreement are delegated to the Strategic Director – Place, in consultation with the Cabinet Member for Local Economy. The Risk Register identifies that there is the risk that if the Carfax scheme is never built, any LEP funds spent on the public realm elements or as site preparation works for the Carfax scheme could be liable for clawback by EM3 LEP.

11.21 A significant part of this spend will be allocated towards the improvement of the public realm adjoining the Carfax site, to support the provision of grade-A quality offices, enhance the Gateway approach at the Station and achieve a rebalancing of road space – in favour of users other than car users. This is in line with 'Priority 1 of the Winchester Movement Strategy'. It is proposed that the remaining portion of LEP Grant (approx. £1m) will be for Carfax site preparation works, including archaeology, decontamination and utility enhancement.

- 11.22 A spend profile, set against project milestones is one of the Terms and Conditions to be agreed with the LEP. A condition of the LEP is for drawdown against work undertaken, or, where agreed, against contracts for work let, prior to being undertaken (repayable if the work is not then undertaken). An outline spend profile is set out in Table 2 below.

Table: 2 LEP Grant Outline Spend Profile

Spend Category	Amount £	Timescale
Carfax site prep. Works (inc. Archaeology)	c. 1,000,000	Q3/4 2020 – Q1 2021
Public Realm Stage 4 (Technical) Design Fees	c. 215,000	Q3 – Q4 2019
Public Realm Stage 5 Construction Management	c. 360,000	Q2-4 2020 – Q1 2021
Public Realm works	c. 3,425,000	Q2-4 2020 – Q1 2021
Total	5,000,000	

- 11.23 The City Council, via an Agreement with HCC (as Highway Authority) will deliver the public realm works in Station Hill and Station Road (c£4m of LEP Grant) and the intention is that the selected site purchaser would undertake the Carfax site preparation works (c£1m).
- 11.24 As set out in this report, the LEP grant is central to delivery of the Station Approach initiative – both the Carfax and Public Realm elements. As part of the recent review of the project, the scope of the public realm improvements was also reviewed. The review team specifically requested greater connectivity of the scheme be sought with the Upper High Street and Sussex Street, as identified in the Public Realm Strategy undertaken as part of the initial Station Approach work.
- 11.25 The Leader of the Council and Cabinet Member met with the Chief Executive of the EM3 LEP who confirmed there was no flexibility in the allocation of the grant in respect of public realm works. Any changes would have to be subject to a further bid for funding and given constraints on LEP funding, this could not be guaranteed. Therefore, the Council must allocate its own funds to secure additional public realm work if this is required. CIL funding has been provisionally requested and it is proposed that up to £500,000 is allocated to this additional work.

Public Realm

- 11.26 Since Cabinet (Station Approach) Committee on 25 March 2019, Stage 3 (developed design) work has been progressed. A presentation will be given of the updated scheme proposals. To satisfy the LEP timescale requirements, it is critical to move onto Stage 4 (Technical) design and Cabinet will be asked to approve the Public Realm RIBA equivalent Stage 3 proposals, enabling progress to Stage 4 Technical design.

- 11.27 The key objectives for the public realm improvements are stated in para 11.21 above, and will specifically create a more pedestrian-friendly and safe area outside the station and in front of the proposed key new addition of the redevelopment of the Registry Office as a bar/restaurant. These key outcomes improve pedestrian and, where possible, cycle connectivity around the station area and, as set out later in this report (see para 11.30), enable wider improved connectivity with the city centre.
- 11.28 It is equally important to secure arrangements for existing operators (bus, taxis, deliveries/servicing) and make provision for enhancement of future operations, including rail-replacement bus services and passenger drop off/pick up arrangements.
- 11.29 Stakeholder engagement, including with HCC, South Western Railway, Network Rail, Taxi operators, continues to ensure that an appropriate balance is achieved between the need for change as outlined above. Discussions with Network Rail and South Western Railway continue regarding use of their land to assist with meeting this balance. A project Open Forum commencing on 16 September, will be an opportunity to further review matters related to the Station Approach initiative, along with future public consultation.

Wider Public Realm Enhancements and Connectivity

- 11.30 Following the review of the Station Approach project, a key addition is to extend connectivity for pedestrians, and where possible cyclists, between Station Road and the city centre in ways that will extend the benefits arising from the Station Approach improvements for the wider community. This includes a potential widening of the pavement on Upper High Street between the Clifton Terrace Bridge at the boundary of the LEP funded public realm scheme through to the end of Upper High Street at the Westgate. Further improvements to the pavement on Sussex Street outside the Tower Street car park will also be considered. Discussions are at an early stage with HCC on works within the highway to establish technical and cost information to support such potential works. An approximate cost estimate at this early stage for the two initiatives described above is up to £500,000.
- 11.31 A CIL funding expression of interest has been made to seek to secure improvements in Public Realm in the Station Approach area and it is proposed that this requested allocation be used to fund these works. If this approach is not taken, the Council will need to defer progress on this work and consider funding through the capital programme

Review of the scheme

- 11.32 The Cabinet Member: Local Economy has taken the opportunity to review the scheme as part of her portfolio responsibilities. This review took into account the outline planning application that was submitted to the Local Planning Authority on 29 March 2019 (planning reference 19/00601/OUT). The outline planning application has been consulted upon and 51 public responses and

12 consultee responses have been received and are being reviewed and considered by the project team as well as by the Local Planning Authority.

- 11.33 Following the review and in response to comments made during the consultation process, the following changes have been made to the planning application, including:
- Height – removal of flexibility in height and reduced plant height to lower total maximum height by 2m
 - Car parking – reduction to a maximum of 95 car parking spaces (from a maximum of 135)
 - Changes in design to enhance active frontages
 - A reaffirmation, through the reduction in parking, and measures that can be addressed at future Reserved Matters stage, of an approach to development of the site that addresses the objective of a low carbon scheme. (It should be noted that, in addition, this aspect will be addressed as a criteria for selection during the purchaser selection Process).
- 11.34 Importantly, further reduction in parking numbers from the planning application maximum could enable the development to be built with a smaller basement, enabling building the development in phases, as raised by potential purchasers at the soft market testing event.
- 11.35 The review also highlighted the desire to maximise the sustainability features of the development. This was also supported by the soft market testing feedback, and the approach advocated by JLL.
- 11.36 The Local Planning Authority set up a Local Design Review Panel meeting in May 2019 and the consequent advice is available on the Council's Planning webpages. A recommendation from the Local Design Review Panel was for consideration of the scheme by a Regional Panel. A Design Southeast Regional Panel considered the scheme on 2 August 2019.
- 11.37 Pending receipt of the Regional Panel report, key issues raised related to street frontages, integration with the HCC Archive building and a steer for Reserved Matters stage on future detail of design, appearance, materials and landscape. The Panel considered that, whilst accepting the information submitted on the height of the buildings and proposed impact on views, this should be further tested at Reserved Matters stage.

Next steps

- 11.38 This report proposes continuing with the development of the Carfax and public realm schemes, accepting the EM3 LEP grant funding and disposing of the site, in accordance with the recommendations contained in this report, noting the risks identified in the Risk Register.

12. OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 No assumption has been made in the Medium Term Budget Strategy for potential income from this development. The council has incurred costs in bringing the scheme to this point but considers the proposals at each milestone in order to make an active decision to progress. The strategic objectives for the project were confirmed within the Outline Business Case (OBC), which informed the consideration of OS225 and CAB3144(SA). The OBC explores a number of options for delivery of a development scheme on the Carfax site, their opportunities and risks. Key areas are further set out within this report.
- 12.2 The option of WCC undertaking the development was ruled out as an appropriate way forward after Risk Workshops in January/February 2019 on the basis of the significant development and financial risk that would be placed on WCC.
- 12.3 Wider project options were also discussed through two project Review Panel meetings as part of an Administration review held on the 5th and 20th June 2019. These are also detailed throughout the report and have been incorporated in scheme updates.
- 12.4 The council does not have to progress with the scheme. The Council could cease the scheme development. This would leave the car parking where it is and the associated revenue stream but with abortive project costs of £1,673,000 (Revenue) including costs for the 2016 scheme and £232,000 (Capital) reflecting the costs for submission of the 2019 Outline Planning Application. This approach would not deliver on the economic business case and Council Strategy, nor enhance the public realm and achieve the Gateway improvement sought at the Station and is therefore not the recommended option.
- 12.5 The Council has a choice for how to secure development of the site which had been shortlisted to Income Strip or Sale with outline planning permission. Income Strip and Freehold disposal have been discounted for reasons set out in this report. . The recommended approach, for reasons also set out in this report, is sale of the leasehold interest in the Carfax site.
- 12.6 There are options regarding the disposal route, namely disposal via an OJEU procurement process, or Land Transaction. These matters are addressed in the JLL and legal report and an OJEU procurement route discounted for the stated reasons. This results in the recommendation to dispose of the site through a land transaction – ie disposal of the leasehold interest in the site. The council does not have to accept the LEP grant, though this is not recommended as it would remove funding needed to support the delivery of the Carfax development and delivery of the stated public realm improvements.

BACKGROUND DOCUMENTS:-Previous Committee Reports:-

CAB3144(SA)	STATION APPROACH – OUTLINE BUSINESS CASE and associated matters	25 March 2019
OS225	Station Approach - Outline Business Case and Associated Matters (less exempt appendices)	20 March 2019
CAB3101(SA)	Economic Appraisal and Business Case Preparation	18 December 2018
CAB3083(SA)	Station Approach Update	4 October 2018
CAB3055(SA)	Station Approach – Update Report	12 July 2018
CAB3021(SA)	Station Approach - Public Realm Strategy and Masterplan Framework	27 February 2018
CAB3001(SA)	Station Approach – Update	28 November 2017
CAB2959(SA)	Station Approach – Appointment of Design Team	14 August 2017
CAB2864	Station Approach – RIBA Plan of Works Stages Documentation	20 March 2017
OS157	Station Approach – End Stage review report for the competitive dialogue process	30 November 2016
CAB2852	Station Approach - Procurement Process Update	17 October 2016
CAB2829	Station Approach - The Way Forward	7 September 2016

Other Background Documents:

- Project Risk Register
- Browne Jacobson summary legal advice re Disposal of Carfax site

APPENDICES:

- Appendix 1: Project Expenditure and Budget Requirements
- Appendix 2: Summary of Key Risks.
- Appendix 3: Summary of Soft Market Testing Feedback
- Appendix 4: JLL Report on Disposal Options and Approach
- **Exempt** Appendix 4a: JLL Report on Disposal Options and Approach
Chapter 3: (Market Interest and Viability)

- Appendix 5: Income Strip Lease Structures
- Appendix 6: EM3 LEP Heads of Terms
- Appendix 7: Illustrative Timelines for Carfax and public realm

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Appendix 1: Project Expenditure and Budget Requirements

Table 2 Budget and Expenditure Summary - Revenue

REVENUE	Carfax	Public Realm
Approved budget	Revenue: £1,550,000	Revenue: £225,000
Expenditure (on current project)	Revenue: £1,264,701	Revenue: £179,805
Committed or Planned	Revenue: £235,930	Revenue: £89,445
Remaining	£49,369	- £44,250

Table 3 Budget and Expenditure Summary - Capital

CAPITAL	Carfax	Public Realm
Approved budget	Capital: £1,800,000	Capital:*
Expenditure (on current project)	Capital: £321,234	-
Committed or Planned	-	-
Remaining	£1,478,766	-

*£5m approval from Enterprise M3 LEP pending signing of final agreement (including c.£1m for Carfax)

To select a site purchaser, the following budget requirements have been estimated and Cabinet are asked to approve the necessary budget

Table 4: Budget requirements to progress the disposal of the Carfax site through a selection process.

Work Area	Estimated Budget Requirement
Legal fees	£75,000
Fees including for Strategic Consultant advisor, site marketing and purchaser selection process	£75,000
Design Team and Technical Consultants fees	£50,000

Contingency	£20,000
Total Budget requirement for marketing and disposal	£220,000

For the public realm works, the budget requirements set out in Tables 3 and 4 are estimated to take this part of the project forward through RIBA equivalent Stages 4 (Technical Design) and 5 (Construction Management). There is no new budget request required for these works.

Table 5: Budget requirements to progress the public realm works from RIBA equivalent Stage 3 to end of RIBA equivalent Stage 4 (funded from LEP grant)

Stage 4 Technical Design	Estimated Budget Requirement
Hampshire County Council	£185,000
Lifschutz Davidson Sandilands	£20,000
Chris Tipping (Public Art)	£10,000
Total Stage 4	£215,000

Table 6: Budget requirements to progress the public realm works from RIBA equivalent Stage 4 to end of RIBA equivalent Stage 5 (funded from LEP grant)

Stage 5 Construction/Site supervision	Estimated Budget Requirement
Legal fees	£15,000
Hampshire County Council	£345,000
Total Stage 5	£360,000
Total St 4 and St 5	£575,000

Appendix 2: Summary of Key Risks.

Key Risk 1: Change in commercial market and/or financial markets affect finance, costs, pace of letting and/or rents. This may cause:

- Significantly increased cost of borrowing
- Increased cost of construction
- Delay in project programme
- Impact on the interested businesses
- Uncertainty about, or inability to achieve level of rents to maintain scheme viability Impact on the local economy
- Impact on the Council's Medium Term Financial Strategy

Key Risk 2: Outline planning application decision delayed or refused, designs are rejected and gateways not approved. This may cause:

- Delay in project programme, and impact on LEP grant
- Changes to the programme and scope of the project incur additional fees under the contract
- Additional Design Team's fees for amendments/reviews
- Impact on the interested businesses
- Impact on the Medium Term Financial Strategy

Key Risk 3: Public realm design stages are rejected and gateways not approved. This may cause:

- Risks to Council's reputation
- Delay in project programme
- Changes to the programme and scope of the project incur additional fees under the contract
- Impact on interested businesses
- Impact on the Medium Term Financial Strategy

Key Risk 4: Delays to agreement to delivery route/appointment of site purchaser/. This may cause:

- Financial exposure
- Impacts on programme
- Impacts on confirmation to LEP for securing £5m grant

Key Risk 5: Project does not result in development. This may cause:

- Requirement for capital costs to be repaid through revenue budget.
- Requirement to refund any LEP grant claimed, for example if a Carfax scheme is not built

Key Risk 6: Pressure on delivery timescale to ensure securing tenants for site, LEP Grant and retain public support. This may cause:

- Pressure put on project programme removes contingency from design, business case and delivery stages
- Work is commissioned at an agreed level of financial risk

Key Risk 7: Change in Project Scope. This may cause:

- Risks to Council's reputation.
- Impact on delivery of Council Strategy outcome
- Additional budget requirement

Key Risk 8: Right of Light potential Issues identified, but of a low likelihood. This may cause:

- Delay and additional cost – but this is assessed as a minimal risk in an urban context

Key Risk 9: Network Rail governance and HCC approval or delivery process: Public realm design work delayed or agreement for works cannot be reached in a timely manner on land controlled by 3rd parties (Network Rail, HCC), results in not being able to meet required LEP spending programme. This may cause:

- Bid for Local Enterprise Partnership (LEP) funding is partially unsuccessful or cannot be spent by the deadline
- Loss of potential £5m grant
- Loss of opportunity to enhance areas of public realm
- Carfax scheme not enhanced by public realm works

Key Risk 10: EM3 LEP Agreement conditions and spend dates not achieved. This may cause:

- Council would become liable. Cost to the council through having to pay back grant that has been claimed if key outcomes are not achieved (building of Carfax scheme)
- Loss of potential £5m bid or less spend within LEP timeframes
- Loss of opportunity to enhance areas of public realm
- Carfax scheme not fully enhanced by public realm works nor supported by LEP funding
- Potential viability issue for Carfax scheme through reduction in/loss of grant

Key Risk 11: Disposal of the site via a competitive process to secure a purchaser not being conducted under the PCR (i.e. by OJEU),

- Legal challenge
- Consequent delay (even if successful in defending a challenge)

Appendix 3: Feedback from Soft Market Testing

Summary Feedback from Soft Market Testing

**Feedback from multiple interested site purchasers
– anonymised where necessary to protect confidentiality**

Carfax Development Opportunity, Station Approach Winchester

Please identify whether you would consider undertaking a development based around:

1. A leasehold disposal

- Yes – subject to the terms of the gearing and covenants of the lease / consents required for lettings, alterations etc.
- Obviously the more onerous the lease the lower the site value or possible non viability.
- Probably more applicable to occupiers who would wish to prelease one of the two office buildings proposed from the developer.
- A Leasehold disposal would require a minimum of 125 years, with a small Ground Rent, and preferably not geared.
- A long leasehold, at least 125 years, yes.
- Yes, based on a 250 year lease.
- A leasehold disposal would ultimately have a small impact on value. More of an issue is that it narrows the market for buyers as some international investors will not purchase leaseholds. The respondent would consider the site on this basis.
- A long leasehold interest (250 years plus) at a peppercorn would be the preferred structure which would enable the Council to retain some control over the eventual estate and that this route would enable WCC to achieve the right design outcome. From experience with funders rent sharing leases are the least favourable interest and will significantly reduce investor interest and values .As an example, on a previous respondent scheme with a Council landowner an original rent sharing structure converted to a peppercorn with the Council receiving 100% rent from a defined unit within the scheme in lieu of a land payment which suited the Council and culminated in strong investor interest and led ultimately to a successful transaction.

- The respondent would seek a long-leasehold interest from WCC. This would be for a 250 year term. A geared interest on Building 1 would be possible, with WCC receiving 5-10% of rents received.
- The respondent will consider this on say a 250 year lease at a peppercorn.
- Yes but the term would need to be sufficient for funding at a peppercorn e.g.150 years minimum.
- Possibly but values will be impacted and the interest from investors will be limited
- Based on the outline planning permission in place to date. We would offer a receipt of c.£** and head rent payable to the council of c.£** per annum on a subject to planning basis for the long leasehold interest over a 250 year period. The parameters of the revised planning permission would need to be defined to determine the exact consideration and head rent.
- Yes, the respondent would consider a leasehold development as long as this was a long leasehold ideally in excess of 150 years and preferably 250 years. We would two options. Either a fixed annual ground rent at a sensible and sustainable level, which can be index linked or with fixed annual uplifts. Alternatively the respondent could do a percentage of the rent receivable each year capped at c10%. The higher the ground rent or annual rent the lower the initial capital receipt would be. These are not so much the respondent's development rules, as the underlying investment market.

2. A freehold disposal

- Yes – Preferred option.
- A developer might well want to buy the site outright and perhaps amend the planning – it is unusual for a developer to be the outright purchaser of such a prominent site.
- A Freehold disposal is not a pre requisite for our involvement.
- Inevitably this would ensure the best financial value for the site. The respondent would prefer to work on this basis
- This would be the most marketable title from a developers/funders perspective but appreciate would not afford any income to WCC unless it wished to forward purchase elements ,although the Council would lose control of future long term use and control of the of the site.
- No
- Always desired but if not possible perfectly willing to progress on 1.
- This would be preferred compared to a long leasehold.
- As above but the freehold may increase the interest from funds.

- Based on the outline planning permission to date. The respondent would offer a capital receipt of c.£** on a subject to planning basis for the freehold interest. Should we increase the gross development area (GIA) through a revised planning application we would offer a planning overage of c.£** psf.
- Yes, the respondent would be very interested in a freehold disposal and this in many ways would be the simplest and most attractive route. Although we recognise this is probably least compatible with Winchester's requirement to create an income stream.

3. A disposal via an Income Strip approach

- This would be considered but given the respondent's reasoned approach to developments this is possibly not the most equitable option for the Council.
- Unlikely that a developer is going to commit to building either of the two office buildings speculatively without one of the office buildings being pre-let as per 1 above.
- An Income Strip approach has the ability to generate the Council a very large capital receipt and/or significant profit rent. It could also make the likelihood of the scheme progressing much more likely.
- The Income strip approach could be modelled to provide a number of differing scenarios based on the Council's appetite for a capital receipt or a profit rent. Furthermore, the Income Strip could be modelled to take the development 'off balance sheet', if required and subject to confirmation from the Council's own auditors. The respondent would be delighted to discuss this approach in more detail should the Council wish to.
- No
- Yes
- If the council are offering to effectively underwrite the development with an income strip arrangement (and declare the long-term liabilities on the council's balance sheet) would it not be more beneficial for the council to undertake risk controlled direct development on the basis of secured pre-lets prior to committing to the construction phase of any development. This is an approach/strategy that xxx is running with a number of councils to achieve retained long term income for councils.
- The respondent is currently working with another council on this basis and would be happy to explore this further with the council.
- The respondent have been in discussions with a number of local authorities who have been considering the adoption of an income strip approach where viability/deliverability is preventing the private sector from coming forward with

schemes via normal funding structures. As the income stream is effectively Government backed the larger Institutional funders have a strong appetite for these type of leases and the corresponding yields have a major impact of the fundability of a scheme. In this case in particular the speculative nature and size of the office building will be scrutinized to gauge the prospect of early pre-lets . The respondent assumes there is some tangible interest in the space already? As long as the Council are happy with the gap between the ERV and the pay away element then this option is definitely worthy of serious consideration if the Council are committed to the existing scheme. This structure will however place the burden and risk of letting the building on the Council.

- Yes or a Joint venture combination approach
- The respondent would seek a lease from WCC for Building 2. As part of the transaction the respondent would bring forward a tenant that would sign a 25 year lease with RPI increases. This underlease would be for the benefit of WCC.
- As a caveat, this lease would be to a hotel operator. The design principles of B2 would not change from a bulk or massing perspective; neither would the fenestration or articulation of the façade. However, a change of use to part C3 would be required under the Reserved Matters.
- This would not interest the respondent.
- An income strip would be the ideal scenario as it would make the scheme fundable at the outset, without the need for pre-lets on the majority of the space proposed. The scheme could go ahead without delay. Combining this with pre-lets would minimise the risk.
- The respondent would consider this option.
- This option would mean a nil capital receipt and income of c.£** per annum net of finance costs in perpetuity. As an indication long-term finance can be in place at c.2% per annum for a 30-year period. Under this scenario the developer would retain the freehold interest in the site. The council would own the long-leasehold interest over a 250-year period. The parameters of the revised planning permission would need to be defined to determine the exact consideration and head rent. This option is an indication of the income the proposed scheme could generate, given the pre-lets appetite as noted to us, the developer, by the council. This option would constitute a full Joint Venture between the Developer and Council. It should be noted that the respondent is happy to negotiate a happy medium in terms of the offer; we are flexible and can work towards tailored financial approach to suit the councils demands.
- Yes we would consider an income strip model, but for this to work most cost effectively this would require Winchester to take an overriding lease on the

development. The rent would be below market rent and normally index linked, which reduces the Council's exposure, but the annual rental obligations would still sit on the Council's balance sheet until the space is sub-let. The respondent would be very happy to work through this model with the Council.

Please identify your views on the:

4. Parking provision

- Ideally the respondent would like more parking given the current demand for parking within Winchester. We are aware that the Council team are working on solutions for park & ride plus town centre parking additions to existing provision. The respondent would seek to optimise the parking provision with the environmental foot print fully considered.
- 1: 4,000 possibly 5,000 sqft. This is such an aspirational scheme to ensure that the orientation and travel to and from (and within) the centre of Winchester becomes fundamentally changed, transitioning as it inevitably will, to an Electric vehicle and bike led, and pedestrian community.
- On the face of the outline design and application proposal, the car parking does seem light. However, given the County and Council's plans for additional and support of the existing park and ride provision, the level of car parking could be acceptable. The respondent understands that the Council have had dialogue with potential end occupiers and also taken advice from JLL as consultants in this regard. At this point in time, they are therefore best placed to advise on the level of parking provision.
- Sufficient for the scale of development and having in mind location adjoining the train station, the station's own provision and that of the surrounding area. It must be considered also that car usage will be changing dramatically during the lifetime of the asset and that future trends must be considered. Electric/driverless scenarios.
- Parking at a ratio of 1:1,000 sq ft would be competitive with other South Coast city centre office schemes
- No real views, parking becoming less important to occupiers
- Current provision is light in terms of ideal numbers for letting – but understand the need for quantity to be balanced against general parking provision/access within the city centre. Proximity to the rail station is a significant benefit
- The respondent has worked on buildings in urban environments with little to no car parking and whilst not ideal, solutions have been found off site to accommodate spaces that are required. The council's response at the

developer day was perfect and we would work with all incoming tenants and the council to secure a holistic approach to their parking needs. The fact there are park and ride solutions and extra spaces coming ensures a tailored approach would work. The respondent as developers would be promoting occupiers take less spaces and rely more on the excellent transport connections. There is the chance for Winchester to be a true exemplar of car parking.

- We note that the car parking provision for the office element is provided in a unified basement. From a cost and phasing perspective we would instinctively seek to look at whether there are more cost effective solutions. Car parking provision is of course a balance between policy, political and market expectations but we note that delivering a carbon neutral scheme might be important so this will need further investigation. This would look to better understand longer term car demand and how evolving changes to the Cities road network could impact upon this location whilst seeking to make use of both public transport and the existing Park & Ride infrastructure. This would need to be balanced against Occupier demands to ensure the Building is Let to its full potential.
- Some occupiers, particularly those used to taking space on high quality business parks, will look for a parking ratio of 1:250 sq ft of lettable floor space. Therefore although Station Approach benefits from an excellent public transport infrastructure, the proposed parking standard may marginally reduce the appeal of the location.
- If part of the scheme was to be for hotel use, the full extent of parking would not be required. An allocation would still be needed but a design review with LDS and the transport consultant would be sought.
- In another UK location where we are on site, we have 1:1,000 sq ft. We need to attract as wide a demand as we can and it would not be in anyone's interest that a letting is precluded due to inadequate parking. In the real world the respondent finds that a good part of the parking allocation is not actually taken up but this is a large scheme so we need to offer the widest possible berth. We are known for being up front and not telling owners what they might want to hear just to secure the scheme. Thus, the respondent would make provision for 135 spaces as per your outline application but we would be very surprised if they were fully utilised. We would expect to have a number of electric charge points to cater for what will be the increasing use of electric cars.
- The current parking provision under the planning permission is satisfactory for the proposed scheme i.e. just above the ideal ratio of 1:1000 sq ft
- More parking is attractive to tenants but it comes at a cost. The respondent would want to undertake further analysis.

- Given that plans are proposed by the City Council to provide park and ride schemes the respondent would look to reduce the amount of parking on site from 135 to 25. In lieu of the parking spaces we would opt for a leisure facility which the scheme is currently lacking.
- This is relatively high at the moment for a location adjacent to the station, but we recognise that a holistic view needs to be taken with what is happening with car parking across the whole of Winchester so there is still sufficient parking to support the local economy and tourism. If looking at the scheme in isolation as town centre office block by the station the respondent would significantly reduce the amount of parking.

5. Phasing/Timeline for Letting and Development

- Phasing would be considered and is quite feasible but given the occupier interest and grant timelines the respondent would seek to commence the development as a whole subject to any major economic shock. Lettings – Pre letting is difficult before the commencement of the development but once construction has started the respondent would generate more interest from a strong marketing campaign in conjunction with the council team building on their work to date.
- From detailed planning one would budget for circa 2 (years?)
- This would need to be considered during and in conjunction with the Council and their advisors (JLL), during the dialogue stage of any procurement/disposal.
- Current proposed timeline is very tight (recommendable at the start of a project to keep project team focus) however, there are areas of concern. Not enough time has been left between selection of Development Partner and start on site of main works if a reasonable amount of time is being left to secure a significant prelet (6/9 months) prior to start of construction. Many developers will not be able to secure finance to start construction if a pre let is not signed and in place. It may be that the Council will have to progress a pre let significantly during 2019/early 20 on behalf of the DP to keep to such a timeframe. This in turn may concern some development partners.
- Subject to the outcome of market testing.
- Opportunity to phase will be beneficial
- Would be led by the political will to progress the scheme and the approach to be adopted
- The scale of development here is significant and the respondent believes the entire site could be developed out in one phase. It is for the respondent to

better understand the market and the latent demand before committing to that. Certainly phase 1 would include the retail/café/amenity and the first office building. It may also include the second office building depending on occupier demand which would be understood well in advance of starting on site. From experience offices of this scale take circa 12 months to lease and the respondent would suggest on site development is circa 2 years.

- The respondent appreciates having looked briefly at the planning application that there has been a significant body of work behind the submission so their comments are just an initial snapshot but, to re-iterate the comments in point 4. Above, the respondent's view is that the scheme is prescriptive and the phasing is largely dictated by the construction process. It appears therefore that other than the restaurant it seems that the buildings can only be delivered realistically in one phase. If a pre-let can be secured for a whole or significant parts of the offices then that would work but knowing how the market changes the respondent feels that the scheme might need to have some further flexibility built in. If there is limited scope to achieve this then I think the developer would need time to market test and put in place pre-lets before commencement to secure funding. The income strip approach would however deal with the funding if the Council decided they were confident about the letting risk so this could be a solution to expedite the development.
- The respondent believes the development would be best undertaken in one phase, which would take about 24 months and it is anticipated that subject to WCC approvals, the pre-construction period would be between 12-15 months.
- Under the lease from WCC, the first phase would be commenced once design had been progressed to completion of Stage 3(+). This first phase would be the full "Basement box" and B2. B1 would then be progressed once a pre-let had been achieved for at least 40% of the floorspace.
- The respondent sees no reason for delay so happy to get on with it.
- Both dependent on whether an income strip forms part of the proposal. Without this option, commencement of the development will be subject to securing pre-lets for the vast majority of the whole building, which could be difficult to achieve given the size of the building and the number of potential tenants involved. Without converting the number of pre-lets to agreements for lease, the building/development may not be fundable.
- The respondent would be led by the market demand.
- Given that the current application is outline only, the respondent would look to take design to stage 4 within the 6 months of agreeing the development contract, planning would then take a 3-5 months including a JR period. In this planning period, the respondent would look to engage with trades under a Construction Management role. Once planning is secured, conditions are discharged, we have vacant possession and mobilisation is complete the

respondent would look to complete the works in 18-24 months. This is summarised as follows:

- Development agreement July – August 2019 Assemble design team and undertake detailed design August – January 2020 Planning submission – February 2020 Planning consent - July 2020 Contractor tendering and mobilisation March – June 2020 Start on site July 2020
- The respondent believes there is significant demand from office tenants in Winchester and have a number of pre-lets already interested in the site. So ideally the respondent would deliver the scheme in one phase, but would want the ability to deliver in two phases if there was a market slow down or benefits in timing the delivery of space for a specific tenant.

6. Whether a Carbon Neutral development could be achieved

- Yes it is possible subject to off-site purchases.
- Mandatory –again aspirational to achieve BREAM excellent if not outstanding
- This would need to be considered in the round during the dialogue stage and have consideration to the method of procurement / disposal by the Council and its preferred development partner.
- This should be a serious consideration for the development team but commercial viability must be sustainable and key objective so that the buildings are delivered as requested by the Council.
- Cannot comment at this stage
- Difficult
- A Carbon Neutral scheme could be developed but the additional development costs would have to be reflected in the rental/return levels which could then potentially restrict the lettable area as rates per sqft would need to increase to compensate – unless a significant anchor tenant could be secured that was looking to make a “green credentials” statement and to pay for it. Possibly adopt a different approach on each of the two buildings?
- The respondent is working on this on a project in central London and in short, the answer is yes. This is a cost analysis exercise and would be addressed alongside other building enhancement opportunities. Commonly this is a balance between what can be achieved on site and then counter balancing that with a level of offsetting
- The recent UK Green Building Council definition of Net Zero Carbon clarifies that both embodied carbon from materials, and operational carbon from building energy usage should be considered. For new developments, minimising both these areas could and should be an area of focus, especially in light of the recent government commitment to Zero Carbon by 2050 and the

Councils own accelerated target. Measures would include design solutions which seek to minimise concrete and cement usage, and energy efficiency measures coupled with electric low carbon technologies, plus on-site generation (i.e. PV panels) where possible. For dense urban sites it is envisaged that these measures alone will still lead to some net carbon emissions, and therefore some degree of carbon offsetting (for example via off-site renewables) would likely be required for this site to achieve Net Zero Carbon.

- The highest environmental standards as possible would be achieved. The respondent would aspire to achieve a carbon neutral development. However given the additional costs in ultimately achieving this it would be dependent on the land value required by WCC.
- The respondent has worked extensively with (a named consultancy) previously. The respondent has also acted on schemes that have targeted BREEAM Outstanding and renewable technology has been incorporated from the outset of the design process. With the proposed mix use approach, a more sustainable building is possible as the heat rejection from the office element can be used for the hotel. A “Sustainability Agenda” would be proposed from a re-mobilisation of the design team to prioritise this part of the brief.
- A Carbon Neutral building could be explored but construction methodologies and servicing strategies would need to be understood in greater detail.
- The respondent will need to take advice on this but will do whatever we can having regard to cost.
- Potentially, but cost, return and viability would need to be analysed first.
- Yes but dependent upon cost
- Given that this is a new build development on a large unconstrained site, the respondent is are confident we could provide a carbon neutral offering. Having liaised with their services consultant they are happy to provide initial comments if needs be.
- The respondent is a market leader in Europe in delivering carbon neutral buildings and have delivered a number in this capacity. The respondent is also the only developer and contractor in the UK who has committed to map their entire carbon footprint on all our schemes going forward. It is achievable to be carbon neutral, but there is a cost implication and this would either impact the land price or rental level. The respondent can explore the options with the Council in great detail as there is still the ability to deliver a very green building that keeps carbon very low and does not mitigate rent and returns.

7. Other Environmental Best Practice for incorporation

- Other forms of renewable energy could be incorporated in to the scheme subject to viability / subsidy. Best building practice would be followed and this includes seeking the most environmentally efficient form of construction.
- The respondent is experienced in the delivery of BREEAM accreditation for developments and would also recommend that practical and tangible environmental technologies that have a positive effect for owners and end users are considered.
- BREEAM Excellent. Wellness Gold Certification
- Bream Excellent, EPC A, Well Enabled
- Assume the council would insist on a specific BREAMM rating as part of the planning approval – Good/Excellent/Outstanding. Again, each of these has financial impact on the development costs/viability
- The respondent’s business has been at the leading edge of sustainability for over 25 years. (redacted to maintain confidentiality – gives specifics of a scheme). We must strive to offer occupiers the best possible space for their people and their core social responsibilities.
- Alongside a challenging carbon reduction target, the project could consider adopting a “Design for Performance” approach, as advocated by the Better Building Partnership. This approach aims to more accurately estimate the in-use energy consumption of office projects, embedding an operational energy target into the procurement of the project. Other considerations would be setting a BREEAM 2018 target, such as Excellent or Outstanding, to drive holistic sustainability. User experience is key in the office market and WELL certification provides a framework to assess the Health and Wellbeing aspects of a building, and could be reviewed as an option.
- WELL certification (www.wellcertified.com)
- This is the respondent’s policy which they intend to continue
- BREEAM and Wired Score accreditation
- The respondent is confident they can achieve BREEAM outstanding on this development for the same reasons as the above. There is room on site for grey water harvesting, green/brown roofs, photovoltaic panels etc for sustainability. In terms of materials we will ensure that recycling targets are met, carbon reduction targets are exceeded and waste is kept to a minimum. A+ rated Energy efficient machinery and appliances will be used as standard where possible, ground and air source heat pumps will be considered over CHP.
- The respondent is market leaders in Europe in delivering carbon neutral buildings and have delivered a number in this capacity. The respondent is

also the only developer and contractor in the UK who has committed to map their entire carbon footprint on all our schemes going forward. It is achievable to be carbon neutral, but there is a cost implication and this would either impact the land price or rental level. We can explore the options with you in great detail as there is still the ability to deliver a very green building that keeps carbon very low and does not mitigate rent and returns.

8. Any other comments

- The respondent is a local development company (redacted as gives geographical information which would identify respondent). The respondent sponsor a number of local clubs and events and work hard to improve the vitality of the local environment.
- The respondent is excited about this opportunity and would be delighted to discuss this further with the Council prior to or during the procurement / disposal process.
- If a strategic partner for other potential developments is envisaged by the Council preference now for a 'mixed use' developer with office capability should be preferred over traditional office developers. If the latter is selected there will be no cross over benefit with residential/retail/leisure/hospitality or cultural uses in these future developments.
- Happy to arrange a meeting to discuss how a direct development approach could be structured and funding arrangements can be created to maximise returns to the council – The respondent works closely with (a named consultancy) on funding arrangements tailored to site specific development requirements
- The respondent addresses property in a very different way. This isn't just an opportunity to create a fabulous new building with wonderful architecture as a new gateway to Winchester. The respondent would aim to deliver a new space for the community not only within the obviously public amenity space but ensuring Winchester residents are proud of what is created and have a level of access to it. Communal spaces aren't just for the building residents they must do more than that and offer the public access too. Managed well this doesn't create any friction, quite the opposite the building's brand benefits from bringing in plethora of exciting/dynamic local business and cultural groups. As do the office occupiers who desire well managed space with a culture of enhancing their brand.
- This development would be a partnership for the respondent; however the deal is ultimately structured. The respondent would want to be fully immersed in Winchester and side by side ensuring we deliver for the residents; business and the cultural scene was invited to support us. The respondent would hope to be in a long term partnership with the council and have experience of

working with other councils such as (redacted as lists other councils which could identify respondent).

- In due course it would be useful to receive any information on potential pre-lets/agency reports if available.
- WCC has alluded to a number of potential pre-lettings. As you will appreciate securing pre-lettings will enhance funding terms and would set a benchmark for rent levels for future lettings. De-risking the development with pre-lets would lead to a larger potential surplus of money that could be allocated to either land or build costs. The respondent would be happy to provide CV's of the principle participants in the respondent's Capital partners who will, together with the respondent's (redacted as identifies respondent), be putting forward proposals for the development of the site. We think the scheme has enormous potential, but does require a close working relationship with WCC to both maximise returns and ensure an exemplar scheme is delivered for the benefit of the City.
- The respondent would welcome the opportunity to discuss the deal structure in greater detail but looks forward to taking forward this exciting opportunity that will help redefine the gateway to the City.
- The respondent and (redacted as potentially identifies respondent) have previously worked with members of the current design team on (redacted as identifies specific scheme which would identify respondent) The design intent, philosophy and architectural expression is clear and will be sought to be protected throughout design development and build.
- The respondent is keen on Winchester as a city where we wish to further invest. We (redacted as potentially identifies respondent) and we have taken a strategic decision to increase our holdings in growth cities such as (redacted as identifies respondent) Winchester (redacted as identifies respondent) has a GDV of c£70m and we are on site.
- The overall design as one building should be considered against two self-contained buildings which could alter the dynamic of the questions/issues raised above and should be explored as a potentially more deliverable option.
- Would you consider delayed land payments? The respondent would build the development in phases.
- As a developer we thrive on working with big institutions and have recently concluded property deals with (redacted as identifies schemes which would identify respondent) to name a few. The respondent would relish the opportunity to work on the Carfax site and partner up with Winchester Council on further developments.
- The respondent are delighted that you are going to achieve outline planning before searching for a development partner and that you do not require an

OJEU process, which would exclude us from bidding. In addition we are keen that the marketing does not exclude developer contractors, as we are bound by our internal processes to use our construction arm and thus we would be keen that this is allowable under the terms of any potential process.

Station Approach

Winchester Strategic Placemaking Consultant

V1 Chapter 3 Redacted



Disposal Options Report August 2019



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1 Introduction

1.1 Context

The Council has undertaken significant work developing the platform to unlock a transformational office led development at Station Approach.

An Outline Business Case prepared in March 2019 outlines substantial strategic and economic benefits associated with delivery of the scheme. For example, in relation to economic outputs, the Economic Case prepared by Grant Thornton (dated 14 March 2019) calculates:

- Gross additional jobs (direct and indirect) – 1,357
- Gross additional GVA (direct and indirect) - £81.3m
- Net present value - £569m (medium estimate)

The Outline Business Case and associated due diligence underpinned a Cabinet decision on 29th March 2019 which, amongst other things, authorised the Head of Programme to submit an outline planning application for the Carfax development scheme based on the RIBA Stage 2 Design Work.

This has led to a live outline planning application to deliver the following:

- Mixed use grade A office led scheme: B1: 17,972m²; A1, A3, A4 and D2: 1,896m²
- Up to 95 spaces associated car parking (reduced from up to 135 spaces originally)
- Minimum of 156 cycle parking spaces
- Retention of registry office
- Access off Gladstone Street
- Diagonal pedestrian route through the site to a raised table crossing on Sussex Street

It is currently anticipated that the outline planning application will be determined no later than the end of October 2019.

The Council has been successful in attracting a grant offer from the Local Enterprise Partnership for £5m of funding to deliver the public realm improvements, plus support certain abnormal costs associated with delivering the office-led development. We understand that the grant offer is subject to achieving spend by the end of March 2021.

The March 2019 Cabinet decision in parallel authorised the Head of Programme in consultation with the Head of Legal to investigate further the two preferred delivery approaches of income strip or sale with planning permission.

The Council now needs to determine the optimal route to move from the current position to scheme delivery. This paper sets out the commercial context influencing the decision and aims to support the Council make an informed choice.

2 Comparison of Disposal Options

2.1 Introduction

The Council analysed five potential disposal options as part of its Outline Business Case in March 2019. These are summarised below:

- **Do nothing** – the site remains as a public car park
- **Sell with outline planning consent** – the Council sells the site with the benefit of an outline consent, for development by a purchaser
- **Joint venture** – the Council invests its land in a joint venture alongside a development partner who finances and delivers the construction. (The Council’s analysis also assumed that the Council buys back ownership of the scheme upon completion. Typically, in joint ventures of this nature, this would not be the case; rather the Council and developer would share the profit generated by the scheme upon sale to an end investor, with the return distributed to the respective parties based on how much investment they had made)
- **Direct development** – the Council constructs the scheme and grants leases for the office/other accommodation
- **Income strip** – a developer delivers the scheme funded by a 40-year index linked headlease to the Council (after which the property reverts to Council ownership). The Council in turn is responsible for all letting/income risk during the term of their headlease

As part of its analysis the Council prepared the following SWOT analyses (in summary form):

2.2 Sale with Outline Planning Permission

Strengths	Weaknesses
Minimal Cost to Council (Beyond Cost of Obtaining Outline Consent) Lowest Demands on Officer Time No Procurement Issues if a Land Sale Reduced Adverse Political Risk Post Sale Quickest Process Lowest Risk	Relatively Small One-Off Capital Receipt Limited Ongoing Income Generation (Potential Ground Rent)
Opportunities	Threats
Quickest Financial Receipt Earliest Business Rates Generation Potential Ground Rent Income	Smallest Financial Reward Loss of Control (Except for Planning and Potential Landlord Rights) Market Conditions may Deteriorate and Render Development Unviable

2.3 Joint Venture

Strengths	Weaknesses
Council Shares Risk with a JV Partner	No Guarantee of Finding a Suitable JV Partner Time/Complexity/Cost of Establishing JV Potential for Future Friction between Council and JV Partner (e.g. Quality, Viability etc.)
Opportunities	Threats
The Council Achieving Proportionate Reward to Risk Commercial Skills and Resource Benefits to the Council	Issues with JV Partner Overtime i.e. Administration Council is Unable to Fulfil its JV Obligations

2.4 Direct Delivery

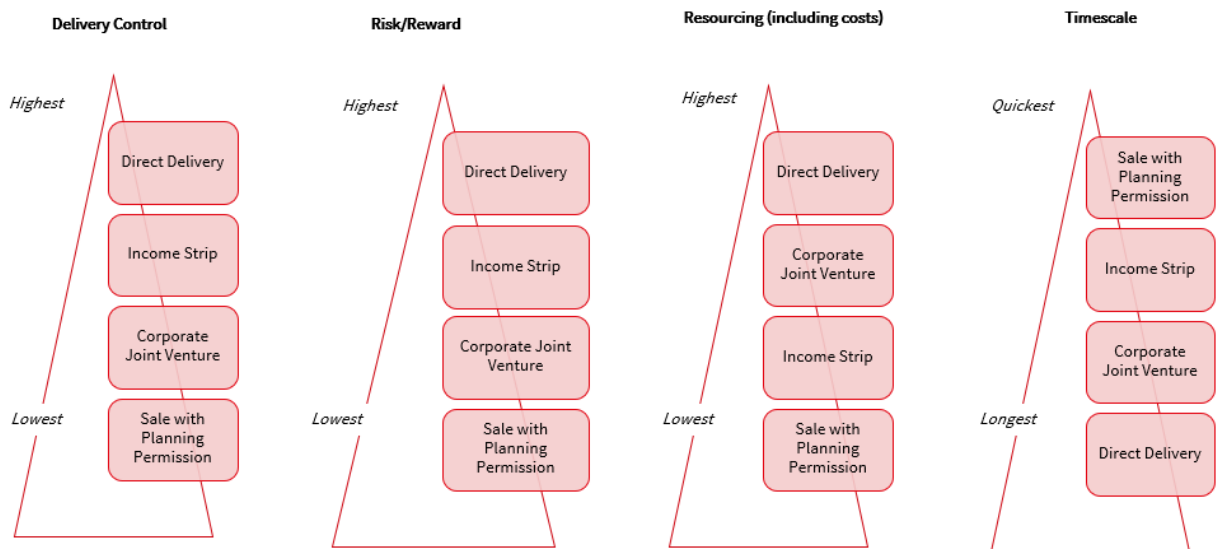
Strengths	Weaknesses
High Reward Ultimate Control Potential to Forsake Return in Lieu of Enhancing Design	Council Takes All Risk Council Procures All Elements Liable for All Void Costs Council Capacity Given All Other Council Projects/Commitments
Opportunities	Threats
Strong Message in Terms of the Council's Ability and Commitment to Deliver	Negative Changes to the Occupational Market and Resultant Inability to Secure Appropriate Pre-lets Holding Costs During Void Periods Greatest Pressure on Officers Highest Reputational Risk

2.5 Income Strip

Strengths	Weaknesses
Not Liable for Construction Costs Ownership Reverts to the Council at the End of the Period	Ownership is Passed to a Developer/Funder for a Fixed Period The Council Guarantees to Pay Rent Regardless of Whether it is Receiving Any Income i.e. Absorbs all Income Risk
Opportunities	Threats
Potentially Quicker Than a JV Model	A Negative Income Stream During the Lifetime of the Agreement (whereby income receivable from tenants does not match index-linked rental commitments under the lease)

2.6 Summary

We agree with the risks identified and the conclusions of this SWOT analysis. In simple terms, this can be summarised in the diagram below:



Leading on from the above SWOT exercise, the Council went on to score the respective delivery options. This again is summarised below (1 = highest score and 5 = lowest score):

	Do nothing – retain car park income	Sell with Planning Permission	Joint Venture	WCC Develops Site	Income Strip
Strategic Case	5	4	1	1	1
Economic Case (direct/indirect jobs and GVA; benefits realisation)	10	4	4	2	2
Financial Case (net cash flow; NPV; surplus/deficit on provision of services; business rates per annum)	14	13	7	10	5
Commercial Case	5	2	4	3	3
Management Case (control; speed of delivery; risk transference)	7	6	9	8	7
Total	41	29	25	24	18
Rank	5	4	3	2	1
Risk	5	1	4	2	3

The Council also undertook a risk moderation exercise in relation to the various options, as summarised in the final row above.

Based on this analysis, in March 2019 the Council decided that either a sale conditional on planning or income strip is preferred and should be appraised further.

2.7 Commentary on the Income Strip Approach

Most examples of income strips from around the country have been used to combat market failure – where the project is not viable on a traditional basis and the local authority has used its covenant, and accepted a long-term transfer of risk, to remove market failure and make a scheme happen which otherwise would not have been delivered. In addition, in relation to income strip arrangements involving office delivery, often the local authority taking the risk has also been an occupier in the scheme.

As per the section below, we do not believe that combating market failure is necessary in the context of Station Approach. This was supported by a recent market engagement exercise (June 2019) which indicated that there is enough market appetite to deliver a high-quality scheme at Station Approach without relying on the transfer of risk associated with an income strip.

Work previously undertaken for the Council sets out that the income strip approach has the potential to generate a higher overall financial (revenue) return to the Council when compared to sale with outline planning consent. However, that this comes with a significant long-term transfer of risk.

The Council has been clear that it does not want to pursue a delivery option which has the potential of becoming loss making in the future. On this basis, an income strip is not suitable (noting that the Council could mitigate but not eradicate this risk by establishing a sinking fund during the positive earlier years of the arrangement, to safeguard against potential negative income impact in later years).

We also note that where Station Approach is successful, the Council may decide to unlock further office-led development in the city – for example on its Cattlemarket site. Should this be the case, then the occupational market for high quality office accommodation on the scale of Station Approach would be better proven. Arguably this may provide a better evidence base on which to base a decision whether to undertake the level of risk transfer required via an income strip.

2.8 Commentary on the Sale with Outline Planning Permission Approach

The main threats associated with this delivery option set out by the Council involved a lack of control and lower financial return, coupled with an inability to generate an on-going income stream if the land was disposed of on a freehold basis.

The due diligence undertaken to produce the Cabinet paper dated March 2019 did not stipulate if the land would be disposed of on a long leasehold or freehold basis. The Council has now further examined the potential for the sale of a long leasehold interest up to 250 years.

Sale of a long leasehold interest versus a freehold interest directly responds to two of these key threats. Firstly, the ongoing role of the Council as landlord does provide an extra layer of rights which are included in the lease. Secondly, it provides the ability to generate an ongoing revenue stream. For example, the consideration (price) related to a sale of a long leasehold interest in the site could include both an appropriate geared ground rent and a capital premium (or either/or).

Subject to viability (see below), this would give an opportunity for example to seek a capital sum to repay an amount of costs incurred by the Council to date, and a geared ground rent to support loss of car parking income on the site.

Sale with outline planning consent remains on balance the market's preferred approach (again as evidenced by the market engagement exercise in June 2019). There was a preference for a freehold disposal, but also good appetite for a long leasehold acquisition.

Moreover, a sale remains the lowest risk approach, and the swiftest to implement.

Therefore, on balance we would endorse the Council's position that a sale of a long leasehold interest (250 years) in the site with outline planning consent is the optimal disposal option.

The following sections builds on this analysis and discusses market interest, viability and a proposed approach to implementing the sale of a long leasehold interest in the site.

3 Market Interest and Viability

4 Proposed Disposal Approach

4.1 Introduction

The previous sections of this report underpin the following main findings:

- A sale of a 250-year leasehold interest with outline planning consent best meets the Council's considerations in respect of risk, reward, resourcing, and timescales. This option also enables the Council, as freehold land-owner, to exercise rights which secure delivery of the scheme in accordance with its overall objectives.
- There is significant market interest surrounding the Station Approach opportunity and that now is an appropriate time to bring the opportunity to the market
- Given recent changes to the scheme, including for example a reduction in car parking required by the market and the resultant opportunity for cost saving and improved scheme cash flow, that viability has improved
- That a disposal process which seeks to drive competitive tension is anticipated to result in a high quality and deliverable scheme coming forward

The following section defines our recommended disposal approach.

Please note that this is written from a commercial perspective only and will need to be informed/verified by your legal advisors to ensure a compliant approach. This is particularly relevant in regard to OJEU procurement legislation.

Based on our discussions with the Council, the objective of the disposal process is twofold:

- To proactively market the opportunity to maximise appetite and interest and therefore optimise competitive tension
- To identify a purchaser which is best placed to deliver the Council's key scheme objectives. To date we would summarise these as the delivery of a scheme which:
 - Demonstrates best practise in low carbon
 - Is high quality in terms of design and build
 - Delivers a financial return
 - Can be delivered efficiently (for example to support spend of the LEP grant before the end of March 2021)

4.2 Approach

Based on the above, we set out below a summary of our recommended disposal approach. Please note that this is a high-level approach which will require further detailed discussion and refinement with the Council prior to launch.

The below anticipates that a Cabinet decision will be made in late August 2019 on the agreed way forward.

Step 1 – Documentation (August 2019 to October 2019)

There is a significant amount of information/documentation to be prepared before the disposal process commences. This is summarised below. It is important to ensure that this information is robust as it underpins the sale process:

- Establish a data room to include a full suite of property and supporting information; the Council already has a good level of property data given its work on the site to date
- Preparation of a very high-quality sales brochure defining the opportunity and sale process (including the approach to evaluation set out below)
- A full package of legal documentation which defines the contractual basis of a long leasehold sale subject to planning

Step 2 – Evaluation Criteria (August 2019 to October 2019)

Working with its advisors, the Council will need to agree its evaluation criteria which both give transparency to the market and allow the Council to select a best-fit purchaser.

Based on discussions to date, we advise that criteria in the following areas are utilised:

Quality

- Track record (by way of relevant examples in the last 3 or 5 years)
- Team and expertise (details of the specific team and advisors)
- Funding (ability to deliver, and confirmation in relation to use of the available grant funding)
- Programme (with anticipated key milestones and supporting rationale/evidence, including the recommended phasing of both buildings)
- Sustainability/low carbon (knowledge and commitment to implementing best practise solutions including by reference to examples; to cover car parking)
- Quality (knowledge and commitment to implementing a high-quality design and build including by reference to track record)
- Planning approach (delivery in accordance with the Outline Application/Consent, or a supporting rationale of benefits underpinning an alternative approach)
- Key stakeholders (approach to consultation)
- Risks (a commentary on key risks and how they are overcome)
- Occupiers (details of known pre-let interest and approach to securing high quality tenants)
- Speculative development (confirmation of position in relation to speculative versus pre-let development)

The underlying thinking in relation to Quality is to identify the purchaser with the best approach to delivery of the scheme, but not so as to specify the scheme under the terms of the land disposal (recognising that as a land disposal not subject to OJEU, that is not possible). These criteria will provide assurance that the right purchaser is selected, aligned with the Council's objectives.

Consideration (Price)

- Financial appraisal (submission of full appraisal to understand assumptions and robustness)
- Non-returnable deposit on exchange (to be put forward by bidders under competitive tension)
- Lease gearing (commitment to a fixed level of gearing to provide an on-going rental income to the Council; level of gearing to be determined but initial thinking is at 5% of overall rental income)
- Capital premium (to be put forward by bidders under competitive tension, and taking account of the requirement for a fixed level of gearing and a non-returnable deposit)
- Overage (to be put forward by bidders under competitive tension, reflecting the above)

The underlying thinking in relation to consideration (price) is to identify financial offers which both seek to provide an income, recognising the loss of car park income, and a capital sum, given the investment made by the Council to date.

Commercial

- Any commentary on the issued suite of legal documentation

We will need to work with the Council to refine these criteria and apply relative weightings.

We will also reserve the right to interview a selected number of bidders to clarify any relevant matters.

Step 3 – Proactive Marketing (launch end of October 2019 to coincide with planning application decision)

As above, the intention is to maximise appetite and interest and therefore optimise competitive tension by prospective purchasers.

We will work with the Council to define a marketing process to achieve this. As a minimum we anticipate that this will include:

- Preparation of a very high-quality sales brochure and data room
- Widespread advertising of the opportunity via recognised property channels e.g. Estates Gazette etc.
- Inclusion of the opportunity on JLL's website
- Discussion of an appropriate launch event
- Ongoing market engagement during the sales process period

We will monitor, with the Council, the economic climate associated with plans to leave the EU and reserve the right to, if circumstances dictate, reassess the optimal time to launch the marketing process.

Step 4 – Evaluation (January 2020)

We anticipate that the marketing process will commence at the end of October 2019. We then recommend giving prospective purchasers circa 10 weeks with bids due back in early January (January 10th).

The last three weeks of January will be used to assess bids received. This period will also be used to interview a number of the best bids received (for example up to four).

This process will allow us to select our preferred purchaser by the end of January 2019.

Step 5 – Contract (February/March 2020)

We have set aside up to two months for all legal documentation to be agreed, and for a conditional sale contract to be exchanged.

Other Matters

Please note that the Council can reserve a right to terminate the disposal process at any stage. Therefore, it is not obliged to select a purchaser and sell the site if at the end of the marketing process it should decide not to.

From a delivery perspective, we note that an OJEU process involves more stages and would therefore likely take longer than a single stage sale disposal process.

For example, a Restricted OJEU procedure would involve two stages (Pre-Qualification Questionnaire and Invitation to Tender) and Competitive Dialogue involves a further stage (Invitation to Participate in Dialogue) which can vary in length depending on the number of dialogue rounds. In our experience, an OJEU Restricted procedure could take up to three months longer than the Leasehold Disposal process described above and an OJEU Competitive Dialogue process could take up to six months longer.

From a market perspective, our experience is that developers and investors would prefer a non-OJEU process due to the perceived additional time and resource commitments that an OJEU process would command.

5 Conclusion

The conclusion of our report is summarised below:

- A sale of a 250-year leasehold interest with outline planning consent best meets the Council's considerations in respect of risk, reward, resourcing, and timescales. This option also enables the Council, as freehold land-owner, to exercise rights which secure delivery of the scheme in accordance with its overall objectives
- A rental value of £35.00 per sq ft will set a new prime rent for the location. There are regional examples where in excess of £35.00 per sq ft has been achieved, notably in Reading. An opportunity exists for a new office development in Winchester to set its own rental tone as there are no existing new build benchmarks for the area.
- There is significant market interest surrounding the Station Approach opportunity and that now is an appropriate time to bring the opportunity to the market
- Given recent changes to the scheme, including for example a reduction in car parking required by the market and the resultant opportunity for cost saving and improved scheme cash flow, that viability has improved
- That a disposal process is anticipated to result in a high quality and deliverable scheme coming forward
- An efficient single stage disposal process of a 250-year leasehold interest in the site subject to planning can drive competitive tension and identify a best-fit purchaser by the end of March 2020



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Appendix 5: Income Strip Lease Structure

1. Structure Overview

- 1.1. The income strip lease structure is similar to a simple sale and lease-back arrangement. An institutional UK Fund ("the Fund") purchases a long leasehold interest in land from the Council. The Council would then enter into an occupational lease (typically for between 35 – 50 years) with the Fund and would have the option to purchase the reversionary property interest for a £1 at the end of the lease term.
- 1.2. In this arrangement an external developer would enter into a Development Agreement with the Fund obliging it to construct the development. As such, the Fund would provide all of the development funding the external developer would be responsible for all development risk.
- 1.3. All figures included in the below are illustrative to demonstrate the impact of the different potential options of the model.

2. Tenancy Arrangement

- 2.1. The lease from the Fund to the Council would contain market standard Full Repairing and Insuring (FRI) terms, including annual rent reviews which could be linked to Retail Price Index (RPI), Consumer Price index (CPI) or fixed annual uplifts. If it is RPI or CPI it will be subject to a minimum increase (e.g. 1%) and maximum increase (e.g. 4.00%) per annum, or a fixed annual uplift. The type of rent review in place will have an impact on the overall pricing from the fund.
- 2.2. On expiry of the occupational lease term, the Council would have the option to acquire the long leasehold interest for £1.
- 2.3. If required, the lease could include assignment provisions to provide an exit mechanism for the Council. The number of assignments would need to be agreed but is likely to be limited to one; it is expected that the fund would require this to be an entity with the equivalent credit rating of the Council and an authorised guarantee agreement is likely to be required.

3. Benefits of the Structure

- 3.1. Risk transfer

The Council benefits in the income strip arrangement by being able to transfer financial and development risks to a Fund. The development would be financed by the Fund (sheltering the Council from the risk of borrowing long-term itself) and, as they appoint the developer, the development risk would also be with the Fund.

3.2. Rent profit

There is also a potential financial benefit to the Council where a profit is made on the gap between rental income and expenditure (being the difference between the lease payment due and rent receivable). If the Council continues to be able to increase the rent receivable with inflation then it would continue to enjoy a surplus. However, there is a risk that in the future, lease payments will exceed income received (see paragraph 4.1).

3.3. Other benefits

- The freehold property interest is retained by the Council.
- The Council has an option to purchase the reversionary property interest for £1 at the end of the Occupational Lease (subject to no default).
- Receipt of a premium by the Council on execution of the Head Lease.
- Capital receipt to the Council on practical completion of the development / execution of the occupational lease.

4. **Risks**

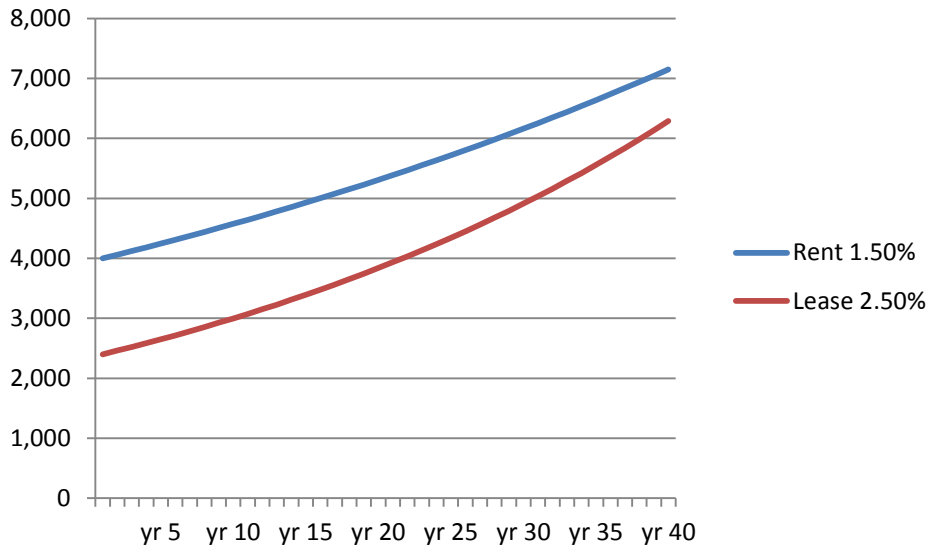
4.1. Rent loss

The rental income achievable by the Council would be subject to market forces. There is a risk that rents received from the developed units will not increase by RPI/CPI over the full term of the occupational lease in order to keep pace with the rent paid by the Council to the developer. It is possible that a significant shortfall in income could arise.

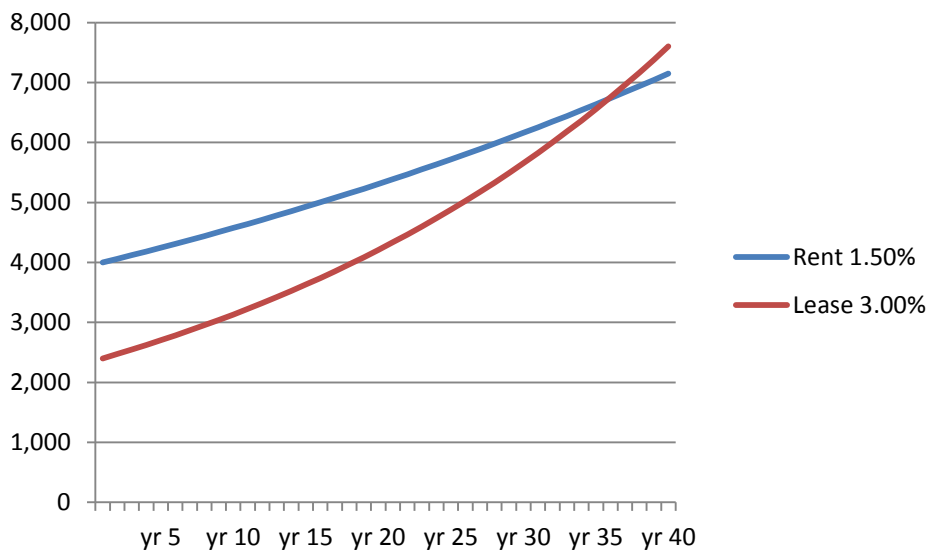
4.2. One option to mitigate this is to create an earmarked reserve funded by an agreed difference between rents received and rents payable early-on in the agreement.

4.3. The scale of the possible shortfall in income (and therefore cost to the Council in later years of the agreement) is sensitive to the rate of increase for both the rent receivable (subject to the market) and rent payable by the Council (fixed inflationary increase in the lease agreement). Scenarios of the impact of rent and lease payments increasing at different rates are illustrated as follows (N.B. these are illustrative values only and do not represent actual rentals expected on the Station Approach scheme):

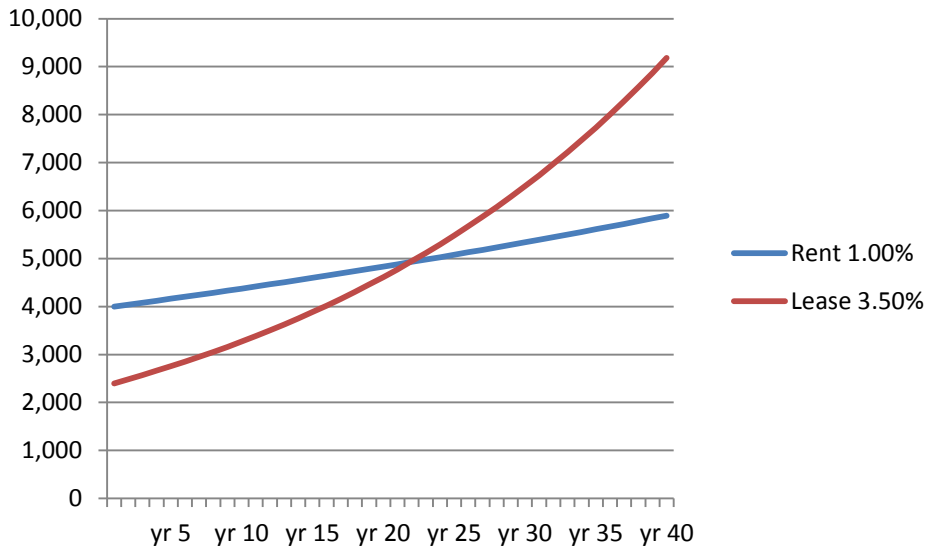
4.4. Rent income increases at 1.5%
Head lease payments increase at 2.5%



4.5. Rent income increases at 1.5%
Head lease payments increase at 3.0%



4.6. Rent income increases at 1.0%
Head lease payments increase at 3.5%



4.7. Letting risk

There is a risk that the Council’s sub-tenants choose not to renew their lease and/or, that in periods of adverse market conditions or potentially through business failure that voids may result. In those circumstances, if new sub-tenants cannot be found or not found at rents of at least the then rate that the Councils is paying under the head lease, the Council could potentially find itself with annual deficits.

4.8. The Council would, in addition to taking all of the letting risk, be liable for managing the building. This would encompass rent collection; the operation and running of service charges; and managing all repairs and maintenance to the building (even though these would not be recoverable through service charges).

Appendix 6 – EM3 LEP Draft Heads of Terms

Parties

Funder – HCC (as Accountable Body for the LEP)

Recipient – WCC

Background

The Funder to pay the Grant to the Recipient on behalf of the LEP to enable the progression of Public Realm works including site preparation works, for the proposed Carfax development.

HCC (as Highway Authority) will deliver the Public Realm works on behalf of WCC; the intention is for Carfax site preparation works to be carried out by an incoming site purchaser following site disposal.

Key Definitions

Grant: £5m to be paid to the Recipient in arrears upon production of a claim form for reimbursement of costs together with supporting evidence (NB WCC are also discussing with EM3 LEP about tranches being paid on letting of contracts, set against stated milestones)

Commencement Date: to be agreed. LEP have proposed date of Agreement.

Grant Period: To fully implement the public realm works and the site preparation works for the Carfax Site and spend by 31 March 2021

Project Period: to be agreed. Project to be completed by this date (inc Carfax development)

Project Definitions: will cover –

- i. Public Realm Works
- ii. Carfax site preparation works
- iii. Completion of the Carfax development (ultimate project output)

Purpose of the Grant

Grant to be used only for the delivery of the Project in accordance with the terms and conditions set out in the Grant Agreement. Grant shall not be used for any other purpose without the prior written agreement of the Funder and the LEP.

Payment of the Grant

The Funder shall pay the Grant to the Recipient in arrears with supporting evidence. Timings of payments to be agreed.

Amount of Grant shall not be increased in the event of overspend.

Third Party Funding

Where the Recipient intends to apply to a Third Party for other funding for the project, it will notify the Funder and the LEP.

Terms & Conditions

LEP standard T&Cs are set out with regard to Accounts and Records, Monitoring and Reporting

Withdrawal of Funding:

Payments may be withheld or suspended if work does not commence within six months of Commencement Date, WCC proposing 12 months – to be agreed with LEP. Grant will only be paid subject to necessary funds being available when payment falls due.

Termination:

The Funder may terminate without liability on three months' written notice should it be required to do so by financial constraints imposed on it by the Government

EM3 LEP may require repayment of Grant drawdown if the project outcomes, including the (ultimate) development of the Carfax site, are not achieved.

Warranties

Including that the Recipient has all necessary resources and expertise to deliver the project. NB WCC has clarified that Grant can be passed on to third parties in whose names works contracts are in place, other than that being WCC and is seeking written confirmation

Schedules to be attached:

Schedule 1: The Project:

- Outputs
- Expected Outcomes
- Milestones
- Monitoring and Reporting

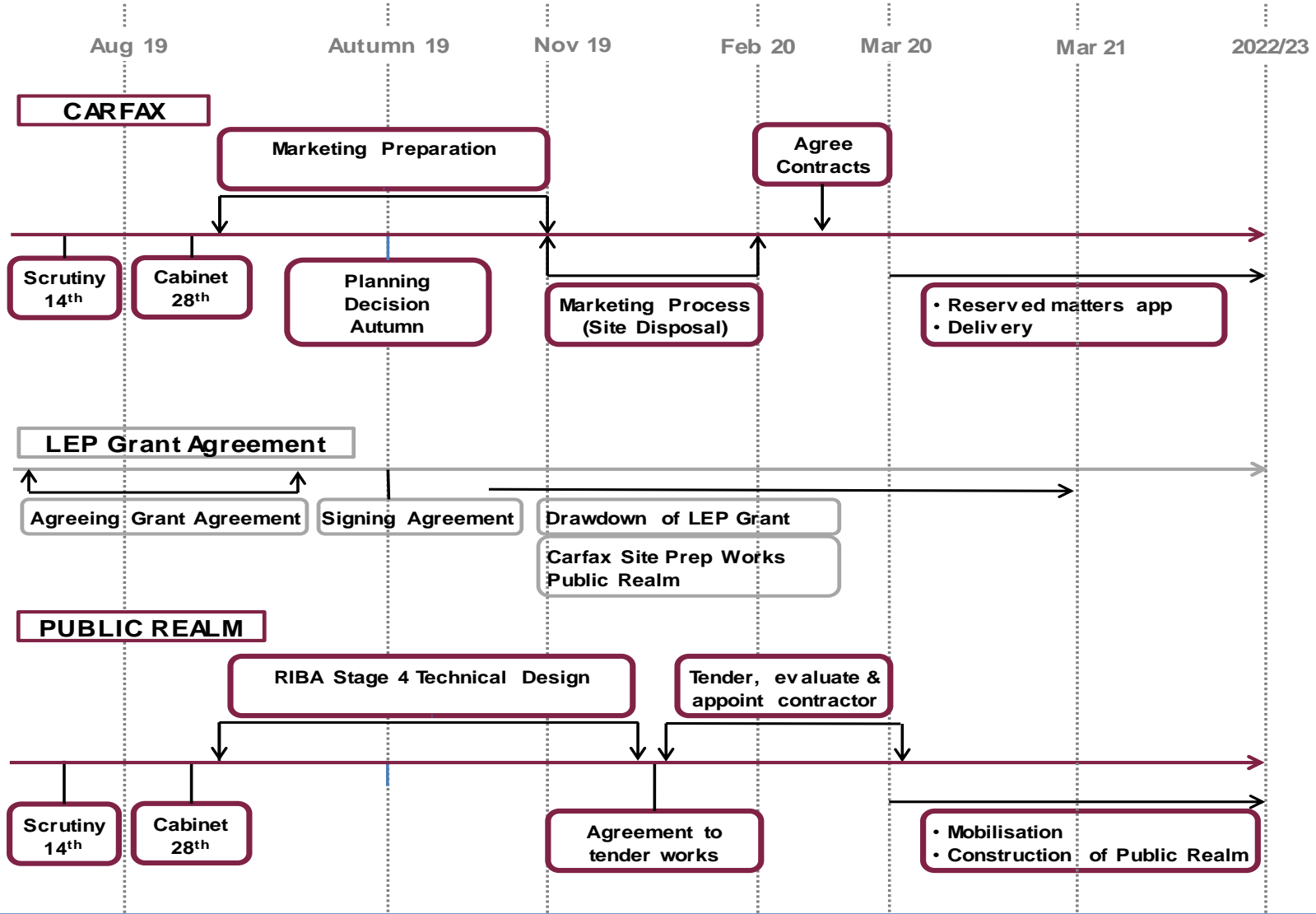
Schedule 2: Payment Schedule against Project Milestones:

- Carfax Development
- Public Realm

Schedule 3: Breakdown of Grant

Schedule 4: Claim Form

Appendix 7: Illustrative timelines



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By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

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