

# *Outline Business Case*

Winchester City Council

Central Winchester Regeneration Project

DRAFT

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# 1 EXECUTIVE SUMMARY

## 1.2 Introduction and project background

An Outline Business Case (“OBC”) is required for Gateway review 2 by the Winchester City Council (“Council”) to progress implementation of the Central Winchester Regeneration (“CWR”) programme. This programme is following the recommended Green Book approach to developing business cases to support programme and project decisions as outlined in the below table.

Business case development process

Stage	Stage 0	Stage 1	Stage 2	Stage 3
Stage outcome	• Strategic Assessment	• Strategic Outline Case	• Outline Business Case	• Full Business Case
Stage activities	• Determine the strategic context	• Scoping the scheme • Making the case for change • Explore the preferred way forward	• Defining the proposal and delivery parameters • Determine potential value for money (VfM) • Preparing for the potential deal • Ascertaining affordability and funding requirement • Planning for successful Procurement	• Procuring the solution • Contracting for the deal • Ensuring successful delivery
5 Case Model completeness expectation	•	• Strategic 50% • Economic 40% • Commercial 20% • Financial 30% • Management 10%	• Strategic 80% • Economic 70% • Commercial 60% • Financial 60% • Management 50%	• Strategic 100% • Economic 100% • Commercial 100% • Financial 100% • Management 100%
Gateway review	0: Strategic assessment	1: Business justification	2: Delivery strategy	3: Investment decision

Guide to developing the project business case

To date, there has been significant work undertaken to develop the development proposals for the site and on stakeholder engagement, including public consultation across a range of stakeholders to enable inclusion of the widest group possible. The SOC was approved by the Cabinet on 21<sup>st</sup> July 2021 with the recommendation to progress to the OBC stage in order to provide further analysis on the preferred delivery route. The SOC evaluated two shortlisted options (described as

Option 3.4 and 3.5). Option 3.4<sup>1</sup> was discounted due to affordability for the Council and the risk of limited market appetite. Cabinet selected Option 3.5<sup>2</sup> as the preferred option upon which to undertake further evaluation through an OBC.

Progress to date has enabled the CWR project team to provide a SOC in accordance with the HM Treasury Green Book approach and to further progress elements of the 5 Case Model, including more detailed assessment of the delivery solution for the preferred option, and with progress made on the financial appraisal.

Cabinet approval of this OBC would therefore enable the CWR project team to progress through Stage 2 and onto the Full Business Case in Stage 3. The full business case would be developed alongside the procurement process and would be completed based on the selected preferred bidder.

The Cabinet and full Council decision to approve this OBC and the associated procurement documentation will provide delegated authority for Council Officers to commence the procurement process. The 'Investment Decision' taken at the FBC stage will be based on a recommendation to proceed to enter into the development agreement with the preferred bidder or to not enter into the agreement. In the instance that the preferred bidder satisfies the requirements of the procurement the recommendation would be for the Cabinet to decide to proceed to enter into the development agreement.

### 1.3 OBC purpose

The purpose of this OBC is to provide further analysis on the preferred delivery option agreed in the July 2021 SOC and to gain approval for the procurement approach.

The OBC aims to further assess the preferred option in the context of the expected economic benefits, viability and Council affordability; prepare the scheme for procurement; and put in place the necessary funding and management arrangements for successful scheme delivery.

This OBC provides the structure for the preferred option delivery using the following framework:

- **Strategic case** – to confirm that the strategic objectives remain current and obtain agreement to the recommended option to achieve those objectives
- **Economic case** – to determine that the proposal provides good public value for money through economic appraisals for quantitative and qualitative benefit assessment

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<sup>1</sup> WCC to bring forward Kings Walk Creative Quarter with a Development Agreement with one development partner for the remainder of the site

<sup>2</sup> Development agreement across the whole site with one developer partner

- **Commercial case** – to prepare for the recommended deal structure by explaining the delivery model, procurement and engagement
- **Financial case** – to ascertain the affordability and funding requirement
- **Management case** – to plan for successful delivery

#### 1.4 Gateway review arrangements

Gateway reviews are recommended, and the agreed arrangements are that Cabinet will sign-off all Gateway reviews. Cabinet have confirmed that the CWR project team can request Cabinet meetings to undertake these reviews.

The key gateway review points are as follows and will be subject to Cabinet decision.

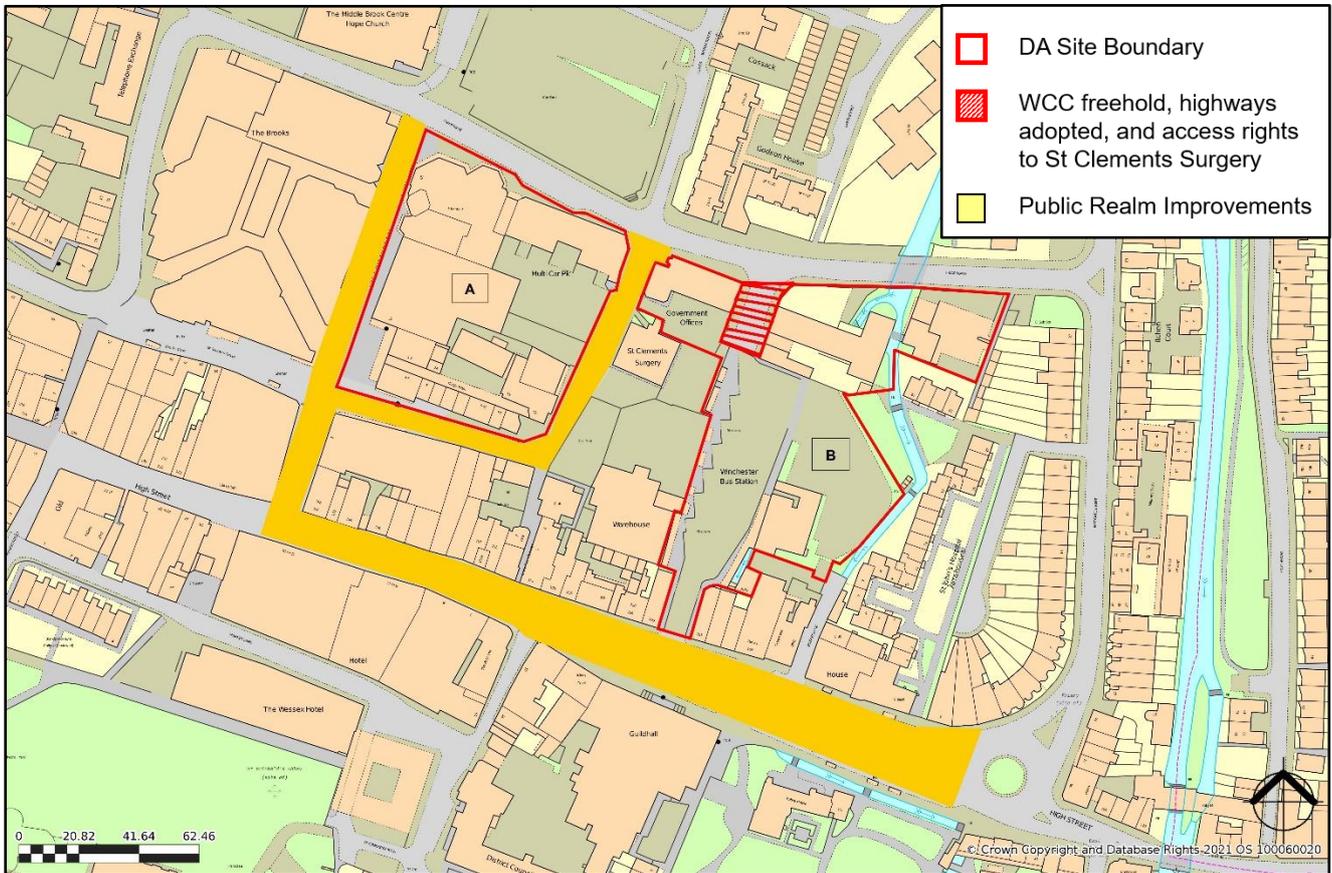
##### Gateway Reviews

Gateway	Descriptor	Review report	Expected review date
Gateway 0	'Strategic Assessments' on an ongoing assurance of programmes at the start, delivery and closing stages	Included in Strategic Outline Case	21 July 2021
Gateway 1	'Business Justification' prior the detailed planning phase.	Strategic Outline Case	21 July 2021
Gateway 2	'Delivery Strategy' prior to the procurement phase.	Outline Business Case	15 December 2021
Gateway 3	'Investment Decision' prior to contract signature.	Full Business Case	Q1 2023
Gateway 4	Contract signature. 'Readiness for Service' prior to 'going live' and implementation of the scheme.		
Gateway 5	'Operational Review and Benefits Realisation' following delivery of the project, establishment and/or decommissioning of the service		

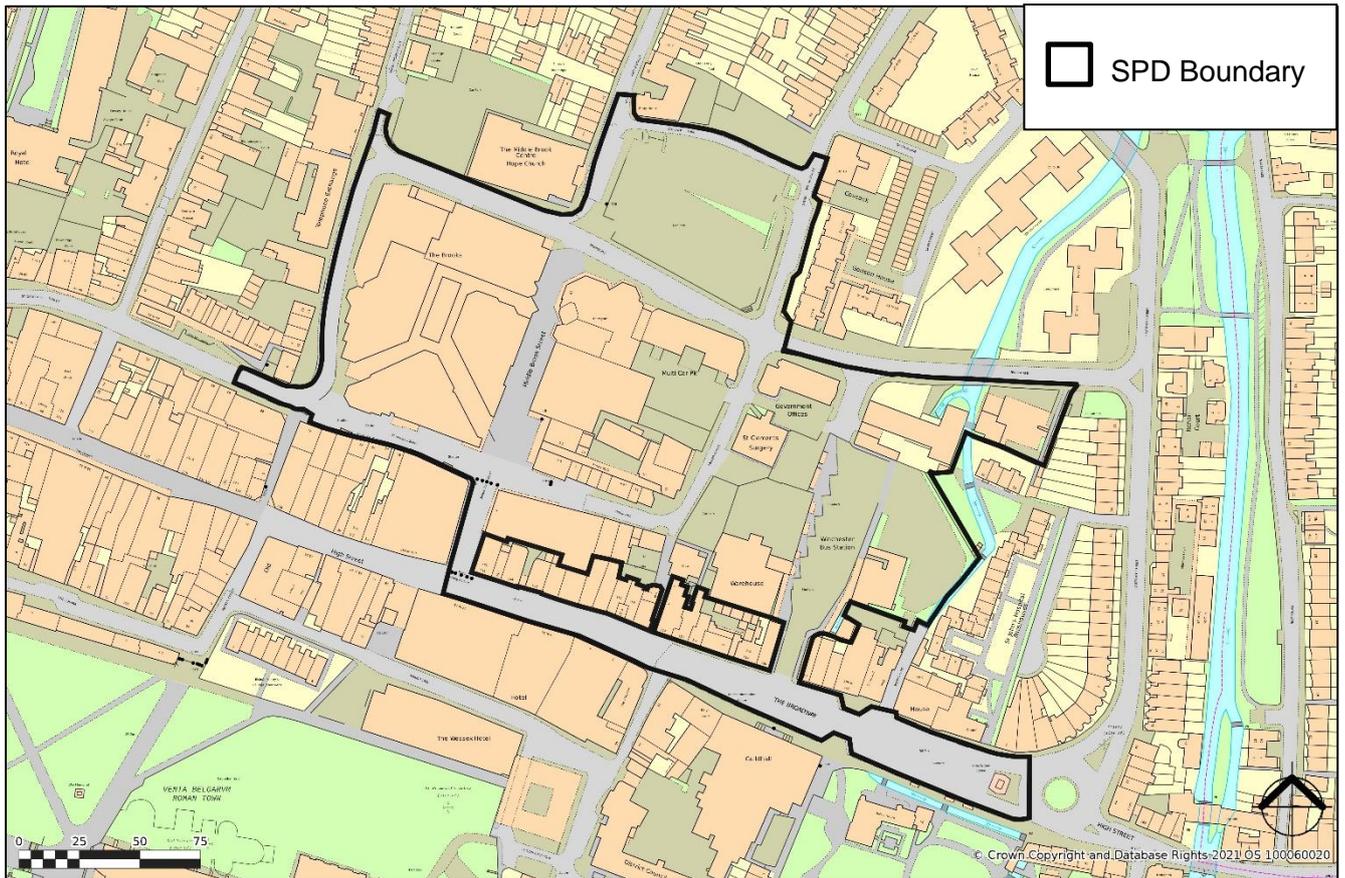
Guide to developing the project business case

## 1.5 Development Site Boundaries

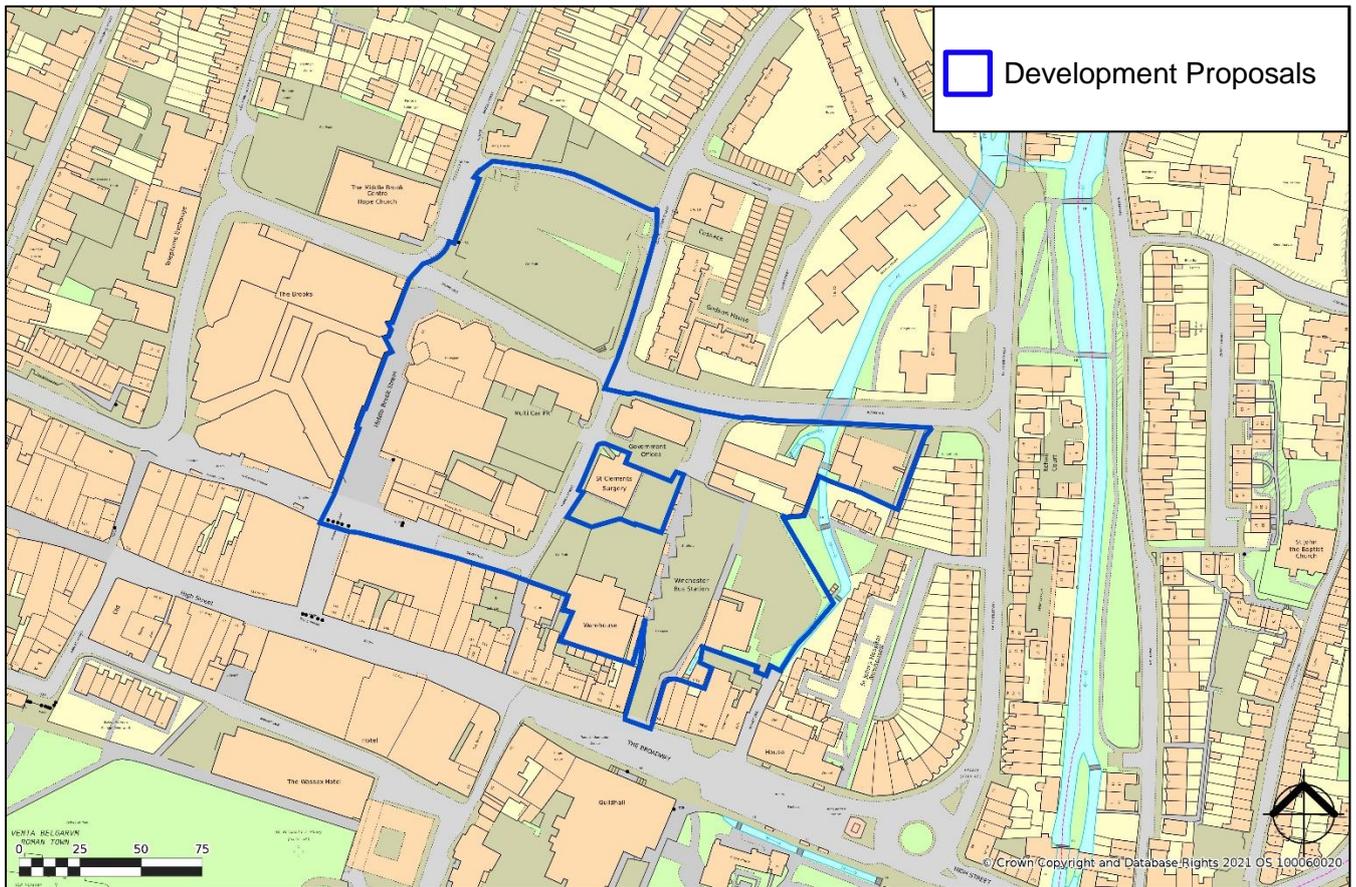
The map below shows the boundaries of the defined site, which would be subject to the development agreement:



- The area outlined in red represents the defined site that would be included within a Development Agreement, therefore representing the area to be brought forward and examined in this business case. The area to be included in a Development Agreement includes only Council-owned land excluding the M&S leased land and is referred to as the 'defined site'. Areas A and B comprise 3.68 acres (1.49 ha). The area hatched denoting WCC freehold, highways adopted and access rights to St Clements Surgery comprises 0.06 acres (0.02 ha).



- The area outlined in black illustrates the area defined in the CWR Supplementary Planning Document (SPD) (see section 2.2.1 of this document) which includes the Middle Brook Street Car Park, the Brooks Shopping Centre, Kings Walk block, Friarsgate Medical Centre, the Bus Station and the Broadway. The area comprises 11.48 acres (4.65 ha).



- The area outlined in blue illustrates the area considered by the CWR development proposals, which includes Kings Walk block, Friarsgate Medical Centre, the Bus Station and Middle Brook Street Car Park. The total area comprises 6.45 acres (2.61 ha). The development proposals are attached in Appendix A and B of this business case.

## 1.6 Conclusion

This OBC expands on the work undertaken at the SOC stage and examines all 5 elements following the Green Book approach being: Strategic, Economic, Commercial, Financial and Management cases. Such work undertaken by the CWR project team analyses: the potential strategic and economic benefits from implementing the proposed development; financial modelling to determine affordability and viability; and to further expand on the proposed commercial approach and management of the development going forward.

This OBC concludes the following for each element of the Green Book approach:

- **Strategic case** – The Strategic Case identifies and documents the city need for homes for all, filling the current gap in affordable and flexible commercial space, and attracting and retaining the young and creative talent in the city. It demonstrates that the CWR site will deliver the Council’s investment objectives whilst fulfilling the aspirations of the SPD.

- **Economic case** – The Economic case details the significant economic benefits to the Winchester economy from the development of the CWR site. Quantifiable benefits include additional employment opportunities, increased footfall and stimulation of the city’s night-time economy. When coupled with the qualitative benefits it is clear the CWR development will have a lasting positive impact on the city.
- **Commercial case** – The Commercial case outlines the commercial arrangements and procurement approach to support the preferred delivery option, a contractual agreement with a single development partner. This approach provides the Council with an acceptable level of control over delivery whilst delivering on their investment objectives. The procurement approach will ensure a competitive market process to secure a development partner that best meets the Council’s requirements.
- **Financial case** – The Financial case demonstrates that the proposed development generates a capital receipt. The prudent approach to determining affordability reflects an ongoing, annual cost to the Council which will need to be met from within existing budgets or by finding savings. Further work is recommended to address the affordability through the dialogue process with potential development partners. However, this needs to be balanced against the wider economic benefits set out in the economic case.
- **Management case** – The Management case concludes that the redevelopment of Central Winchester is a considered, deliverable and realistic objective. The responsibility for delivery of the CWR scheme will be with the Development Partner, and activities will be at the Development Partner’s cost and risk. A risk register is in place to monitor business risks, service risks and external risks, and it is recommended that this risk register is built on further as details of the development agreement are finalised.

Based on the above, it is advised that this OBC is presented to Cabinet as the basis for decision making on whether to proceed with the next steps; which include undertaking a procurement exercise; the preparation of the Full Business Case; and to select a development partner.

Signed:

Date:

Senior Responsible Owner

Project team

## 2 THE STRATEGIC CASE

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### 2.2 Strategic context

The regeneration of central Winchester brings forward proposals to fulfil the Council's strategic objectives through the development and regeneration of the CWR defined area.

The transformation of the CWR site is of key strategic importance to the Council and the people of Winchester. The vision for the area is for a mixed-use, pedestrian friendly quarter that is distinctly Winchester and supports a vibrant retail and cultural / heritage offer which is set within an exceptional public realm and incorporates the imaginative re-use of existing buildings. The development offers a variety of opportunities to create new spaces, revitalise others and forge something exceptional which serves the whole community in a balanced approach and creates an inspirational legacy. The development must set a benchmark quality standard for future development in the City.

#### 2.2.1 Strategic background documents

The strategic objective is to ensure delivery and to maximise the overall quality of a new development. The policy background and policy decisions are summarised below:

- **Council Plan 2020-25**

The Council Plan 2020-25 was refreshed for 2021 and adopted by the Council on 24 February 2021. It sets out the priority outcomes for the Council and identifies the important issues that will be addressed over the life of the Plan through the work of the Council and its partners.

The Council Plan is focused on five key outcomes that the Council want to achieve in the coming years in a way that is consistent across their aims. These priority outcomes are:

- Tackling the climate emergency and creating a greener district
- Homes for all
- Vibrant local economy
- Living well
- Your services, Your voice.

The outcome of the Council's combined aims will be a district where everyone enjoys the opportunities and quality of life that come from living in the Winchester District.

- **CWR Supplementary Planning Document (SPD) objectives**

The CWR SPD was developed to ensure that the special qualities found in the heart of Winchester are retained and enhanced and that any future development is of a high-quality design, coordinated and sustainable.

The SPD derives from relevant planning policies from the National Planning Policy Framework (NPPF), the Local Plan Part 1 (March 2013) and the Local Plan Part 2 (April 2017), particularly policies within the LPP2 which include WIN2 – Town Centre, WIN3 – Views & Roofscape, WIN4 – Silver Hill Mixed Use Site, DM15 – Local Distinctiveness, DM26 – Archaeology, and DM27 – Development in Conservation Areas.

The nine objectives of the SPD are:

- Objective 1 – Vibrant Mixed-Use Quarter
- Objective 2 – “Winchesterness”
- Objective 3 – Exceptional Public Realm
- Objective 4 – City Experience
- Objective 5 – Sustainable Transport
- Objective 6 – Incremental Delivery
- Objective 7 – Housing for All
- Objective 8 – Community
- Objective 9 – Climate Change and Sustainability

- **National Planning Policy Framework and Planning Practice Guidance**

The NPPF and Planning Practice Guidance prioritise sustainable development and set out core principles for the design of the built environment, requiring local authorities to seek opportunities to meet the development needs of the area through the planning process.

The NPPF promotes competitive town centre environments which provide customer choice and a diverse retail offer whilst reflecting the individuality of the place. A range of other uses are expected to support the viability and vitality of the town centre, including leisure, offices, markets and a wide choice of quality homes.

- **Movement Strategy**

The Winchester Movement Strategy 2019 (WMS) provides the overall framework for transport improvements across Winchester City over the next 20-30 years. The proposals include improvements to the city centre through changes to the one-way system. The push for sustainable ways of transport will be supported by the introduction of high-quality cycle/walking improvements that will contribute to form a network of routes.

Winchester Bus Station currently forms part of the development site. The redevelopment of the site requires the re-provision of bus facilities. In order to facilitate the development and secure vacant possession of the existing bus station, the Council has undertaken significant collaboration with the bus operators and Hampshire County Council to come up with a solution that retains the most used bus stops right in the heart of the city (e.g. Silver Hill and Tanner Street) and creates new on-street bus stops as part of public realm improvements to the city's streets. A bus solution for the City centre has been agreed as a way forward to facilitate Winchester's transport needs and to enable the site to be redeveloped.

- **Sustainability**

The Council declared a climate emergency in June 2019. The Council is committed to becoming a carbon neutral Council by 2024 and is aiming for the wider district to be carbon neutral by 2030.

The development of the site is required to adhere to the following policy documents:

- The Carbon Neutrality Action Plan 2020-2030
- The Biodiversity Action Plan 2021
- Air Quality SPD

The Green Economic Development Strategy (Council Plan 2021) is currently going through the formal approval process and will comprise the Council's latest policy objectives. The strategy will provide a road map of practical steps to transition to a greener, inclusive and more technologically driven, creative economy. An economy where existing businesses can grow sustainably; new businesses can be created and thrive, particularly those operating in the green growth sectors, and high quality job opportunities are provided for all demographics across the district.

### 2.2.2 Summary

Progress on CWR supports the Council plan and national planning priorities by working to deliver a vibrant new mixed-use development that will be creative and innovative to help reach the net

carbon zero targets for the wider Winchester District by 2030. The CWR SPD details aims and objectives for the scheme and a planning and urban design framework which are in alignment with the Council plan priorities.

The residential element of the development will facilitate the delivery of the 'Housing for all' objective. It will support a vibrant local economy by working to fill the gap of affordable and flexible commercial space, enhancing the evening economy offer and creating an area aimed at attracting and retaining the young and creative talent in the City.

The SPD covers the area within the red line site boundary shown in the map in Section 1.5.

### **2.3 The case for change**

Affordability for the Council is an important factor in shaping the CWR project. The current financial constraints facing the Council, exacerbated by the impact of Covid-19, mean this is a key consideration in decision making. Nevertheless, it is recognised by the Council that financial gain or investment in CWR for profit is not an outcome objective of this project. The wider and more important, non-financial benefits of the CWR project are explored in detail in the Economic Case [section 3].

The SPD sets out a vision and objectives for the area. The SPD is derived from 18 months of research and analysis, working with residents and local organisations through extensive consultation to establish a vision that will revitalise this central area of city and provide a place that can be enjoyed by everyone.

Research which followed the adoption of the SPD has further broadened our understanding of gaps in the market and how the central Winchester area can help to address these.

JLL undertook a Competitive Positioning study in 2019 which assessed the strengths, weaknesses, opportunities and threats for the city. The analysis has shown that the structure of Winchester's population is not balanced in terms of age demographics. There is an ageing population living within Winchester and the city struggles to retain young talent due to a lack of affordable living opportunities, workspace and employment.

This imbalance will pose significant threat to Winchester's future prosperity and resilience. It is vital the Council invests now to ensure the city continues to attract people to live, shop, visit and work.

## 2.4 List of investment objectives

The following objectives have been identified to help address the issues which are currently contributing to Winchester's imbalanced age demographic whilst delivering to the SPD objectives and fulfilling the vision set out in the SPD which so many helped to shape.

The list of investment objectives was determined by initially reviewing the SPD and applying these through a process of competitive position analysis and the 'Three Scenarios' work. These investment objectives formed part of a public consultation in November 2020, were reviewed taking on board comments for that consultation and approved by the Cabinet in May 2021 and subsequently included in the SOC.

#	Investment Objective	Description
1	Work	Provide creative, flexible workspaces to help grow start-up businesses and allow like-minded professionals to support each other by sharing skills, ideas and resources.
2	Live	Provide housing suitable for a range of people, including young people and families. A mix of private and affordable housing is needed with new homes for key workers and homes for rent.
3	Play	Create high quality exceptional public places where people want to spend time, to enjoy outside spaces, to experience new things or to get involved in something that interests them.
4	Student experience	Create a mix of uses which is attractive to students and young people. Which encourages them to visit the centre of Winchester instead of going elsewhere and gives them reason to want to stay in the city beyond their time at university.
5	Overnight tourism	Create an attractive night-time offering to complement the existing city quarters and encourage residents and tourists to visit the area in the evening.
6	Sustainable development	Work towards the city carbon neutrality target through choice of building materials, measures to minimise energy use, re-use of buildings where appropriate and encouraging suitable modes of transport.

WCC stakeholder engagement

## 2.5 Existing arrangements

- **Dated area**

The prominence of the CWR area is of paramount importance. Yet current perception is negative in that it represents a dated area of the city centre. Many buildings are vacant, unsightly and have

fallen into disrepair. Businesses are struggling due to lack of footfall / desire from others to move into / visit the area.

- **Antisocial behaviour and squatting**

Issues with antisocial behaviour and squatting are not uncommon, creating security issues and further costs for the Council.

- **Cost to Council**

The Council currently pays out sums of money towards business rates and maintenance fees for unoccupied buildings. The net budgeted income/cost for the existing buildings is set out in table 5.4.1.

- **Unbalanced age demographic**

A Competitive Position Study to assess the strengths, weaknesses, opportunities and threats for the city has demonstrated that the structure of Winchester's population is not balanced in terms of age demographics. There is an ageing population living within Winchester and the city struggles to retain young talent due to a lack of affordable living opportunities, workspace and employment opportunities.

- **COVID-19 impact on tourism and wider economy**

The impact of COVID-19 on the national economy along with the reduction in tourism income poses a significant threat to Winchester's prosperity and resilience. In order to address this the Council will need to consider ways to encourage and attract overnight tourism.

## 2.6 City needs

- **Rejuvenation of the city centre**

Without investment into the area, the issues referred to above will continue to escalate resulting in degradation of central Winchester, potentially creating a downward spiral of falling footfalls, lower retail demand (particularly from blue-chip tenants) and falling rents. It's therefore vital the Council invests now to ensure the city continues to attract people to live, shop, visit and work.

- **COVID-19 Pandemic recovery**

There is a need to work towards ensuring Winchester’s recovery from the COVID-19 pandemic, whilst recognising the challenges this pandemic poses to resources and the financial situation across the local government sector.

- **Mitigate Council reputational risk**

Residents and local organisations have been waiting a long while for the area to be improved. Council has promised to regenerate and although there is a reputational risk to the Council if it fails to do so now, the Council will only approve a development provided that the outcomes are successful in meeting the investment objectives.

## 2.7 Potential business scope and key service requirements

The scope of the proposal is to redevelop the Central Winchester site in line with the strategic objectives extracted from the background documents which include the Council Plan and SPD and distilled into the investment objectives. As part of the SOC, a “Do Nothing” option was presented as a baseline with three different options considered under the redevelopment proposals. The options considered were as follows:

List of potential project scope options

Do nothing	Do minimum	Do more than minimum	Do maximum
Continue managing and operating the area in the current way	Demolish Friarsgate Medical Centre and develop into interim public space	Demolish Friarsgate Medical Centre and develop into interim public space and refurbish Kings Walk to provide a creative quarter	Redevelop the defined site into a mixed-use node

WCC and JLL

The outcome of the SOC was that a “Do Maximum” approach was seen as the best possible option as it was the only option that adequately fulfilled the investment objectives.

## 2.8 Main benefits criteria

This section describes the main outcomes and benefits associated with the implementation of the potential scope in relation to the city needs.

- Improve employment opportunities
- Create flexible workspaces to help grow start-up and small businesses
- Enhance the local economy / assist in recovery from COVID19 impact
- Reduce issues with antisocial behaviour

- Provide housing for all
- Improve the night-time offering
- Encourage sustainable movement
- Minimise energy use
- Resilience to impacts of climate change such as flooding

Development of the CWR site will deliver the Council’s investment objectives whilst fulfilling the aspirations of the SPD.

## 2.9 Main risks

The main risks to the project are:

Main risks and mitigating actions

Risk	Mitigating action
Lack of timely decision on the procurement documentation for the preferred option for delivery	Ensure sufficient stakeholder engagement prior to presentation of the OBC and procurement documentation to Council for decision in December 21
The development does not deliver on the SPD and Investment Objectives	The Council to ensure that a delivery model is selected that ensures alignment to the SPD and the Investment Objectives
Resistance from the neighbouring landlords and residents could delay or impede the project	Stakeholder engagement with the neighbouring landlords and residents
General economic risk of there being lower than expected take-up of the developed facilities	Detailed market research and advanced marketing to secure the right mix of tenants
Political risk of failing to deliver the project	Deliver meanwhile uses to show short-term progress and activation of the site whilst progressing delivery of the project
Loss of income from the site and options for replacement income streams	Detailed modelling of various scenarios with probability / sensitivity analysis / optimism bias to identify affordability in the context of the Council’s Medium Term Financial Strategy.

WCC and JLL

## 2.10 Constraints

The project is subject to the following constraints:

- **Affordability**

It is important to consider the affordability in the context of the Council's overall financial position and one of the key principles of the CWR project is affordability to the Council. The development will be affordable to the Council if the revenue consequences (i.e. the ongoing annual cost) of the investment in CWR can be sustainably subsumed within the annual budget and Medium Term Financial Strategy (e.g. by using existing resources; making offsetting savings; and/or generating additional income).

- **Viability**

Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. It is important to ensure the commercial viability of the site. The mix of uses which meet the investment objectives for the project will likely not return the highest land value to the Council. In this regard, viability will be determined by a developer as a function of whether their development costs and scheme revenues will generate an acceptable financial return. Any surplus is then the residual land value that is paid for the land being transferred. The investment objectives for CWR are such that the land value will be suppressed, but in return for the achievement of the investment objectives (since these have not been established merely in order to generate a maximum land value for the Council).

- **COVID-19**

The current pandemic may have an impact on how quickly the Council can move forward with the development. In the short term this may involve issues related to funding and resource. The impacts of the pandemic longer term are currently unknown, but this is likely to involve further decline in the already struggling retail market as well as presenting challenges for housing and changes to working patterns / operations. The development proposals have been created to enable flexibility across the different mix of uses and the phasing.

- **Funding**

The Council will be looking to apply for relevant external funding grants at appropriate points as the development moves forward. The funding available and the success of any applications submitted will have an impact on how quickly the Council can move forward with certain elements of the scheme.

## 2.11 Dependencies

The project is subject to the following dependencies that will be carefully monitored and managed throughout the lifespan of the scheme.

- **Winchester Movement Strategy**

The development proposals for the site include a solution for bus traffic which will work within the existing road network and current one – way system in the city, in order to create new on-street bus stops as part of public realm improvements to the city's streets. As the outputs from the Movement Strategy come forward and the development progresses there is an opportunity to revisit the solution for the bus operations and potentially re-route the buses away from the centre of the site. The Council continues to work closely with Hampshire County Council to ensure proposals for CWR and the outputs of the Movement Strategy are aligned.

- **Landownership and tenancies**

Within the DA defined site, some parts of the site will be available for redevelopment sooner than others, and the timings as to how development will come forward in a series of phases need to take this into consideration. For example, the provision of an alternative solution for bus operations will assist the Council to gain vacant possession of the existing bus station. The Council working with the development partner will work closely with the tenants and other landowners as the development proposals are progressed. [Proposals for phasing will be considered during the procurement process and the Development agreement will enable appropriate phased delivery to be determined.]

- **Climate change**

The Council's Carbon Neutrality Action Plan commits to review its own activities to reach carbon neutrality by 2024 and sets the same ambitious goal for the wider district by 2030. Consideration of the carbon emission impact of development, transport implications and the sustainability of the scheme is therefore critical to the development process.

## **2.12 Conclusion**

The Strategic Case demonstrates that there is a city need for homes for all, filling the gap of affordable and flexible commercial space, and attracting and retaining the young and creative talent in the city. The development of the CWR site will deliver the Council's investment objectives whilst fulfilling the aspirations of the SPD. It is vital that the Council invests now to ensure the city continues to attract people to live, shop, visit and work.

### 3 THE ECONOMIC CASE

#### 3.2 Introduction

In accordance with the requirements of HM Treasury's The Green Book (Central Government Guidance on Appraisal and Evaluation) and HM Treasury's Guide to Developing Project Business Case 2018 (Better Business Cases - For Better Outcomes), this section of the OBC summarises the wide range of options that were considered during the SOC in response to the potential scope identified within the Strategic Case.

Furthermore, the Economic Case assesses and demonstrates that the project provides good public value to society, including wider social and environmental benefits at both a public purse and local economy level. Both the qualitative and quantitative benefits expected to be delivered by this project have been explored.

#### 3.3 Critical success factors (CSF)

The key CSFs for the project were developed iteratively over time through a mix of key stakeholder engagement and public participation. The final set of CSFs were presented to the Council Cabinet on 15 June 2021 and were endorsed by them at this meeting.

These CSFs were used alongside the investment objectives in the Economic Case section of the SOC to evaluate the long list of possible options.

##### Critical Success Factors

CSF		Descriptor
1	Alignment to City Needs	How well the option satisfies the existing and future needs of the city as identified in the Competitive Positioning Study as well as the Council's 5 key outcomes as outlined in the Council Plan 2020-25, namely: <ul style="list-style-type: none"> <li>• Tackling the climate emergency and creating a greener district</li> <li>• Homes for all</li> <li>• Vibrant local economy</li> <li>• Living well</li> <li>• Your services. Your voice.</li> </ul>
2	Alignment to the SPD	How well the option aligns to the 9 key objectives in the CPD, namely: <ul style="list-style-type: none"> <li>• Vibrant Mixed-Use Quarter</li> <li>• "Winchesterness"</li> <li>• Exceptional Public Realm</li> <li>• City Experience</li> <li>• Sustainable Transport</li> <li>• Incremental Delivery</li> <li>• Housing for All</li> <li>• Community</li> </ul>

CSF	Descriptor
	<ul style="list-style-type: none"> <li>Climate Change and Sustainability</li> </ul>
3	<p>Alignment to the Investment Objectives</p> <p>How well the option is aligned to the 6 Investment Objectives, namely:</p> <ul style="list-style-type: none"> <li>Work</li> <li>Live</li> <li>Play</li> <li>Student and young person experience</li> <li>Overnight tourism</li> <li>Sustainable development</li> </ul>
4	<p>Achieving the benefits optimisation</p> <p>How well the option assists in improving the local economy in areas such as:</p> <ul style="list-style-type: none"> <li>Job creation and employment opportunities</li> <li>Increase in rates and taxes</li> <li>Tourism economy benefits</li> <li>Delivery of affordable housing</li> </ul>
5	<p>Affordability</p> <p>Assessment on the Council's ability to fund the required level of expenditure - namely, the capital and revenue consequences associated with the proposed investment.</p>
6	<p>Obtaining planning permission</p> <p>Ability of the proposed solution to meet planning requirements and obtaining the necessary planning permission promptly</p>
7	<p>Mitigating Political Risk</p> <p>Political risk of not delivering on public declarations in a timely manner</p>

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### 3.4 The long-listed options

The long list of options, explored at SOC stage, were generated from a number of key stakeholder workshops, Council cabinet Member's discussion groups and a public participation forum.

The evaluation was undertaken in accordance with how well each option met the investment objectives (as listed in the Strategic Case) and the CSFs.

The long list of options for this development were generated using the Green Book options framework. This generated options within the following four key categories of choice, which have been assessed in a linear process:

1. Solution options – choices in terms of specifications and coverage of the development (the “what”)
2. Implementation options – choices in terms of the delivery timescale (the “when”)
3. Solution delivery options – choices in terms of method of delivery (the “how”)
4. Funding options – choices in terms of financing and funding (the “who”)

#### 3.4.1 The long list: inclusions and exclusions

The long list has appraised a wide range of possible options (solution, implementation, solution delivery, and funding) detailed in the below table. The table below provides a summary of all inclusions and exclusions which have been outlined in detail in the SOC.

## Summary of inclusions and exclusions

Option	Descriptor	Finding
<b>Assessment 1: Solution</b>		
1.1	Do nothing	Excluded. Will result in the city centre continuing to degenerate
1.2	Do minimum	Excluded. Will not result in the required vibrant mixed-use quarter
1.3	Do more than minimum	Excluded. Will not result in the required vibrant mixed-use quarter
1.4	Do maximum	<b>Included.</b> Option most closely aligned with the investment objectives
<b>Assessment 2: Implementation</b>		
2.1	Single phase	Excluded. Not aligned to SPD phased development approach
2.2	Incremental	<b>Included</b>
<b>Assessment 3: Solution delivery</b>		
3.1	Disposal- Freehold or Long Leasehold	Excluded. Insufficient control of the development.
3.2	WCC to bring forward Kings Walk Creative Quarter and deliver the on-street bus solution. Remaining land parcels disposed of on a Freehold basis and brought forward by multiple developers	Excluded. Insufficient control over the development of the sold land parcels.
3.3	WCC to bring forward Kings Walk Creative Quarter and deliver the on-street bus solution. Followed by a development agreement with one development partner to bring forward the remaining land parcels in the defined site	Excluded. High WCC expenditure and resource requirement. Lack of market appetite.
3.4	WCC to bring forward Kings Walk Creative Quarter. Development Agreement with one development partner for the remainder of the defined site	<b>Included</b> as shortlisted option
3.5	Development agreement across the defined site with one development partner	<b>Included as preferred</b> shortlisted option
3.6	WCC acting as master developer	Excluded. Requires significant capital expenditure, resources, and expertise.
<b>Assessment 4: Funding</b>		
4.1	Private funding	<b>Included</b> as a blend of both private and public funding is preferred
4.2	Public funding	<b>Included</b> as a blend of both private and public funding is preferred

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### 3.5 Short-listed options

The below table provides a summary of the included elements which were considered for the short-list at SOC stage. An illustrative financial analysis of these options was prepared at SOC stage and coupled with a final review against the project's critical success factors. This determined the preferred shortlisted option to be taken forward to the OBC.

### 3.5.1 Shortlisted Options

As assessment categories 1 (scope), 2 (implementation) and 4 (funding) are identical across all included options, the assessment category 3 options have been used as the included options descriptors.

Included options for short-list consideration

Assessment category	Included options	
Solution	Option 1.4 Do maximum	
Implementation	Option 2.1 Incremental implementation	
Delivery	<b>Option 3.4- shortlisted</b> WCC to bring forward Kings Walk Creative Quarter. Development Agreement with one development partner for the remainder of the defined site	<b>Option 3.5- preferred (endorsed)</b> Development agreement (i.e. contractual Joint Venture) across the defined site with one development partner
Funding	Blend of private & public funding	

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Shortlisted option 3.4 was discounted due to the lack of affordability for the Council of undertaking the refurbishment of Kings Walk to provide the creative quarter and risk to developer market appetite through the reduction in the size of the development opportunity. On 21st July 2021, the Cabinet endorsed the SOC recommendation to move forward with preferred delivery option 3.5 for further assessment in this OBC.

Delivery option 3.5 provides WCC with an acceptable level of control over delivery and timings. This route is able to meet the investment objectives and the critical success factors. Whilst delivered via one development partner, this route still enables incremental and phased delivery with multiple stakeholders and design teams (as desired in the SPD). This route retains the opportunity/ability for WCC and the chosen development partner to appoint specialist entities to deliver phases and/or blocks, whilst retaining overarching control through the development agreement. This route also enables better sharing of infrastructure and public realm related costs across land parcels and allows for cross-subsidy across the site enabling higher value uses to support the delivery of lower value uses (such as affordable housing and community spaces).

### 3.6 Economic appraisal net present social value (NPSV) findings

As part of this OBC, a benefits cost ratio (BCR) of the socio-economic benefits of the proposed development of the CWR programme has been prepared. BCR is a ratio used to summarise the overall relationship between the relative costs and benefits of CWR. If a project has a BCR greater than 1, the project is expected to deliver a positive net present value to Council.

The benefit themes identified were discussed and confirmed by Cabinet in a workshop on the 26<sup>th</sup> August 2021 and subsequent workshops with the other political parties in the week of 13<sup>th</sup> September 2021 identified Cabinet's key priorities for CWR.

The BCR analysis has included:

- An assumption log of inputs (Appendix E) that drive the cost benefit analysis for socio-economic benefit;
- A cost benefit analysis, considering the 'deadweight' (do nothing / minimum) scenario, and the 'additionality' (incremental benefits), leakage, substitution, multiplier, and displacement of development;
- The BCR result;
- Sensitivity analysis and optimism bias to demonstrate impact of changes to cost inputs / benefit outputs.

#### 3.6.1 Benefits appraisal – an additionality approach

When assessing the benefits for the CWR programme, the principle taken was one of "additionality". The rationale for this approach is that the current buildings within the site are, for the most part, at the end of their useful life and no longer represented the best possible use. The development types and unit sizes, outlined in the development proposal, are based on addressing current shortage of supply as indicated by JLL market research. It is anticipated that any resulting vacancies from existing tenants outside of the CWR moving into the new development will be backfilled by existing demand.

#### 3.6.2 Quantitative benefits

The CWR project team used the investment objectives as a basis for determining the key economic benefits themes for the development. Five key themes were identified where the benefit in financial terms may be quantified. These five themes are:

- Employment opportunities

The new development will create additional workspaces and attract new businesses providing local residents with employment opportunities

- Increased footfall to the area

A rejuvenated and vibrant CWR is likely to positively impact the number of visitors to the area, resulting in additional spend in the local economy

- Increase in Council income from new housing and businesses

The proposed housing and new business premises will positively contribute to increased Council Tax and Business Rates income

- Keeping residents local

The inclusion of housing in CWR as well as new job opportunities from the office, retail and cultural space will result in Winchester residents remaining local, positively impacting on commuting and sustainability

- Increase in overnight tourism

Creating a vibrant mixed use quarter and in particular the proposed hotel is expected to increase overnight tourism in Winchester which will lead to increased local economy spend

In calculating the benefits of the above, the CWR project team used benchmarked data, local tourism data and a number of researched market reports to align our assumptions. Details of the assumptions and documents used can be found in Appendix E.

The categories of benefits included in this analysis are:

- Council tax receipts
- Increase in local spend due to increased footfall to the area
- Increase in local spend from new residents in the new build houses
- Increase in local spend from workers during the duration of the development
- Business rates through development of office and hotel buildings
- SDLT from the sale of new homes
- Increased local spend due to increase in overnight tourism/night life

The below table summarises the results of the BCR analysis, categorising the themes into two benefit types: Local Economy and Public Purse.

Benefit types:

- Local Economy – benefits that will directly affect the local Winchester economy and potentially have a multiplier effect on the wider economy
- Public Purse – benefits generated that will directly benefit Council or the National Government by taxation or other means

These two categories of benefits are combined to calculate the All Economy benefit highlighted in the BCR calculations.

The benefits are then divided by the Development Costs (estimated cost to complete the development) to determine the ratio.

Summary table of quantifiable benefits

Benefit Theme	Hypothesis	Assumptions	Benefit Type	Benefit £'m	Low	Medium	High	
1	Mixed-use development will attract businesses requiring employees and create contractor jobs which increase local spend and generate increased Tax and NI contributions.	Development of the property will require local contractors. Assumed Council will maximise the use of local contractors at an average salary of £30k per annum for 3 years. Income Tax and NI contributions contribute to the Public Purse	Assumed 60% net of £30-£35k salary will be spent locally <sup>3</sup>	Local Economy	£10.2	5%	10%	20%
			Income Tax and NI Contributions based on under 65 year old employee	Public Purse	£5.9	5%	10%	20%
		The fully developed site will create: 126 Small Business jobs at 1 per 10m <sup>2</sup> 216 Retail jobs at 1 per 10m <sup>2</sup> 55 Upscale Hotel jobs at 1 per 2 rooms 26 Cultural jobs at 1 per 50m <sup>2</sup>	Assumed 60% net of £30-£35k salary will be spent locally <sup>3</sup>	Local Economy	£72.7	5%	10%	20%
			Income Tax and NI Contributions based on under 65 year old employee	Public Purse	£32.7	5%	10%	20%
2	Development will increase expected footfall to the area, benefitting local retail businesses.	Higher retail spend, increased VAT receipts and rental rate increases.	Footfall is expected to increase by 5% due to the CWR.	Local Economy	£117.9	5%	10%	20%

<sup>3</sup> Based on Office for National Statistic 2020 average household spend data.

Benefit Theme	Hypothesis	Assumptions	Benefit Type	Benefit £'m	Low	Medium	High	
3	The development of homes and new businesses will result in an increase in council tax receipts, business rates and SDLT.	Increased council tax receipts, business rates and increased retail spend contribute to Government targets. Also positively contribute to the retention of a younger generation in Winchester.	Council tax receipts generated <sup>4</sup> from new residential at Band D Business rates generated from the new Hotel and Office space at a rate of 0.512 of ERV SDLT on 60% of new residential - affordable housing will not trigger SDLT	Public Purse	£8.8	5%	10%	20%
4	Increased WFH and flexible working solutions, coupled with a vibrant city centre will keep local residents local	Keeping residents local will reduce average journey length, thereby reducing carbon emissions.	57% of the new residents and contract workers will half the amount of days they commute per year	Local Economy	£2.2	5%	10%	20%
5	Increase in overnight tourism with retail and hotel development	Creative quarter expects to positively impact overnight tourism, leading to higher hotel accommodation, entertainment and retail spend for Winchester.	Tourism to increase by 10% and therefore average daily spend to increase New hotel to generate new guests at 75% occupancy rate which increases hotel and local daily spend	Local Economy	£45.8	5%	10%	20%

### 3.6.3 Qualitative benefits

In addition to the quantitative benefits included in the following sub-section, there are a number of qualitative benefits which have not yet been quantified. These include:

- **Wellbeing of workers and residents**

Through the addition of exceptional public realm and increased pedestrianisation the physical and mental wellbeing of local workers and residents will increase. Physical wellbeing is achieved through the additional exercise benefits from the pedestrianised zone. The mental health improvements are derived from the biophilic benefits of being surrounded by plants, calming water features, natural lights and fresh air. Transport for

<sup>4</sup> Note that the benefit numbers presented do not include the increase in costs associated with providing additional Council services. This will be investigated further at the Full Business Case stage.

London have developed a method to calculate the financial benefits of reduced vehicle accidents and deaths as a result of increased pedestrianisation, but currently there is insufficient data to apply the methodology for CWR.

- **Increased land values for surrounding areas**

The positive development of the site into a vibrant mixed-use quarter is expected to directly benefit the asset values of the surrounding areas. To quantify this benefit would be too speculative and the calculations have therefore focussed only on the development of the CWR site.

- **Sustainable transportation benefits**

Changing to sustainable transport methods within the CWR development (particularly increased cycling and walking in the pedestrianised areas) will have both a financial and carbon reduction benefit to the Council, but it is not possible to reliably quantify this benefit.

However it remains considered that this will contribute to the Council’s pledge to achieve carbon neutrality by 2024 and for the Winchester District to be carbon neutral by 2030.

- **Future re-use and flexibility of the creative workplace units**

Quantifying the future re-use and flexibility of the creative workplace units will enable land owners, which include the developers and the Council, to ensure a quick change of tenancy when the new units become vacant. This ensures that economic benefit is continually generated throughout the life of the development. Flexibility of development will also accommodate a change in use easier without the requirement for redevelopment, saving costs and reducing the embedded carbon impact.

- **Contribution to retention of a younger generation**

The provision of affordable housing, entrepreneurial workspaces and increase in available nightlife activities through the CWR development is expected to contribute positively towards the Council’s objective to retain a younger generation, especially those that have graduated from the University of Winchester and other education institutions in the City. The financial benefit on the local economy outside of the elements already calculated has not been included in the analysis.

Further work on these elements will be undertaken at the FBC stage.

The economic results of the BCR are:

Summary table of illustrative benefits over the 15-year period

Summary	£'m
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Total value of benefits	£296.3m
Present value of All Economy Benefits	£215.5m
Present value of Public Purse Benefits	£35.0m
Present Value of Developer Costs	£80.5m
BCR for All Economy	2.68
BCR for Public Purse	0.43

JLL Analysis using a wide range of sources

The base position, without any allowance for optimism bias, shows an illustrative All Economy Benefit of 2.68 to 0.43 on Public Purse benefit. The implied assumption able to be made being that over the assumed 15 year period to 2035, in Present Value terms the regeneration programme will produce £2.68 of total economic benefit for every £1 spent by the developer – a very favourable return.

It is important to note that if the development proposals are to change then the BCR result could also change. The nature of the Green Book business case stage 3 approach will mean that the BCR result will become more reliable following dialogue with more stakeholders, such as the developers.

It is also worth noting that the BCR has been calculated using Developer funded costs, not Council funded costs, so the BCR based on Council funding will be considerably higher.

### 3.6.4 Preferred option and sensitivity analysis

Sensitivity analysis has been conducted based on our estimate of potential volatility for each benefit theme. This analysis adjusts for any optimism bias, mitigating the tendency to be over optimistic about the amount of benefit that will be generated from the development.

The base [BCR outcomes] have been adjusted for low (5%), medium (10%) and high (20%) optimism bias scenarios. This is because there can be a tendency to be over optimistic. Explicit adjustments have therefore been made to the estimates in order to account for this.

The results of the sensitivity analysis are:

	Base	Low	Medium	High
All Economy	2.68	2.54	2.41	2.14

Public Purse	0.43	0.41	0.39	0.35
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Having evaluated the BCR for All Economy, the benefits could range from a base estimate of £2.68 to a high optimism bias adjustment of £2.14 of benefit generated for every £1 spent on the development. This creates a range of £0.54 if the benefit estimations were to be over optimistic.

The results of the BCR for Public Purse show the benefits could range from a base estimate of £0.43 to a high optimism bias adjustment of £0.35 of benefit generated for every £1 spent on the development. This creates a range of £0.07 if the benefit estimations were to be over optimistic.

A BCR result of £1 and above reflects a positive return. Therefore, with an All Economy return of £2.68, the above analysis on CWR indicates a favourable return on the development. Whilst the Public Purse BCR of £0.43 appears to indicate that it is not a good development for generation Council income, it must be noted that the BCR is based on total development cost, not total Council funded cost, so in reality the Public Purse return is beneficial.

For the development to become unfavourable with an All Economy BCR below 1.0, there would need to be a reduction in benefits and /or increase in development cost totalling £116m.

Even when the optimism bias sensitivity analysis is set at 60% (as above this was tested at 5%, 10% and 20%), the All Economy BCR is still 1.07 which indicates a favourable return on the development.

### 3.7 Conclusion

The Economic case demonstrates that the regeneration of the CWR site will deliver significant economic benefits to the Winchester economy and will also favourably contribute to achieving the investment objectives of the Council as laid out in the SPD. Quantifiable benefits to the local economy and public purse include the creation of additional employment opportunities, increased footfall and stimulation of the city's night-time economy. This, coupled with qualitative benefits such as the projected increase in wellbeing of workers and residents and provision of sustainable transport, will have a lasting positive impact on the city.

## 4 THE COMMERCIAL CASE

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### 4.2 Introduction

The Commercial Case section of the OBC outlines the commercial arrangements and procurement approach that will support the preferred delivery option outlined in the Economic Case.

Building on the recommendations in the SOC, the Council will require the procurement of the following **primary contract**:

- A development partner, for the defined site, on the basis of a development agreement.

Please note that a copy of the draft Selection Questionnaire suitability questions and weightings (Stage 1) and the Invitation to Participate in Dialogue evaluation award criteria and weightings can be found at Appendices C and D.

This option was shortlisted in the SOC as the preferred option as it enables development to be brought forward in a comprehensive manner by one party, whilst also allowing WCC to retain some control over the development through the development agreement. In addition, WCC has control over the development partner selection process and can therefore choose a partner that shares the same aspirations for the site. This route still enables the opportunity for phased delivery and bringing forward projects on individual sites by multiple design and contractual teams, as envisaged in the SPD. This route would ensure the optimal outcome for the site as it would allow for the cross-subsidy of high value uses to support the delivery of lower value uses and the comprehensive delivery of the associated public realm. This route would be acceptable to the market and capable of ensuring competitive tension through the procurement process.

This section of the OBC is a detailed consideration of the proposed deal structure, procurement method and contractual arrangement of the preferred delivery option.

### 4.3 Procurement strategy and implementation timescales

To procure a development partner, the Council will follow prevailing procurement legislation. At the time of this OBC, the Public Contracts Regulations 2015 (2015 Regulations) are due to be replaced in 2022 by primary legislation.

Therefore, and depending on when the new legislation comes into force (and on the transition from the 2015 Regulations to the new procedures), the Council will need to determine how best to frame its detailed procurement strategy. A working assumption, based on the current programme, would be for the procurement to be governed by the 2015 Regulations and that once commenced it will remain so.

Nonetheless, the OBC describes the potential for the procurement to be governed by that new legislation.

#### 4.3.1 The Green Paper: Transforming Public Procurement

The Green Paper was the subject of a consultation exercise which has now closed. The legislation will not follow the Green Paper in every respect, but the stated intention was to anchor the new procurement rules to six principles: public good; value for money; transparency; integrity; fair treatment of suppliers; and non-discrimination.

In addition, the Green Paper proposed a change to the existing procedures for awarding public contracts. In particular, the procurement procedure(s) of relevance to CWR will be abolished and replaced by a new, competitive flexible procedure. This will give contracting authorities more autonomy to produce their own tender processes and to negotiate with bidders.

The Green Paper proposed a new central platform to allow bidders to submit pre-qualification information. In addition, authorities will also be able to use a wider range of information to carry out selection criteria verification (including for significant poor performance on previous public contracts).

In order to widen the scope of criteria for evaluating tenders, the Green Paper proposed to change the overall basis of tender evaluation from seeking to achieve the “most economically advantageous tender” (“MEAT”) to a much broader criteria of “most advantageous tender” (“MAT”). The intention is that this will encourage authorities to place further weight on factors such as social value and environmental impact (although the approach to be adopted by the Council does that).

It is expected that authorities will no longer have to provide individual feedback to bidders about award decisions. They will only be required to publish basic disclosure information about the procurement which will be publicly available.

The Green Paper also proposed a new process for challenging procurement contract awards. The suggested changes include an expedited trial process and a tribunal system to allow challenges to

be heard in a faster and cheaper manner. The Green Paper also proposes to place a cap on the award of damages even if a contract award is successfully challenged by an aggrieved bidder.

Given the fact that a developer for the CWR scheme will be selected from a competitive process, and that the conduct of that procurement will adhere to principles of good procurement practice, there is no benefit in waiting for the new legislation to come into effect. The consequential delay is not outweighed by any material gains in procurement strategy.

#### 4.3.2 The 2015 Regulations

On the basis that the procurement will be under the 2015 Regulations, the Council will go to market under the Competitive Dialogue procedure (CD). That procedure may be used where “*the contract cannot be awarded without prior negotiation because of specific circumstances related to the nature, the complexity or the legal and financial make-up or because of risks attaching to them*” (Regulation 26).

In the case of CWR, whilst the Council’s objectives are set out in the Development Brief (building on other documents, including the SPD), the exact means by which CWR is to be delivered and (for example) the phasing, cannot be specified. Through dialogue the Council may therefore engage with prospective Developer partners (i.e. the bidders) to “*identify the solution or solutions which are capable of meeting its needs*” (Regulation 30).

Through dialogue with bidders, the Council may better ensure that the appointed Developer has submitted proposals which align with the objectives of the Council and the requirements that will be set out in the Development Brief (including the key requirements).

A Restricted Procedure under the 2015 Regulations would not allow for any degree of negotiation/dialogue and would therefore be wholly inappropriate. The Competitive Procedure with Negotiation allows for negotiation but is generally used only where it may be feasible to make a contract award without any negotiation stage based on initial tenders made.

The Developer market, whilst averse to protracted procurement under CD, are familiar with the procedure and will respond to the opportunity provided that the Council’s overall approach is proportionate and that the tender requirements are not unduly onerous. Accordingly, the procurement strategy will be designed to avoid lengthy dialogue and will be streamlined, efficient and focussed.

The 2015 Regulations lay down the process that the Council must follow and is tied to general principles, namely the Council shall “*treat economic operators equally and without discrimination*

*and shall act in a transparent and proportionate manner*'. There is also an obligation to treat bidders' proposals as confidential (where flagged as such) and the Council will observe that requirement.

#### 4.3.3 Procurement method

Leaving aside the need to comply with prevailing legislation, the procurement approach will be designed to ensure that there is a robust methodology for selection of bidders and the eventual award of the contract to the successful bidder.

The opportunity will be the subject of a competitive process based on five key stages, namely:

- **Contract notice:** A published notice giving interested parties full opportunity to assess whether to express interest. This will involve providing access (via the procurement portal adopted by the Council) to the procurement documents (i.e. selection questionnaire; development brief; draft development agreement; draft tender invitation document; and other supporting background materials). The published contract notice will be augmented by additional publication in relevant media (e.g. the Estates Gazette).
- **Selection Stage:** Developers wishing to express interest will be required to submit a completed selection questionnaire (SQ), with supporting information (e.g. annual accounts). This will be in a standard prescribed format, apart from a number of project specific questions aimed at eliciting relevant prior experience and at enabling consideration of financial standing. In particular, prospective Developer partners will be asked to put forward relevant case studies to illustrate their experience of carrying out projects of a similar nature. The questions being asked have been carefully drawn up to elicit experience of relevance to CWR and the investment/strategic objectives. Based on the submitted SQs, the Council will carry out an evaluation based on the criteria and method set out in the published SQ in order to shortlist bidders.
- **Tender stage:** Under the 2015 Regulations, a competitive dialogue will be undertaken with a view to establishing the solution best suited to the Council's requirements (as described via the Development Brief). The tender invitation will set out the form of the required submission (i.e. tender) and the evaluation criteria and evaluation methodology of the Council. The criteria have been designed to ensure that proper weighting is given to financial and quality factors (and then to key investment objectives, by reference to the SPD

and Development Brief). Dialogue will enable the Council to conduct a staged process, so that bidders are able to refine and improve their proposals before making final submissions.

- **Tender evaluation:** The final submissions will be evaluated and may involve fine tuning and clarification before reaching a decision on the preferred Developer. As explained, the evaluation criteria will be a mixture of focussed and relevant weighted price and quality factors and the preferred Developer will be that that scores the highest overall.
- **Preferred Bidder:** The successful bidder will be appointed, and then final steps taken to reach a contract close (i.e. signing of the development agreement (“the Agreement)). This stage may involve some clarifications and confirmations prior to signing.

#### 4.3.4 Soft market testing

Although the Council have carried out valuable soft market testing in order to frame its approach, the procurement will be conducted on terms which give no advantage to any particular party, whether involved in the soft market testing or not.

#### 4.3.5 Council as contracting party

There is no benefit for the Council in procuring a Developer jointly with any other public body, given that it is (for these purposes) the sole landowner and project promoter; the Council is best placed to act as the counter-party to the Agreement and the introduction of other public sector parties would create unnecessary complexity (with no obvious benefit).

### 4.4 Service stream requirements and required output

The scope of the required outputs (the Council’s objectives) is articulated in the SOC and then further developed in this OBC. These will be captured by the Development Brief taken to market and against which prospective Developer partners will make proposals. The Development Brief will expressly refer to the core objectives (and therefore key requirements) for CWR.

As such, the project requirements will be in the nature of “outputs” rather than prescribed specifications, but by explicit reference to the SPD, Local Plan(s) and CWR Development Proposals.

For example, no detailed designs will be prescribed but the Developer will be under obligation to bring forward development proposals within the framework laid down by the Development Brief. This approach will enable innovation in how CWR is delivered, based on contractual terms which

establish a basis for the Council and other stakeholders to be engaged in how those proposals are to be brought forward and approved. This approach (set out in the Agreement - see below) will focus on the key project requirements expressly drawn out in the Development Brief (including design quality, sustainability, public realm).

The terms of the Agreement between the Developer and the Council in relation to phased development will likewise govern the programme and ensure that momentum is maintained throughout delivery of CWR; this will be regulated by reference to an agreed overall phasing strategy, programme and longstop dates.

The procurement will be aimed at the appointment of a suitably qualified, resourced, and funded Developer, and based on the evaluation of their overall tender submission. That submission will be against prescribed requirements for how they will deliver CWR (covering quality and financial factors), evaluated against the criteria laid down by the tender invitation.

The successful bidder's proposals will then be captured in Agreement as the Developer's "Delivery Plan". The Agreement will allow for a degree of flexibility in how CWR is to be delivered on a phased basis but within the strict parameters and key requirements of the Development Brief (and other important supporting documents such as the SPD) and the Developer's Delivery Plan.

The appointed Developer will have obligations under the Agreement to bring forward each phase of development (together with wider public realm and other works necessary to deliver the whole scheme). These obligations will extend to: the submission of planning applications; obtaining other consents; carrying out detailed design; securing occupiers; appointing the professional team(s) and contractors; securing funding; and doing all other things necessary for a successful delivery of CWR.

The Council will have rights under the Agreement (e.g. in respect of considering and approving planning applications and the design approach and detail) and will also carry obligations (notably in relation to securing vacant possession).

#### 4.4.1 Stakeholders

Whilst the Council will be the primary stakeholder, the Council will continue to engage in wider public consultation (including with other landowners and local organisations). This will build on the stakeholder engagement already carried out, but with the involvement and support of the appointed Developer partner. Their plan for engagement will be built into the Development Agreement and the Developer under obligation to adhere to that plan.

#### 4.4.2 Options for variation in the existing and future scope for services

The terms of Agreement will necessarily allow for some flexibility in the delivery of CWR where driven by changes in the market or other legitimate factors. The Agreement will prescribe how the Developer may propose changes to its Delivery Plan and the basis on which that must be justified to, and approved by, the Council. Equally, and where appropriate, the Agreement will enable the Council to bring forward changes to its requirements under the Development Brief (e.g. to respond to new legislation, changes in planning policy, and stakeholder views).

#### 4.4.3 Development phases

The CWR scheme is to be delivered in phases and the Agreement will govern programme delivery and therefore how detailed plans for each phase is to be brought forward in a manner consistent with the Development Brief.

### 4.5 Potential risk apportionment

The Agreement will place responsibility for delivery of the CWR scheme with the Developer. The Developer will be under obligation to pursue the necessary pre-conditions for carrying out the development on a phased basis. This will include: the design; planning application; appointment of professionals and contractors; obtaining of funding; and securing of occupiers/purchasers. These activities will be at the Developer's cost and risk.

These obligations will not mean that the Council has no control over the CWR scheme, but does remove the costs and risks from the Council.

The Council's will carry certain obligations to obtain vacant possession and to transfer land for development (on a phased basis). The Developer may also have a role to play in securing vacant possession, e.g. by way of dealings with occupiers, relocations and the carrying out of demolition works (where that is needed).

Risk in relation to the actual returns to be made from the development (i.e. market risk) will sit with the Developer.

Public realm will be vital component of the scheme and through the terms agreed with the Developer under the procurement, a position settled with them on how high quality public realm is to be delivered and then how the upkeep of public realm is to be funded and managed.

In taking the scheme to market, the allocation of risk will be based on market norms for a development of this nature (and not therefore seeking to allocate risk on an atypical basis), whilst at the same time recognising the particular requirements of the Council for CWR.

The Agreement will also provide for the Developer's professional team and contractors to be properly insured and for them to provide collateral warranties to the Council (enabling direct recourse where necessary).

#### **4.6 Financial mechanisms**

The Agreement will oblige the Developer to fund the development costs – both pre and post planning. It may do so from its own resources or by introducing third party development finance.

The Council will be entitled to receive payments for the value of land transferred (on a phased basis), based on a properly carried out and auditable appraisal (per phase). The value will be ascertained through a valuation methodology set out in the Development Agreement.

Through the procurement, the Council may also seek to recover its procurement costs and oblige the Developer to fund (in whole or part) its project monitoring costs through the life of the scheme (recognising that this will be treated as a development cost and therefore reduced land value).

Land value payments may be made on an upfront basis or deferred (and may include overage – planning and sales); this will be assessed in the procurement and may differ between phases.

#### **4.7 Key contractual arrangements**

The report to Cabinet accompanying this business case sets out the commercial/ legal principles and arrangement which underpin that the Council will enter into the Agreement with the appointed Developer on these terms. That Agreement will:

- Regulate delivery of CWR and the relationship between the Council and the Developer;
- Set out the key objectives of the Council for CWR and the obligations placed on each party;
- Enable decisions to be made throughout the term of Agreement, including where variations need to be agreed;
- Determine outcomes, including the development outcomes and financial terms (e.g. land payments);
- Address exit strategy – both at the completion of the scheme and where an early termination maybe required.

The Agreement will be based on established precedents and in a form that will be recognised in the market, whilst being suitably adapted for the needs of the CWR scheme and the Council's requirements.

The key terms will address:

- **Parties:** the parties will be the Council and the Developer;
- **Guarantee:** The Council reserves the right to require the Developer to procure a parent company guarantee (PCG) in relation to its obligations under the Development Agreement (save where the developer has no parent and/or is of sufficient standing in its own right). Where no PCG is required when entering into the Development Agreement, the agreement will nonetheless require a guarantee in the event of an a permitted assignment or a later change in the financial standing of the Developer.
- **Term:** The Agreement will be for the anticipated duration of the delivery of CWR. The Agreement will contain the Developer's programme and target dates for each stage of delivery. Although the Agreement will recognise delay events (where legitimate), there will be longstop dates to enable early termination by the Council; this will avoid protracted delays and provide a means for early exit by the Council;
- **Objectives:** The Council's objectives (and its key objectives) will be laid down by the Development Brief and this will be a Schedule to the Agreement. Alongside the Development Brief will be the Developer's Delivery Plan (based on their successful tender). These documents will therefore represent the Council's requirements and the Developer's solution.

The Developer's Delivery Plan will cover the CWR scheme as a whole and therefore capture their overarching vision and programme for CWR. For each phase, the Agreement will require the Developer to bring forward more detailed phase delivery plans – for review and approval by the Council;

- **Obligations:** The Developer will be responsible for delivery of the scheme and therefore the key activities needed to bring forward each phase. This will include by way of examples:
  - the satisfaction of the pre-conditions for draw down of land from the Council;
  - managing the design and planning process (and other consents);
  - viability (see below);

- ensuring proper financial planning, management and accounting;
- identifying and pursuing funding;
- tendering and appointment of contractors;
- pre-lets (where relevant); and
- Regular monitoring reporting.

Once pre-conditions are satisfied, the Developer will be entitled to draw down land for development (i.e. the relevant parcel) and will then be under obligation to carry out development in accordance with the consented scheme and terms of the Agreement. The Agreement will, independently of any planning conditions, regulate the way in which each phase is to be delivered and provide the Council with rights to monitor progress (including an ability to review/approve design elements).

The main obligation falling on the Council will be to secure vacant possession of the land being drawn down by the Developer (in phases). The Council may also have an obligation to obtain statutory consents (where these can only be obtained by Council). In addition, the Council will have obligations to respond to notices and other request made by the Developer (e.g. to approve planning applications, designs, etc). N.B. In relation to planning and related functions of the Council as local planning authority, the Agreement will make clear that the Agreement does not fetter any of the Council's discretions in these respects.

- **Financial arrangements:** The Agreement will govern how the Developer may establish the viability of each phase, by reference to a financial model (attached to the Agreement). This will fix the Developer's profit and the development management fee - by reference to that model. The Development Agreement also governs how the residual land value is to be calculated (i.e. the land value payable to the Council), and will provide for a method of valuation that satisfies the Council's obligation to obtain best consideration.

The land value may be payable upfront or deferred and may also include overage. This will depend on the phase and its overall financial make-up (and might include the Council taking a revenue stream). This will be determined by reference to the Developer's overall the Delivery Plan and the more detailed development of each phase delivery plan.

Where a phase (or scheme as a whole) is not viable the Agreement will provide a mechanism for the parties to assess how best to achieve viability or to proceed with the development on a different financial basis (by agreement).

Where a phase delivery plan is contemplating the sale of an asset, the Council will have an ability to pre-empt that sale and offer terms for the Council to acquire as an income producing asset (on terms acceptable to the Developer).

- **Change control:** The Agreement will allow for a limited right of review of and variations to the scheme as a whole and to each phase delivery plan. The Agreement will regulate the process by which changes can be proposed and agreed. Given the phasing of the scheme and the likely need to make adjustment for changes in market conditions over time, this mechanism is essential. However, the right to vary the Agreement will be limited and the Agreement will anchor the scheme to certain core requirements (in the Development Brief). In addition, the Council will have the ability (reasonably) to refuse changes.
- **Exit:** The Agreement will provide for a natural expiry on completion of the overall development. In addition, there will be terms to provide for early termination in the event of default. This will, as would be normal, cover Developer insolvency, material defaults, and failure to meet longstop dates. Where an early termination occurs, the Council will have rights to recover land transferred (including under the relevant lease but subject to any third party's position), and any direct losses by way of indemnity. Where desirable, the Agreement will allow for completion of a phase under development (i.e. the termination will only cover future phases). Where undeveloped phases are handed back following termination for default, the Developer shall meet any costs for making good the site and indemnify for the Council's losses (including re-procurement costs. The Development Agreement recognises the rights of any third-party funder (enjoying step-in rights).
- **Governance:** The Agreement will allow for a forum for the parties to meet and make decisions on a collaborative basis. Each party will appoint representatives to engage on a day to day basis (and in the case of the Council there may be rights to appoint independent agents to represent the Council in its dealings with the Developer).
- **Disputes:** There will be provision for resolving disputes by means of escalation and then arbitration/mediation. There will also be terms for the parties to refer matters for expert determination, where the matter at hand is amenable to that.
- **Other terms:** The Agreement will also regulate matters, which are typically covered by this type of agreement, such as:

- Tax – the basis on which tax matters are to be dealt with (e.g. SDLT, VAT, Capital Allowances);
- Indemnities – to give protection to the Council against claims etc. made on the Council due to the acts or omissions of the Developer;
- Insurance – the insurances that the Developer is required to take out or procure for the scheme;
- Assignment and change of control – to ensure that, in each case, this is subject to appropriate safeguards and levels of control by the Council; and
- Confidentiality and FOI – to address the way on which matters are to be kept confidential and how any freedom of information request is to be dealt with.

#### **4.8 Personnel implications**

The CWR scheme will not involve any TUPE staff transfers or other impacts on employees of Council in terms of personnel/HR factors.

However, to resource the procurement and then the relationship with the appointed Developer and contract management, there will be an ongoing requirement for sufficient internal resources (suitably qualified). Although these requirements can be supported by way of external adviser support, it is in the interests of the Council (especially after signing the Agreement) for these resources to be internal rather than external.

#### **4.9 Accountancy treatment**

The accountancy treatment for the development transaction will vary depending on the chosen course of action.

Once greater clarity is received in terms of the Council, and the markets, preferred approach, the accountancy treatment will be able to be unpacked in greater detail as part of the Full Business Case.

#### **4.10 Conclusion**

The Commercial case in the OBC outlines the commercial arrangements and procurement approach that will support the preferred delivery option, a contractual agreement with a single development partner across the defined site. This was selected as the recommended route as it provides the Council with an acceptable level of control over delivery and timings whilst delivering on the investment objectives and critical success factors. The commercial process outlined will

ensure that a competitive market process is undertaken to secure a development partner that best meets the Council's requirements.

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## 5 THE FINANCIAL CASE

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### 5.1 Overview / Introduction

The Finance Case section of the OBC tests whether the preferred option, outlined in the Economic Case, represents a financially affordable and sustainable proposition.

The financial case explores the overall affordability of the preferred option for the Council and identifies the associated financial risks and accounting considerations.

As the CWR project has regeneration at its core, the timescale of the financial review is set over the long-term to ensure that it capture the full effect of the scheme on future revenues. The timeframe in the analysis allows for a 40-year period.

The analysis presented in the Finance Case relies upon the same scheme details presented in the Economic Case. This includes all information regarding the uses, areas, costings, project timescales, revenues and values and the reported residual land values for each identified phase of the scheme. The same construction phasing is applied to the premises within the regeneration site boundary where the Council currently receive a revenue, and when therefore this revenue would cease.

### 5.2 Residual land value analysis for preferred option

This section outlines the process and findings of JLL's residual land value analysis of the preferred option, as determined by the shortlisting assessment in the SOC as summarised in the Economic Case. There have been a number of updates to the information used since commercial viability was assessed at SOC stage. The key updates that have been carried out to inform this OBC are as follows:

- Update to the development proposal areas to reflect a demolished and re-built Kings Walk building.
- Updated cost plan based on revised areas and infrastructure apportionment.
- Revised phasing assumptions, building on from the public consultation documents issued in Q4 2020. The current phasing seeks to ensure each phase is deliverable and viable.

Please refer to Appendix A and B for the development proposal and phasing.

As in the SOC, the analysis only assesses the land within the Council's ownership and control. For clarity, Woolstapler's Hall and the residential block on Woolstapler's car park, depicted in Phase 4 phasing plan in Appendix A, has not been included in the financial analysis. This is outside of the Council's ownership and would not be subject to the Development Agreement.

**The numbers outlined below are indicative viability numbers only. These figures have been prepared for consultancy purposes only and do not constitute a formal RICS Red Book valuation.**

The following assumptions underpin all the financial analysis which have assisted towards the conclusions in this business case:

- Based on the development proposals and phasing which can be seen at Appendix A and B;
- Kings Walk is demolished and replaced by a purpose-built Creative Quarter;
- Excludes any costs below ground e.g. archaeology (survey work ongoing);
- Fixed profit level per phase to target a land value;
- Phased as per the updated phasing dated September 2021, building on the consultation documentation (excluding land outside of Council's control);
- Traditional residential market values (i.e. assumes 40% affordable housing provision and private for sale units);
- S106 costs excluded for commercial development. Estimated S.106 costs included for residential units (totalling c.£[REDACTED]);
- Does not include land assembly costs;
- Does not include any additional costs associated with achieving sustainability measures (benchmarked sustainability measures and BREEAM uplift at an additional cost of 5.5% for residential assets and 12.5% for commercial assets to achieve net zero carbon targets by 2030 (published UKGBC research.))<sup>5</sup>;
- Only includes Council owned and controlled land;
- Costs associated with demolition, enabling works and infrastructure have been distributed across the three phases according to total GIA per phase.

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<sup>5</sup> Due to the stage of the projects, the increased cost associated with delivering sustainability measures would rely upon benchmarks and would not be specific to the site. An increase in costs associated with sustainability measures should also be coupled with an increase in the values or rents achieved for the built product. At this stage we have not included either in order to avoid layering assumptions on top of assumptions.



phases of development were delivering optimum value and were commercially viable. At this stage, potential future value uplifts to later phase capital receipts have not been included in residual land values outlined in the table above.

It should be noted that the above values and the appraisal in section 5.5 below make no assumptions in relation to potential grant funding (Homes England grant to support the delivery of affordable housing provision for example) or additional contributions from the Council's Community Infrastructure Levy funds.

## 5.4 Affordability Approach

The analysis within the Finance Case is based on appraising the impact on the Council's revenue account of the preferred option over the given 40-year timeframe. The analysis assesses the affordability of the preferred option to demonstrate;

- A financial summary of the preferred approach
- Set out any capital receipts
- Revenue consequences, including costs, income and forgone income
- Overall impact on the Council's financial position
- High-level sensitivity analysis

### 5.4.1 The Council's Existing Assets

The Council currently owns a number of assets within the CWR site; the majority of which generate a positive net income. These include the following assets.

<b>Location</b>	<b>Annual net budgeted Income/ (Cost)</b>
Friarsgate surface car park (long stay)	£143,000
Bus station (includes access / offices/ café)	£128,000
Middlebrook Street properties	£345,000
Kings Walk and Antiques Market	£101,000
Friarsgate Medical Centre	(£1,000)
Coitbury House	(£47,000)
<b>Total</b>	<b>£669,000</b>

The current properties generate a net income to the Council of £669,000 per annum which will cease once the properties are redeveloped. However, the associated liabilities of these assets would also cease at this point.

The Council has invested over £15m on site assembly to gain control of the assets within the CWR Area and in recent years, including:

Friarsgate Medical Centre	£5,267,675
Bus Station	£4,776,542
Kings Walk & Middle Brook St properties	£5,000,000
	<u>£15,044,217</u>

The acquisition values of the Council's land assets are reflected in the financial analysis through the Council existing revenue from the corresponding assets.

#### 5.4.2 Financing Assumptions and Key Inputs

The following key assumptions and inputs have been used;

- PWLB Interest Rate 3%
- MRP<sup>6</sup> Period 48 years
- MRP Rate 2.1%
- MRP Profile Annuity
- Discount Rate 6.09%
- Capitalised interest Zero
- Income losses timeframe:
  - Car Park & Bus Station For the life of the scheme
  - Kings Walk and Antiques Market 10 years
  - Middlebrook Street properties 25 years

#### 5.4.3 Development Phasing

The development phasing signal the current estimate for the cessation of revenues and costs from each of the assets. These will be used to calculate the net impact on the Council arising from the CWR redevelopment.

1. Car Parks:
  - a. Friarsgate Surface Car Park (Long Stay) Phase 2
2. Bus Station (includes Access / Offices / Café) Phase 2
3. Other Non-Investment Property:
  - a. Middlebrook St Properties Phase 2
  - b. Kings Walk and Antiques Market Phase 1
  - c. Friarsgate Medical Centre Phase 2
  - d. Coitbury House Phase 3
4. Tanner St Car Park - Lease of Land (M&S) Not included

<sup>6</sup> Minimum Revenue Provision (MRP) is an annual charge to the revenue budget that is equivalent to the principal repayment of a loan

#### 5.4.4 Analysis of programme, costs and income

The scheme viability results presented in the Economic Case established the residual land receipts per phase of the Development Proposals. This is as follows:

	Residual Land Values			
	Phase 1	Phase 2	Phase 3	Site Wide Total
Wider Site delivery	██████	██████	██████	██████

The residual land values equate to an estimate of the capital return and benefit the Council might expect to realise if it were to implement the preferred option via the assumed Development Partner delivery approach.

The associated programme assumes the following time period for each construction phase and assumes receipts would be realised at the start of each of these periods;

Capital Receipt Timings		
Phase 1	Phase 2	Phase 3
August 2024	March 2027	November 2028

#### 5.4.5 Funding Sources:

The preferred Development Partner approach means the Council does not have to spend any significant capital upfront to realise the ██████ land value receipt. The only cost that would be incurred relates to the early professional and legal advice associated with securing a Development Partner. The cost of which has been assumed at £260,000 and is treated as a revenue cost for the purpose of this assessment.

### 5.5 Financial Performance and Evaluation

#### 5.5.1 Overall Impact on the Council's financial position:

As there is no borrowing or required funding of capital expenditure; the Council's Capital Financing Requirement is not impacted by the preferred option. As a result, no MRP or borrowing is required.

The preferred option results in a negative revenue position for the Council when taking account of the loss of current income streams as a result of the redeveloped assets.

These results are summarised in the following schedule.

**TABLE REMOVED AS COMMERCIALY SENSITIVE**

**5.5.2 Capital receipts, costs and peak borrowing:**

The preferred option via the assumed Development Partner delivery model would yield a Net Capital position of c.£[REDACTED], which represents the sum of the phased land receipts that would be payable by the Development Partner. The timing of this payment will ultimately be based on the commercial offer agreed but are generally either lump sum payments or staged payments as the development progresses.

As stated, it is assumed that no capital expenditure would be required to bring this opportunity to market.

**5.5.3 Revenue consequences:**

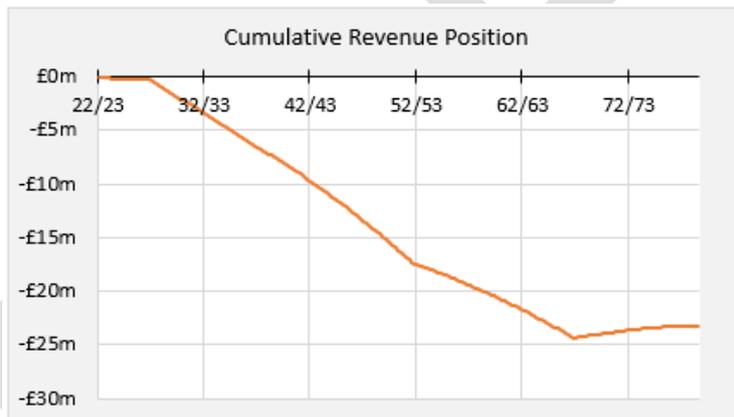
In terms of revenue considerations, the preferred option via a Development Partner route has been assumed to not generate any future revenue i.e. no income is due to the Council once the development has been completed. The development partner procurement exercise will however test this and bidders will be asked to put forward financial solutions with could generate an income stream for the Council.

The Council will lose the annual income stream associated with the current site and this loss of income must be assessed when considering the affordability of the future development. The Net Revenue position reflects the associated Council revenue expenditure, which has been assumed as a one off charge of £260k for associated professional and legal fees of bringing the opportunity to the market, and any changes to the Council borrowing costs or MRP. As no borrowing is required for the preferred option, both the interest and MRP are zero.

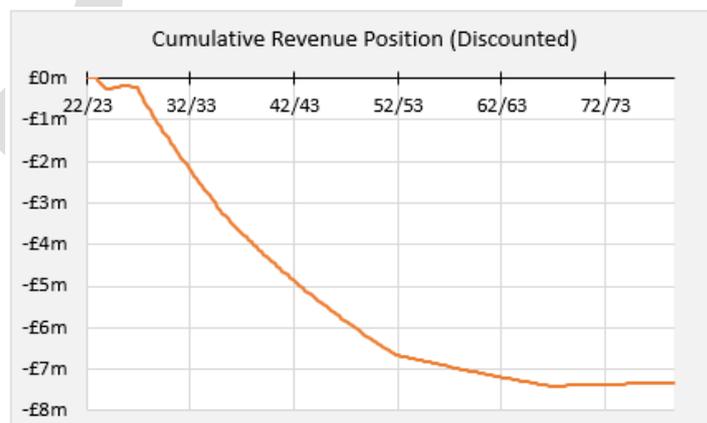
However, the capital receipts generated from the site can be used to repay existing internal borrowing (from previous capital expenditure on other assets) on which the general fund is currently paying MRP. Under this scenario, the Council will make revenue savings by reducing its capital financing costs. The savings on capital financing costs (Opportunity Saving) equates to

[REDACTED]

The graph below sets out the impact on the revenue account of this lost revenue. The graph shows an initial period where the capital land receipts limit the impact of lost income. After this period, the loss of income starts to cumulate before flattening when the income is assumed to have ceased.



The following graph shows the discounted position of the impact on the revenue account of this lost revenue. It naturally displays a similar pattern to the Cumulative Revenue Position illustrated above, but to a lesser degree, given that the future lost income is discounted back to present values.



## 5.6 Sensitivity Analysis – risk profiling

### *Approach:*

The high-level sensitivity analysis has been undertaken in two parts. Firstly, a Monte Carlo Simulation has been undertaken which is used to estimate the possible outcomes given an uncertain event. This analysis demonstrates a risk adjusted position with 95% confidence based on the inputted parameters. This exercise outputs a 'Downside' position, which is effectively the 5<sup>th</sup> percentile result from the simulation analysis and is intended to reflect the outcome if market conditions considerably diverge from predicted base case assumptions.

Furthermore, a series of sensitivity analysis based on market sales and construction cost sensitivity, i.e. +/- 10% has been applied to demonstrate the effect on the following key financial performance outputs;

- Council land value
- Council gross funding
- Council revenue, i.e. the NPV

### *Results:*

The results of the Monte Carlo Simulation show that the preferred option produces a marginally negative net capital position, and therefore could be considered marginally viable on a risk-adjusted basis. Translated into "% Chance" outcomes, there is a 93% chance the preferred option produces a positive net capital position.

Monte Carlo Simulation shows a very low chance of a positive revenue position (both discounted and un-discounted) with the preferred option <1% chance of having a positive impact on the revenue account.

### **TABLE REMOVED AS COMMERCIALY SENSITIVE**

Furthermore, the following 'heat charts' demonstrates that changes in either market sales or construction costs have the biggest impact on both the Council's land value and revenue position. The Council's gross funding position is least sensitive as funding is not required

## TABLE REMOVED AS COMMERCIALLY SENSITIVE

### 5.7 Options to increase the affordability

The Finance Case sets out a reduction in annual income of £669,000 per annum as a result of the redevelopment of the Council's existing assets.

This section looks at a number of options that could be explored to see if the identified revenue budget gap could be reduced. At this stage, these options do not include the potential of additional income to the Council that will be generated through the additional council tax and business rates as set out in the economic case. An appraisal of the additional burden and costs to existing Council services that arise from the development would be required although some additional benefit is expected and will be assessed as part of the full business case.

#### *Using the capital receipt to reduce future borrowing requirements*

The Council could use its capital receipt to repay existing internal borrowing or support future projects, outside of the CWR scheme. This would reduce the capital financing cost to the general fund for existing borrowing / negate the need to borrow (as expenditure financed by capital receipts will not impact on the Council's Capital Finance Requirement) accordingly. As such, the capital receipt could be used to offset financing costs including interest payments and any Minimum Revenue Provision.

The "all in" rate currently used by the Council for additional borrowing is 3.9%. [REDACTED]

[REDACTED]

#### *Possible options to forgo capital receipts for future scheme generated revenues*

The Council could explore contractual vehicles to maintain a stake in the future development in an income bearing asset in lieu of its capital receipt. By retaining this interest in the development the Council could de-risk the development for any partner by reducing the cashflow requirements of the developer i.e. the capital receipt, and by giving the developer a guaranteed exit from an element of the scheme. Both of these positions could mean that the developer could value the

Council return at a higher rate. For the purposes of this section of the analysis however, a prudent view has been taken and the initial capital receipt of [REDACTED] has been assumed.

Further exploration of any possible options to retain an interest, and the risks associated with doing so, will need to be explored to ensure they are prudent and in accordance with accounting codes. However, the following scenarios illustrate the Council's position if it were possible to forgo all of its capital receipts in lieu of a corresponding income bearing asset, and if it were to forgo only 50%, with the remaining 50% being used to reduce its future borrowing requirements.

[REDACTED]

- Residential use: [REDACTED] %
- Office use: [REDACTED] %
- Retail use: [REDACTED] %

[REDACTED]

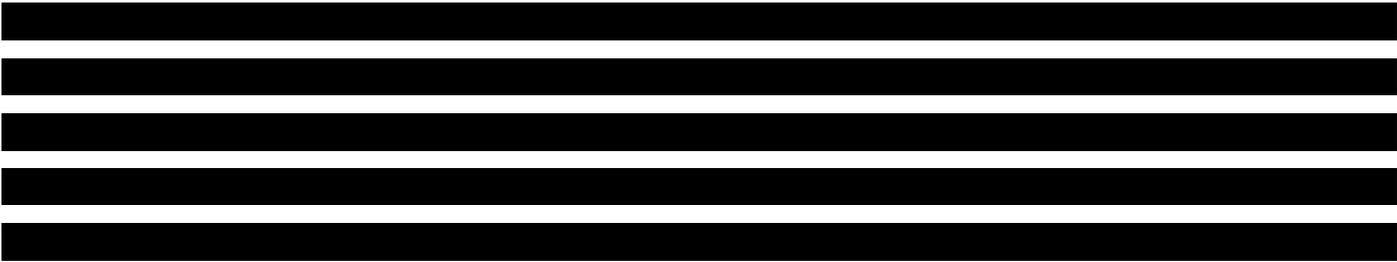
**TABLE REMOVED AS COMMERCIALY SENSITIVE**

[REDACTED]

[REDACTED]

[REDACTED]

**TABLE REMOVED AS COMMERCIALY SENSITIVE**



5.7.1 Potential additional revenue - geared ground rent (GGR)

The Council have the ability to create a mechanism to enable them to benefit from a long term income stream if they sell a long leasehold to a Developer. This income stream would be generated from upwards only GGR tracking alongside the passing rent achieved on the commercial elements. The GGR has not been applied to the residential elements to ensure ongoing affordability for residents. Furthermore, the existence of ground rents on residential leasehold properties has received political criticism and media attention in recent years due to negative impact on leasehold homeownerships and is therefore not recommended.

Geared ground rent on commercial element

Gearing Ground Rent		
Gearing	Annual Income to Council	Capital Receipt (merged phases)
5.00%	██████████	██████████
7.50%	██████████	██████████
10.00%	██████████	██████████
12.50%	██████████	██████████
15.00%	██████████	██████████

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At this stage a GGR on the hotel element is not included in the development appraisal, as there is currently insufficient detail to properly understand the potential result of an income stream that could be derived from this asset class. Ground rent is linked to hotel's EBITDA (performance of the asset), and as such the information will not be available until a hotelier is secured. However, in theory a ground rent could also be created on a hotel which formed part of the future development.

Please also note that the above figures are an interpretation of the potential ground rent income stream based on the current development proposals. In the event that the scheme changes and/or the market optimises the site, the annual income to the Council and the associated capital receipt are subject to change.

[REDACTED]

[REDACTED] If the GGR was to go over the recommended level, the market would likely push back on this and the capital receipt received for the land would be significantly impacted.

### Scope for External Funding

Whilst the financial case assumes a capital receipt, additional costs in relation to archaeology or compliance with the council’s Carbon Neutrality policies could impact on values and viability. The case also makes no provision for meeting the costs of land assembly, which by November 2028 will still amount to £9.4m. As with most regeneration schemes, the Full Business Case will need to consider the scope for additional grant funding to address these issues.

There are a number of grant opportunities currently for regeneration, infrastructure and affordable housing projects. However, all require worked up detailed proposals and near “shovel ready” projects with clear delivery timetables. Scope for grant funding to address the revenue impact of the development and the financing costs of land assembly will therefore be included in the Full Business Case.

The table below is purely for illustrative purposes and indicates how grant funding could address the above issues:

Finance	Amount	Comment
<b>Capital Costs:</b>		
Land Assembly	£9,400,000	Residual capital financing costs associated with Land Assembly at November 2028
<b>Potential Receipts:</b>		
Land Value	[REDACTED]	
Infrastructure funding	-£3,400,000	This may be from national grant programmes, Council CIL reserves or a mix of the two
Affordable Housing Grant	-£2,400,000	Assumes £30k grant for 80 units. Higher grants have been awarded for recent schemes
<b>Net Capital Impact</b>	[REDACTED]	additional grant needed to address any further infrastructure/archaeology costs

Note: This scenario addresses the capital costs to the Council but not the full impact of lost revenue as set out in this Financial Case. The ground rent proposal set out above will assist with this but further measures will need to be agreed with the Development Partner to address the revenue impact as part of the Full Business Case.

#### Next Steps:

As the procurement of the Development Partner commences and dialogue starts there may be a range of options to consider in terms of financial outcomes. For example, it may be possible to forego capital receipt and instead receive/retain ownership of certain revenue generating elements of the CWR scheme. Such an approach could yield mutual benefits to both parties, with the Council securing future revenue and the Development Partner realising less risk associated with the equivalent 'off-plan' disposal this would represent and similarly, not having to pay out the land receipt as construction commences.

The Council will need to decide in due course how any budget deficits in future revenues that cannot be addressed through the development process or by securing additional grant to support the scheme would be afforded and ultimately if this is acceptable given the other associated social-economic and town centre regeneration benefits associated with the CWR scheme.

The associated financial implications will be explored in detail during the procurement process and then considered as each phase solution is brought forward.

## 5.8 Conclusion

The Financial case demonstrates that the proposed development delivers a capital receipt. The prudent approach to determining affordability reflects an ongoing, annual cost to the Council which will need to be met from within existing budgets or by finding savings. Further work on the affordability in the wider context of the Council's Medium Term Financial Strategy is required but it is not expected that the budget challenge will be insurmountable given the expectation that the preferred development partner will address the financial impact to the Council through a combination of value engineering, retaining elements of the Council's existing income stream and/or through securing additional grant funding. Further work is recommended to address the affordability through the dialogue process with potential development partners. This needs to be balanced against the wider economic benefits set out in the economic case.

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## 6 THE MANAGEMENT CASE

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### 6.2 Introduction

This section of the OBC addresses the 'achievability' of the scheme. Its purpose is to set out the actions that will be required to ensure the successful delivery of the scheme in accordance with best practice.

### 6.3 Deliverability

The redevelopment of central Winchester is a considered, deliverable and realistic objective. Key elements of this assessment are:

#### **Vacant possession**

The Council will be required to obtain vacant possession and to transfer land for development (on a phased basis). The Developer may also have a role to play in securing vacant possession, e.g. by way of dealings with occupiers, relocations and the carrying out of demolition works (where that is needed).

#### **Planning**

A sound planning policy and strategic policy framework exist. The approach to secure planning permission will be based on compliance with local and national requirements, early and continued involvement with the local planning authority including the entering into of a Planning performance agreement, a programme of Member and stakeholder and landowner engagement, public consultation and a commitment to high quality design and management standards.

#### **Viability**

The financial business case is set out above in section 5 of this business case.

### 6.4 Programme and project management governance and arrangements

The project will be managed in accordance with the Council's major projects and programme management requirements PRINCE 2 methodology.

#### 6.4.1 Outline project reporting structure, project roles and responsibilities

The Council internal project team will be as follows:

- Decision approval body

The Council Cabinet will sign-off on all required project approvals

- Core team:
  - Programme Sponsor: Cabinet Member for Housing and Asset Management
  - Programme Director: Strategic Director - Place
  - Head of Programme
  - Project Managers
- Specialist service leads
  - Corporate Head of Asset Management
  - s151 Officer
  - Corporate Head of Finance
  - Service Lead: Legal and Deputy Monitoring Officer
  - Service Lead: Corporate Support (Procurement)

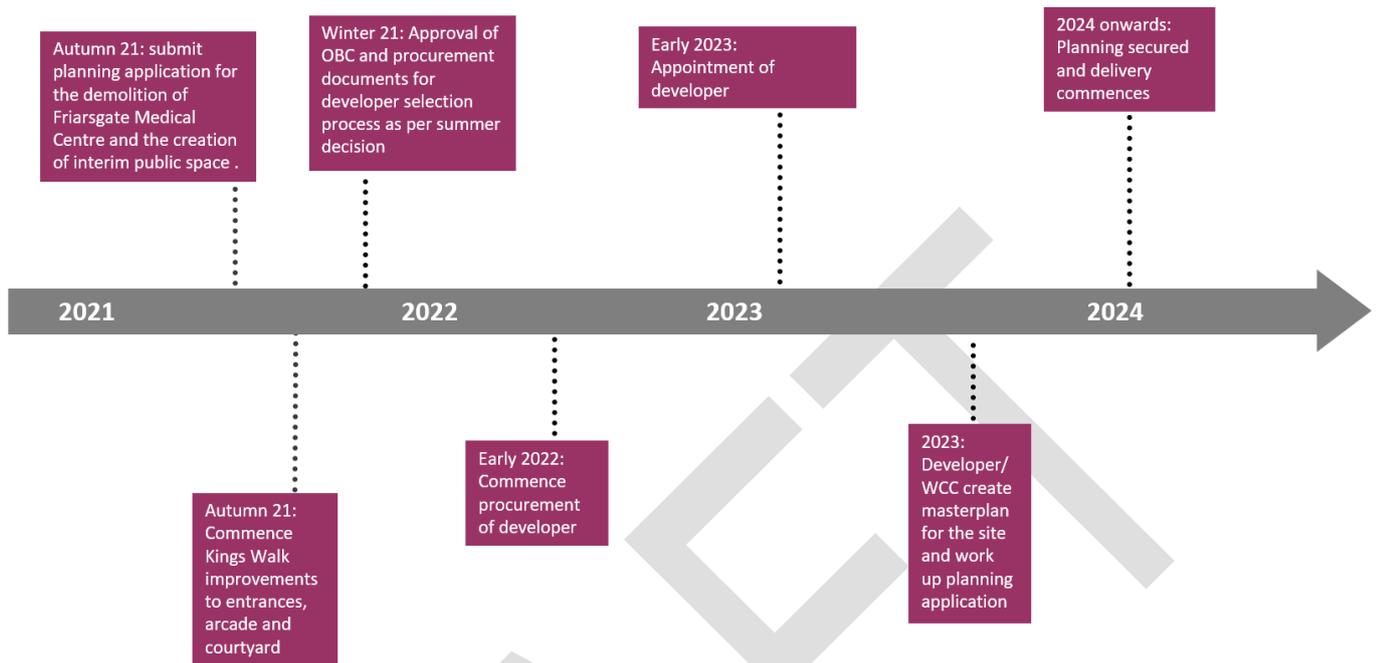
The final programme terms of reference, roles and responsibilities will be detailed further as part of the FBC.

## 6.5 Outline project plan

The diagram below sets out the key project milestones and the tasks within each stage. An explanation as to what each task involves has been provided with estimated timescales. The timeline and key milestones will be kept under continual review by the project team and reported to Members as project updates.

Illustrative timeline for the project

## THE JOURNEY



*\*Timings are subject to Cabinet and Council decisions in Winter 2021.*

### 6.6 Risk management arrangements

The Head of Programme will prepare and monitor risks on behalf of the Council. The nature of the development and the risks and benefits will evolve, for example through the planning process. Some of these will be technical or operational but others will be strategic and these will be escalated as appropriate.

The Council has in place an active risk register which is periodically updated by the project manager and programme manager;

- In compliance with the Council's Risk Management Policy and Risk Score Card, risks are actively identified and recorded in the project risk register, analysing the potential impact of the risk and the likelihood and project exposure it could cause. The register also identifies the appropriate implemented mitigating actions that are to be put in place;
- Where risks require further action, this is noted in the register where the risk will be flagged for future actions by a relevant date and the current status. This is managed by the project manager who will involve relevant members of the project team and advisors as necessary;
- The risks in the register will be assigned specific owners within the Council, regular risk register review meetings are held where risk mitigation methods will be monitored and managed to lower the risk level to an acceptable level/close.

The below table includes a summary of the risks expected to be encountered on a development of this type as well as an indication of where the burden of risk lies. As details of the development agreement are finalised it will be possible to update this table and assign percentages of risk share where appropriate.

Summary of risks

Risks	Description	Council	Developer	Shared
<b>Business risk</b>	<b>The risk that the organisation cannot meet its business imperatives.</b>			
Reputational risk	The risk that there will be an undermining of resident's/customer's/media's perception of Winchester City Councils ability to fulfil its strategic objectives	Y		
Legal Challenge Risk	The risk that the Council is accused of failing to meet procurement regulations / acting unlawfully in respect of the procurement process adopted.	Y		
<b>Service risk</b>	<b>The risk that the service is not fit for purpose.</b>			
Design risk	The risk that design cannot deliver the services to the required quality standards.		Y	
Planning risk	The risk that the implementation of a project fails to adhere to the terms of the planning permission or that detailed planning cannot be obtained; or, if obtained, can only be implemented at costs greater than in the original budget.		Y	
Build risk	The risk that the construction of physical assets is not completed on time, to budget and to specification.		Y	
Environmental risk	The risk that the nature of the project has a major impact on its adjacent area and there is a strong likelihood of objection from the general public.			Y
Procurement risk	The risk that can arise from the contractual arrangements between two parties – for example, the capabilities of contractors when a dispute occurs			Y
Demand risk	The risk that the demand for developed product does not match the levels planned, projected or assumed.		Y	
Volume risk	The risk that actual usage of the development varies from the levels forecast.		Y	
Occupancy risk	The risk that a property will remain untenanted – a form of demand risk.		Y	
Funding risk	The risk that the availability of funding leads to delays and reductions in scope. The risk of developer liquidation.			Y
Residual value risk	The risk relating to the uncertainty of the values of physical assets at the end of the contract period.		Y	
Archaeology Risk	The risk where planning conditions require excavation, findings result in requirement for further more detailed / costly investigations			Y
<b>External risks</b>	<b>The risks that affect all society, and are not connected directly to the programme or project.</b>			
Policy risk	The risk of changes in policy direction leading to unforeseen change.			Y

In taking the scheme to market, the allocation of risk will be based on market norms for a development of this nature (and not therefore seeking to allocate risk on an atypical basis). This will include:

- Placing responsibility for delivery of the CWR scheme with the Developer. This means that the Developer will be under obligation to pursue the necessary pre-conditions for carrying out the development on a phased basis, including: the design; planning application; appointment of professionals and contractors; obtaining of funding; and securing of occupiers/purchasers. These activities will be at the Developer's cost and risk.
- The Developer's professional team and contractors to be properly insured and for them to provide collateral warranties to the Council (enabling direct recourse where necessary)

- Risk in relation to the returns to be made from the development (i.e. market risk) will sit with the Developer
- Public realm will be an important component of the scheme and through the terms agreed with the Developer under the procurement, a position settled with them on how the upkeep of public realm is to be funded and managed (based on the starting assumption that this will be a risk borne by the Developer).

The Council's core obligation will be to obtain vacant possession and to transfer land for development (on a phased basis). The Developer may also have a role to play in securing vacant possession, e.g. by way of relocations and the carrying out of demolition works (where that is needed).

## **6.7 Project funding**

Finding investors both private and public that are aligned with this proposal will be a top priority. The aim would be to find funding providers that want to invest in Winchester for the long term and want to bring about the transformation not just for the CWR site but for the benefit of the wider local community and economy.

The Council's preference is for a blend of both private and public finance. Drawing on both sources of funding will likely be required in order to make the scheme financially viable.

The exact form of the funding model to be followed will be assessed in greater detail during the FBC process, but for the purpose of this OBC, a blended funding option has been assumed.

## **6.8 Conclusion**

The Management case concludes that the redevelopment of Central Winchester is a considered, deliverable and realistic objective. The responsibility for delivery of the CWR scheme will be with the Development Partner, and activities will be at the Development Partner's cost and risk. A risk register is in place to monitor business risks, service risks and external risks, and it is recommended that this risk register is built on further as details of the development agreement are finalised.

## 7 SOURCES

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The following sources have been referenced in the development of this OBC:

- Winchester City Councils website
  - Central Winchester Regeneration
  - Winchester District Local Plan – Your Place Your Plan
- Appraisal summary's dated September 2021
- City of Winchester Movement Strategy 2019
- CWR Hotel Report October 2020
- The Economic Impact of Tourism on Winchester 2017
- Winchester Hotel Market Fact File July 2019
- Winchester Commuter Flows 2011
- HM Treasury Green Book and Business Case tool and templates published 16<sup>th</sup> November 2020
- HM Treasury The Green Book, central government guidance on appraisal and evaluation dated 3<sup>rd</sup> December 2020
- Homes England Employment density guide (3<sup>rd</sup> edition) published November 2015
- Office of National Statistics Family Spending Report March 2021
- Strategic Outline Case dated September 2021
- Transport for London – Valuing the Health benefits of transport Schemes
- JLL COVID-19 Global Real Estate Implications Paper II

## 8 APPENDICES

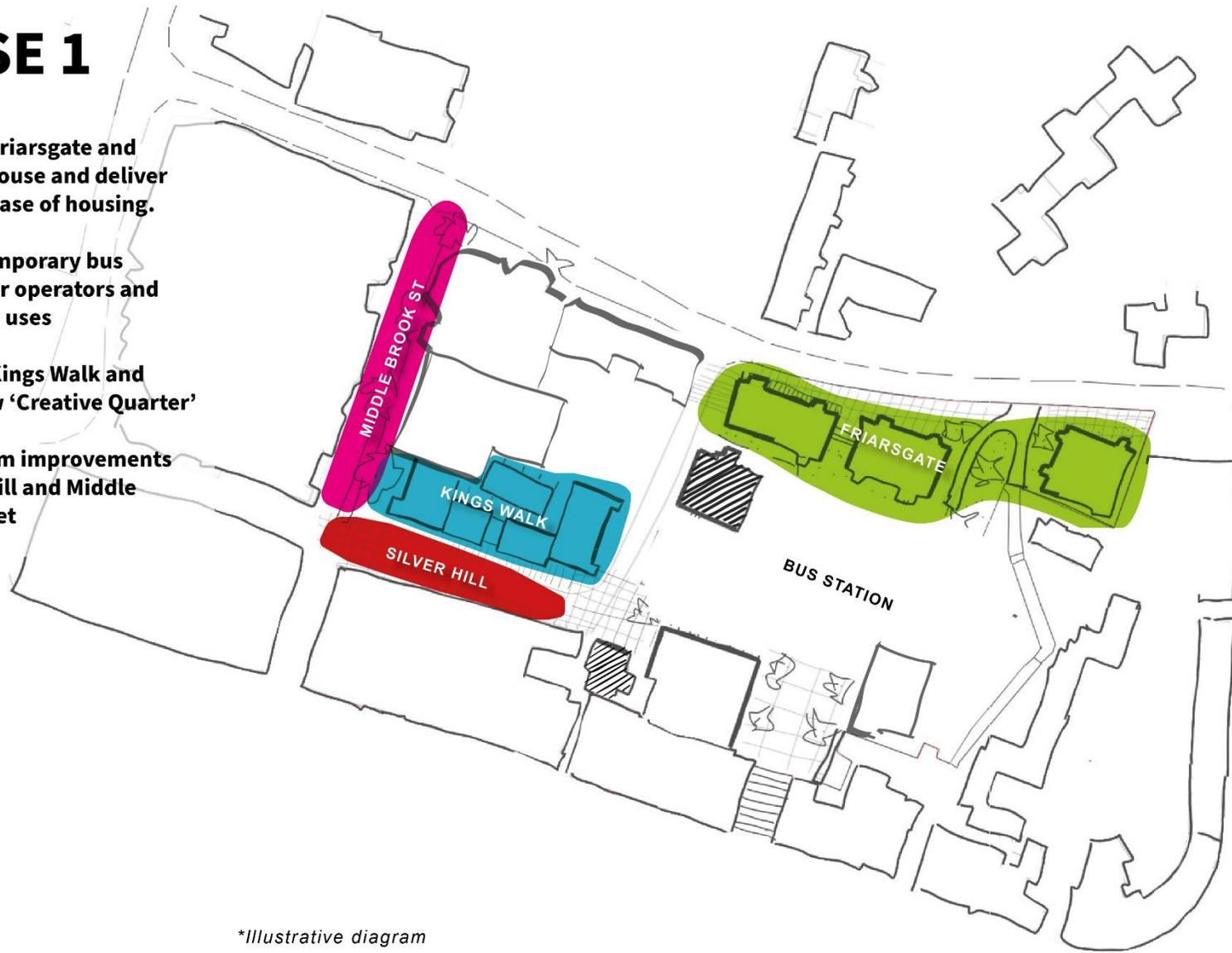
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### 8.2 Appendix A – Phasing Options

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# PHASE 1

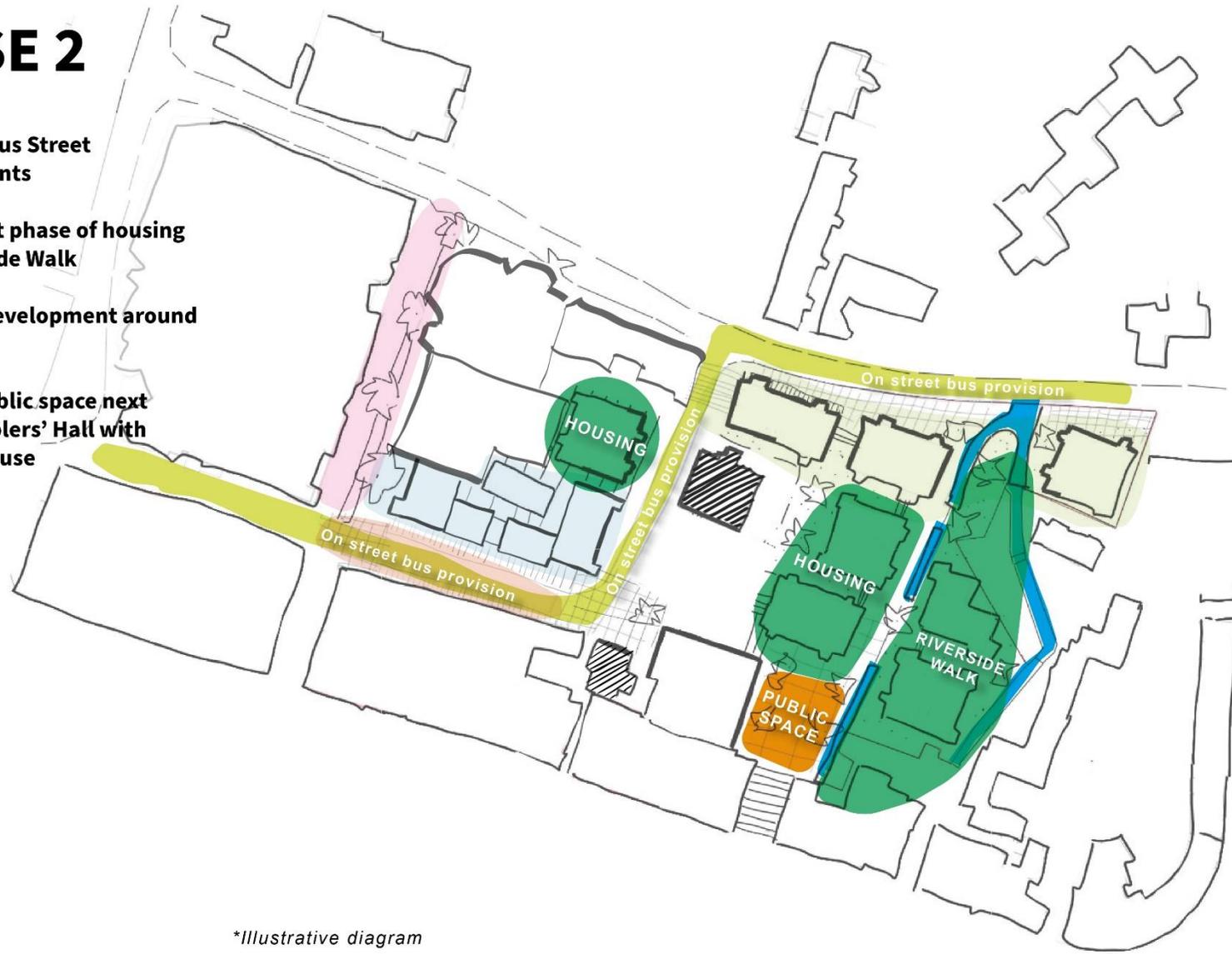
- Demolish Friarsgate and Coitbury House and deliver the first phase of housing.
- Provide temporary bus facilities for operators and meanwhile uses
- Demolish Kings Walk and build a new 'Creative Quarter'
- Public realm improvements on Silver Hill and Middle Brook Street



*\*Illustrative diagram*

## PHASE 2

- Complete Bus Street improvements
- Deliver next phase of housing and Riverside Walk
- Continue development around Kings Walk
- Activate public space next to Woolstaplers' Hall with meanwhile use



*\*Illustrative diagram*

## PHASE 3

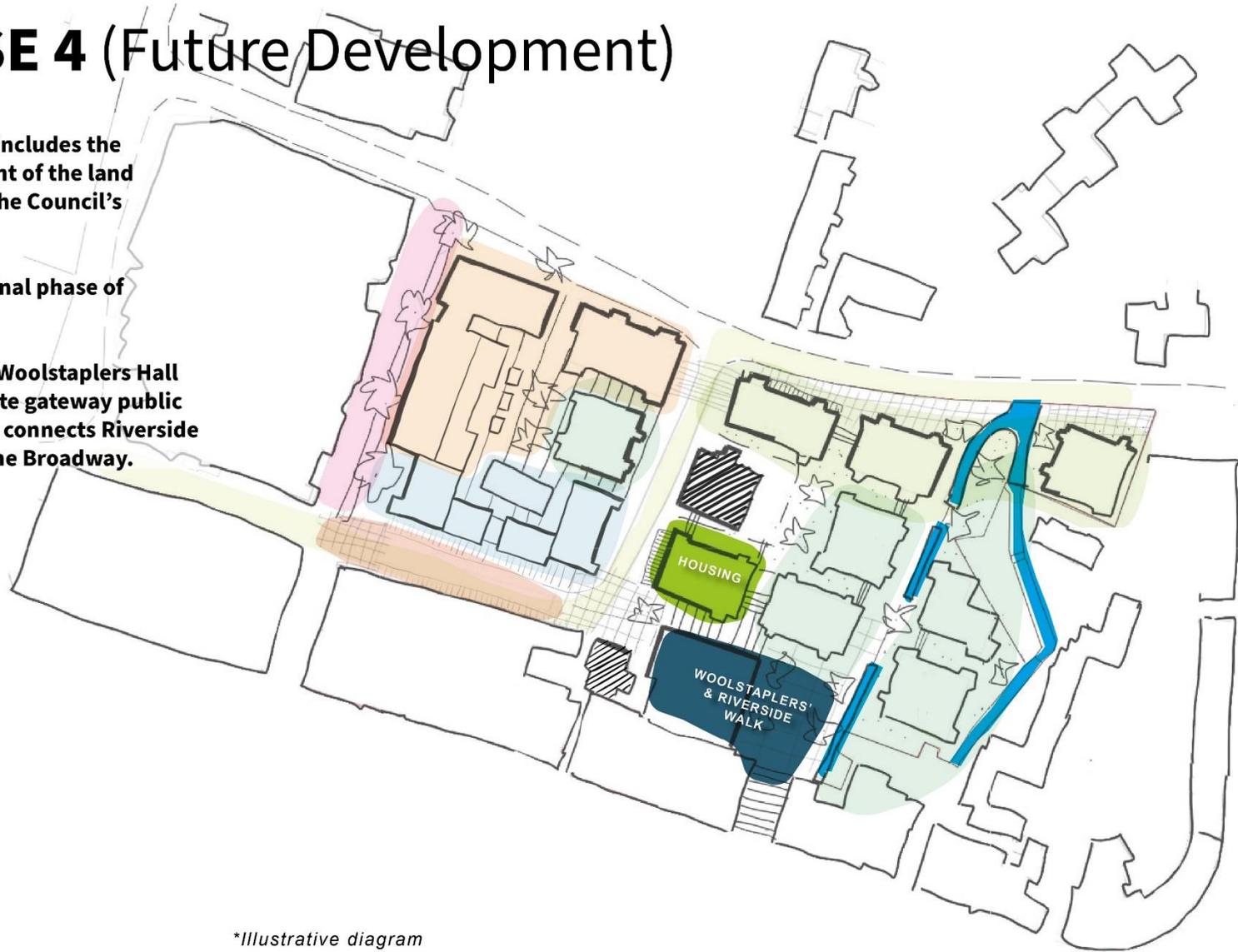
- Complete mixed use development (including hotel, housing and commercial uses) around the Antiques Market and public space.



*\*Illustrative diagram*

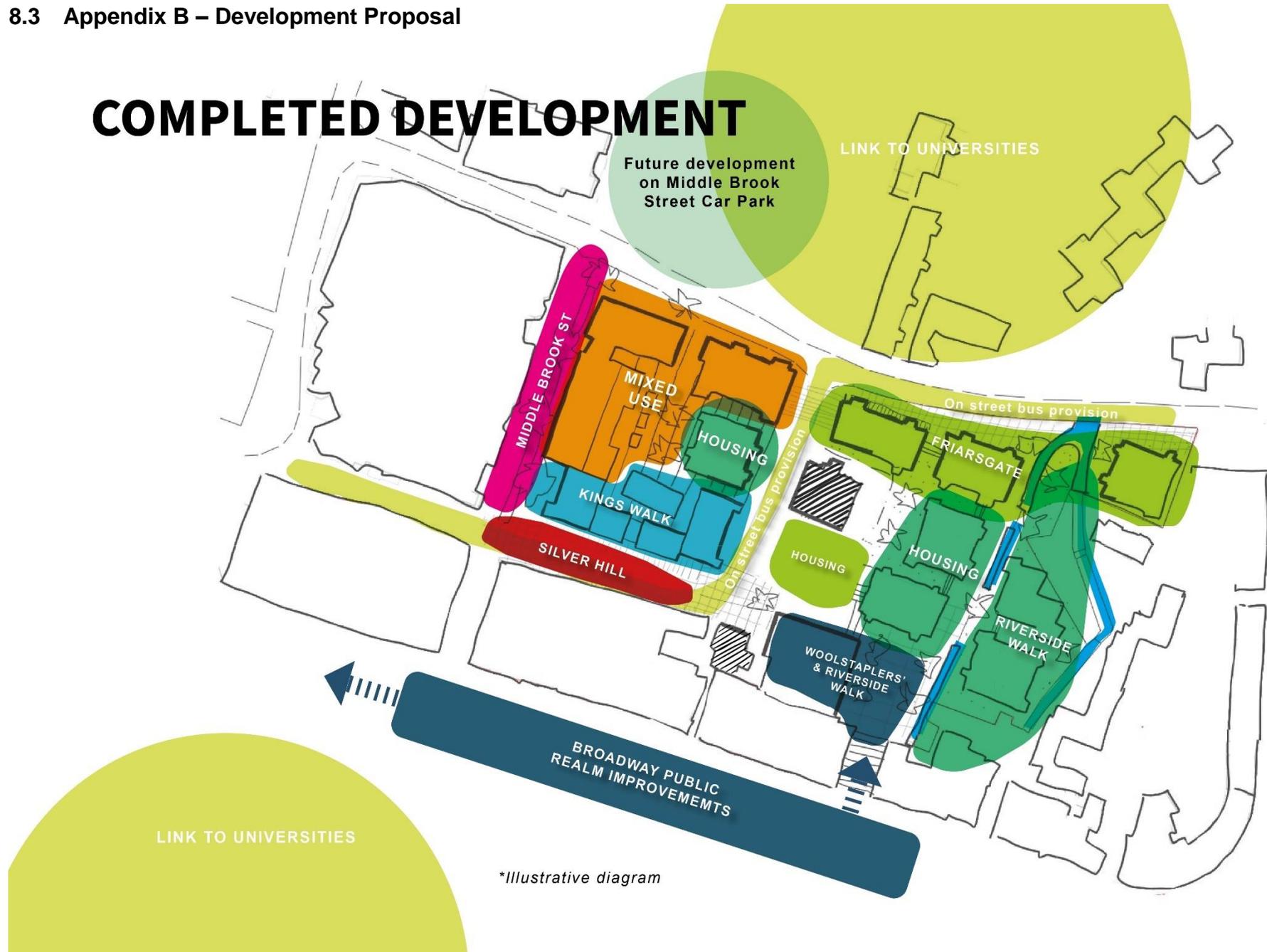
# PHASE 4 (Future Development)

- This phase includes the development of the land outside of the Council's ownership.
- Complete final phase of housing.
- Repurpose Woolstaplers Hall and complete gateway public square that connects Riverside Walk and The Broadway.



*\*Illustrative diagram*

# COMPLETED DEVELOPMENT



## 8.4 Appendix C – Selection Questionnaire questions

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## 8.5 Appendix D – Stage 2 ITPD Evaluation Criteria

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## 8.6 Appendix E – BCR Assumptions Research Sources

Theme	Assumption	Source
Theme 1: Increased employment	<p>Use of local contractors through the construction process:</p> <ul style="list-style-type: none"> <li>60% of new salary is spent locally.</li> <li>Average salary from PayScale Salary Guide (professional team and contractors)</li> <li>Excludes housing, utilities, holidays, credit payments, insurance and communications related costs</li> </ul>	Office of National Statistics Family Spend 2021
	<p>Completed Development employment:</p> <ul style="list-style-type: none"> <li>Employment numbers based on average number of jobs created per property type (co-working office, small retail and cultural. Hotel employee numbers provided by hotel industry expert.</li> </ul>	Homes England Employment Density Guide v3 2015 Melvin Gold, hotel industry expert
	<p>Average salaries based on average salary for different types of workers.</p> <ul style="list-style-type: none"> <li>Average salary of £33k for construction (professional team and contractors)</li> <li>Hotel Worker salary £22.5k</li> <li>Local Salary of £30 - £35k</li> </ul>	Payscale Salary Guides
Theme 2: Increased footfall	<p>4,66m day visitors to Winchester per annum (2018). Assumed 5% uplift on 2018 figure based on future cultural attraction, hotel conferencing, small business and retail.</p>	Economic Impact of Tourism on Winchester Report 2018
	<p>Annual day trips multiplied by average day spend of £43 per visitor.</p>	CWR Hotel Report 2020
Theme 3: New housing and businesses	<p>Council Tax: 189 new homes, classified as Band D, with 20% exempt for Council Tax</p>	WCC Council Tax Rates to March 2022 JLL market rent assumptions
	<p>Business Rates: Assumed retail and cultural will be exempt. Rates calculated on estimated hotel turnover. Offices based on estimated rental. UBR of 0.512 applied to both</p>	<a href="https://www.gov.uk/government/collections/business-rates-information-letters">https://www.gov.uk/government/collections/business-rates-information-letters</a>
	<p>Stamp Duty Land Tax: Assumed affordable homes do not attract SDLT. Therefore, 113 market units with an average value of £445k. SDLT balance calculated at 5%.</p>	<a href="https://www.gov.uk/stamp-duty-land-tax/residential-property-rates">https://www.gov.uk/stamp-duty-land-tax/residential-property-rates</a>
Theme 4: Reduced commuting	<p>189 new homes at an average of 1.5 workers per home will not need to commute in Winchester as they either work in Winchester or walk to station. Average reduction of 15 miles round trip 2.5 times per week</p>	Commuter Analysis Report WSP Carbon Calculator 2019 National Travel Survey NTS0412
Theme 5: Increased overnight tourism	<ul style="list-style-type: none"> <li>110 room, upper-class hotel at an average room rate of £100 per night.</li> <li>75% occupancy, based on current Winchester occupancy trend.</li> <li>Includes average visitor spend of £43 per person</li> <li>New hotel targets clientele not serviced by current hotel stock</li> </ul>	CWR Hotel Report 2020 Melvin Gold, hotel industry expert

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