TITLE	**Toutley East Development - Residential Delivery Model**
FOR CONSIDERATION BY	The Executive on Thursday 29th June
WARD	Emmbrook
LEAD OFFICER	Deputy Chief Executive - Graham Ebers
LEAD MEMBER	Leader of the Council

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

The purpose of this report is to provide an update on the Toutley East Development and business case for the delivery of the residential element of the development, as required by the Executive decision of July 2022.

The report identifies that the current delivery model for the care home no longer presents value for money to the Council and its residents and the Executive is therefore requested to pause the delivery of the care home at the Toutley East site, whilst alternative models of delivery for the care home are considered.

In terms of the residential delivery the Executive is advised that further market testing will be undertaken on the Disposal and Joint Venture delivery models to ascertain value for money and risk exposure. Whilst the Cost Plus and Direct Delivery models provide greatest potential for profit, it is not intended to pursue these models as they will significantly increase the Council's exposure to debt and associated risk during a time of market volatility. Further market testing will also be undertaken to ascertain the costs and values of energy efficient residential development in excess of current policy and building regulations, up to and including Net Zero Carbon development.

Section 12.1.5.9 of the Constitution requires that the disposal of land or buildings of a higher value than £150,000 are subject to the approval of Executive. The Toutley East site has a value higher than £150,000.

RECOMMENDATION

That the Executive:

1) Agrees to the cessation of the construction of a care home as part of the Toutley East strategic masterplan as previously approved, whilst the viability of alternative delivery models for the care home are explored.
2) Approves the development of the land for residential including the provisions for affordable housing and Community Infrastructure Levy as set out in this report
3) Notes that further market testing will be undertaken on the costs and values of energy efficient residential development in excess of current policy and building regulations, up to and including Net Zero Carbon design, to input into the delivery model decision.
4) Notes the risks and opportunities of the delivery options for the residential development of the land and approves that further market testing will be

undertaken on the Disposal and Joint Venture models to ascertain Value for Money and risk exposure;

5) Delegates authority to the Director of Resources and Assets, in consultation with the Leader of the Council, to implement the programme for the development of the Toutley East site, including a value for money decision on alternative delivery models for the care home and residential delivery models, taking into account the findings of the further market testing and the Council's climate commitments and targets within the CEAP.

EXECUTIVE SUMMARY

The Toutley East Masterplan and Business Case previously approved by Executive in July 2022 comprised the delivery of housing development, a new dementia care home and supporting infrastructure. The scheme was granted outline planning consent in December 2022.

Since the July 2022 Executive decision, there have been significant cost increases in the proposed construction of the care home, predominantly caused by increased inflation and uncertainties in the market. These increases represent a circa 36% increase in cost which is not funded within the current capital programme. This significantly undermines the financial business case previously presented to the Executive and results in the current delivery model for the care home scheme no longer presenting Value for Money for the Council and it's residents. Executive are therefore requested to agree the cessation of the construction of the care home from the Toutley East Strategic Masterplan previously approved at Executive in July 2022.

It is recommended to Executive that the development of the site for residential development continues. The current planning consent requires delivery of a minimum of 35% affordable housing on site and planning policy compliant energy efficient and carbon reduction building measures. This report considers the implications of increasing the requirements for these provisions, in particular the financial impacts on the value that could be generated from a sales receipt.

Through the Council's Climate Emergency Action Plan the Council has set itself targets around the achievement of carbon neutrality in new development. The residential development as currently proposed is required to meet current Building Regulations, and there is a further requirement, through the existing planning permission, that the dwellings will be constructed to achieve a 10% reduction in carbon emissions above the minimum requirements of Part L: Building Regulations. As the landowner of the site, the Council could seek to deliver additional energy efficiency performance. The estimated financial impacts of any additional energy efficiency provisions are set out in the Part 2 paper and are estimated that they could decrease the overall capital receipt up to over 50% due to higher build costs currently incurred with Net Zero Carbon construction. To verify the impact on costs and values of Net Zero Carbon construction, officers will undertake further market testing to both test the market appetite for Net Zero Carbon construction on this site and update our understanding of how this might affect the residential delivery models financially (both from cost and value perspective). This real market data would then input into the final decision of the residential delivery model.

There are a number of potential delivery models for the construction of residential development at this site, all which carry differing levels of risk exposure and potential financial return. The delivery models considered include 'Disposal', 'Joint Venture', 'Cost

Plus' and 'Direct Delivery' and the report below sets out the opportunities and risks associated with each of the delivery options. The full details of the cost and value implications of each option are included in Part 2 of this report. This is commercially sensitive information, which if in the public domain could undermine the Council's commercial negotiating position and thus potentially impact ability to secure best value.

The upfront funding and exposure to debt set out in the Cost Plus and Direct Delivery models is not considered prudent at this time given current market volatility. It is therefore recommended that those delivery models should not be pursued further.

Previous market engagement undertaken in 2022 indicated that disposal of the site reduces the risks to WBC to the greater extent and would secure a capital receipt quickest. Whilst the Joint Venture model does present opportunities for increased returns, it does also increase risk and it should be noted that limited interest was expressed at the time of the market engagement. In those circumstances the preferred delivery model currently is the disposal of the residential site through a framework with a development agreement which would enable the Council to capture a capital receipt whilst ensuring the development is consistent with its wider strategic objectives. However Executive are asked to note that the officer team will undertake further market testing of the Joint Venture model to ensure the latest market position is known to inform a future and final decision on a delivery model.

Subject to approval, the report seeks delegated authority to the Director of Resources and Assets, in consultation with the Leader of the Council to implement the programme for the development of the Toutley East site, including a value for money decision on alternative delivery models for the care home and residential delivery models.

BACKGROUND

The Toutley East Strategic Masterplan and financial Business Case approved at Executive in July 2022 comprised the delivery of new housing development, a new dementia care home and supporting infrastructure. Outline planning consent was granted in December 2022.

ANALYSIS OF ISSUES

Update on the proposed care home

Detailed design work has continued on the strategic masterplan for the site and a planning application for the site infrastructure works (access, drainage etc) was submitted in December 2022. Further detailed design work has also refined cost estimates as the specification and construction of the facility has become clearer.

A continuing challenge is managing the instability within the construction industry, including the impact of inflation rises. Since summer 2022 the construction industry has continued to be affected by material and labour shortages and price instability arising from the recent pandemic and other world events such as the impact of the Russian/Ukraine conflict.

To reflect these contextual changes, the estimated construction rates for the project have been updated in line with the BCIS All-In Tender Price Index; these indices endeavour to take account of the material and labour shortages currently impacting the industry. In addition, the construction programme mid-point has been updated reflective of the delay in achieving outline planning permission; a delay that will of itself have incurred additional inflation costs, but which has been accentuated by the concurrent inflation changes in the market.

Based on the change in circumstances, it is now estimated that the delivery cost of the care home and infrastructure could increase by circa 36% from that previously forecast. In July 2022 the cost of constructing the care home and supporting infrastructure was valued at £17.5M. It is now estimated to cost £23.9M. The Council's Project Team has been managing and refining costs to ensure best value for money for the Council, including refinement and revision of the specification of the care home design and the utilisation of best practice and examples of recently built care homes to understand how costs were managed and to achieve an industry standard.

This increase in capital costs is not currently funded within the Medium Term Financial Plan agreed in February 2023.

At the same time the cost of borrowing has significantly increased. The strategic business case in 2022 assumed a borrowing rate of 3% pa based upon the Public Works Loan Board (PWLB) rates at the time. Interest rates against borrowing under the PWLB are currently sitting at around 5.1% pa for 25 year projects.

The July 2022 Executive report set out the financial and non-financial benefits of the delivery of a new care home by WBC. The cash flow modelling at the time included a net benefit saving to the Council of £337,000 per annum across the full 50-year operational lifespan of the care home. The report did however identify that the net benefit may in actuality rise to circa £700,000 over a four-year period – thus identifying the potential for better pay back than reported.

Since then further assessment of the market has been undertaken and has prompted further detailed modelling on the predicted net benefit to be generated by the care home delivery. That modelling indicates that the Council would likely realise a net benefit payback of £337,000 per annum at opening of the care home (2025/26), increasing to £500,000 per annum at year 5 of operation and £700,000 per annum at year 10.

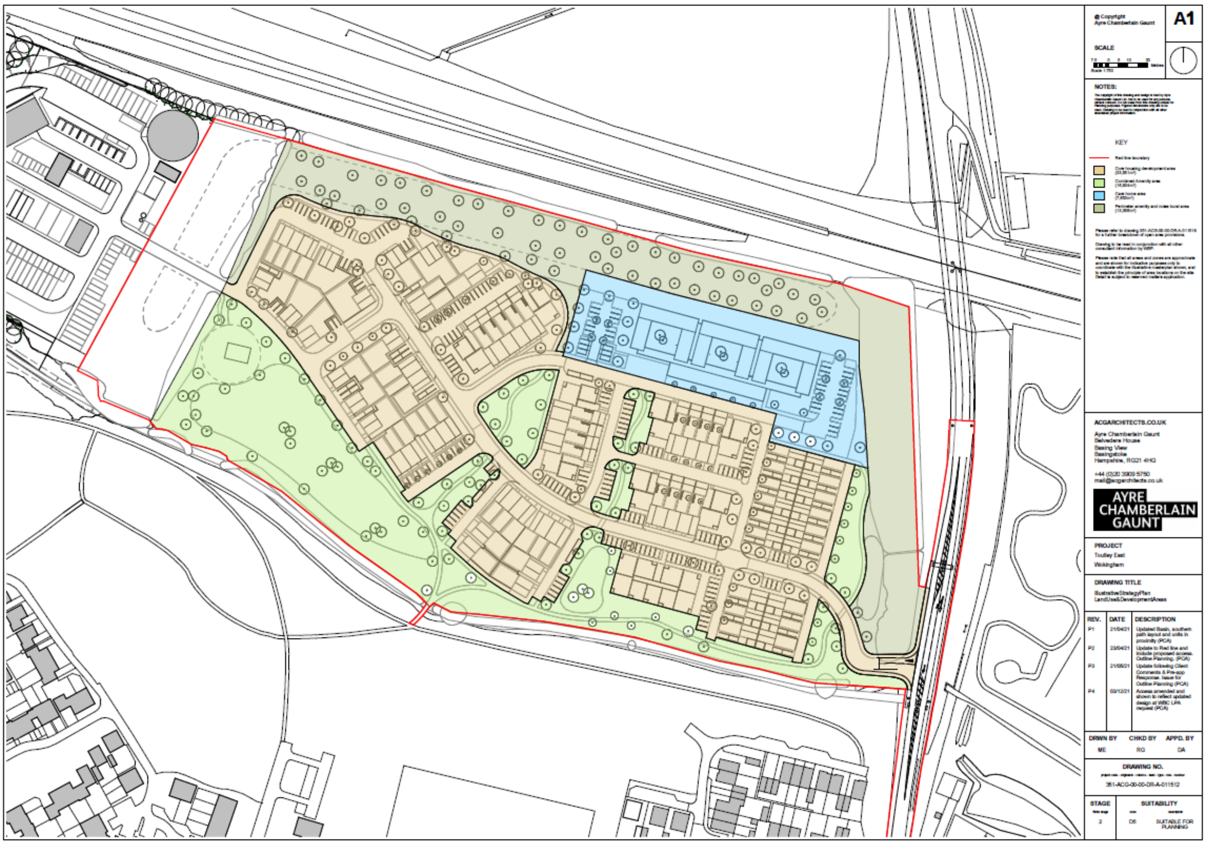
The forecasted increase in revenue income and/or savings generated by the operation of the care home does not however match the significant increased construction and finance costs of the delivery. This significantly undermines the financial business case previously presented to the Executive and results in the care home scheme, as currently proposed, no longer presenting Value for Money for the Council and it's residents. Further information on the financial business case is set out in the Part 2 paper. Executive are therefore requested to agree the cessation of the construction of the care home from the Toutley East Strategic Masterplan previously approved at Executive in July 2022, whilst alternative delivery models for care in the borough are assessed.

Officers are currently considering the different available options to meet the identified significant future need for nursing care across the Borough and Executive will be updated in due course when recommendations on future provision are known. This work will also consider the implications for Suffolk Lodge in Wokingham, which was to be replaced by the new care home at Toutley East.

Update on the residential

The proposed development

The 2022 outline planning permission grants consent for up to 130 dwellings on the site and a care home (the developable areas coloured beige and blue respectively on the plan below). The residential units would be a mixture of residential types (houses and apartments) and residential sizes (1 – 4 bed units).



As of March 2022, the local housing need for the Borough stood at 781 dwellings per annum. The development would therefore contribute considerably towards local housing need.

The site identified for the care home is 0.77ha so if this site were to instead be developed for residential development it could accommodate approximately 26 additional dwellings (assuming a density of 35 dwellings per hectare). Development of this land for anything other than the consented care home would require a new planning permission to be granted. In deciding the programme for the development of the site consideration will therefore need to be given to (1) allowing for the delivery of residential across the full site or (2) allowing the delivery of residential across the majority of the site, whilst retaining the part of the site previously identified for the care home for any future service use which may subsequently be identified.

Development of the site (inclusive of the care home or not) requires the provision of facilitating and mitigating infrastructure, both on and off the site. Site specific infrastructure includes:

1. The formation of a new access from, and improvements to, Twyford Road;
2. Roads and footpaths within the site;
3. Flood attenuation and open space;
4. A landscaped acoustic bund/barrier running along the northern and western boundaries of the site to provide protection from the A329 and the adjacent depot respectively;
5. An emergency access/egress route through the adjacent depot site; and
6. The provision of a new pedestrian/cycle route bridging over the Ashridge Stream to the south of the site, linking into the new local centre at the Matthewsgreen development.

The current strategic masterplan is reliant upon land from the adjacent Council-owned Toutely Depot site to provide land for the western acoustic bund and for the emergency access/egress route that will need to be provided and managed in conjunction with the depot operators. The Council will therefore, through any delivery/disposal agreement, need to provide a commitment to the availability of this land or there may be a reduction in the housing numbers that can be delivered on the site, and therefore in the value of the land receipt. Similarly the Council will also need to commit to facilitate the delivery of the new pedestrian/cycle route into the Matthewsgreen local centre across Council-owned land to the south of the site.

The development would also be required to pay a significant CIL contribution to the Local Planning Authority (circa £3.6m-£4.3m depending on final levels of affordable housing) and S106 contributions (circa £1.4m in value) towards infrastructure provision; all of which would be in additional to any land value achieved.

It is recommended that the Council continues and facilitates residential delivery at the site because:

- The scheme will deliver new homes in the Borough in a sustainable location, helping to contribute towards the Council's housing targets;
- The scheme will deliver a minimum affordable housing provision of 35% on site (calculated at between 46 - 54 units, depending on final housing numbers), plus an additional 13 shared ownership self and custom-build homes, for local people in housing need (see below);
- Development of the site for residential would attract significant CIL and S106 receipts for the provision of infrastructure locally; and
- Development/disposal of the site for residential use will generate a significant capital receipt to contribute towards the Council's capital budget and the delivery of other projects in the MTFP.

Infrastructure provision - affordable housing and Community Infrastructure Levy (CIL)

The general affordable housing need for the Borough is 352 dwellings per annum. The Council must also be able to grant enough self-build permissions to match demand on the Council's self build register.

Under the outline planning permission, the development will need to provide a minimum of 35% affordable housing on site. Initial estimates indicate this could potentially range between 46 and 54 affordable dwellings, depending on final housing numbers. The S106 agreement indicates an anticipated 70/30 Social Rent/Intermediate rental split, although the exact size, location and mix will be approved under a reserved matters planning application. The planning permission does not impose any maximum level of affordable housing provision at the site.

In addition to the minimum 35% provision, as per the Executive resolution in July 2022 the masterplan continues to include the provision of 13 shared ownership self and custom-build homes for local people in housing need. This will pioneer a new delivery model for the provision of affordable housing in the borough, showcasing self and custom-build as a deliverable option. A successful application to the Brownfield Land Release Fund secured £494,000 to help bring forward the self-build scheme. It is therefore recommended that this Executive resolution is inclusive of agreement to provide these additional affordable units. The inclusion of the 13 self-build units will increase affordable housing levels on the site to between 43-45% (dependent on final housing numbers).

The site therefore will contribute, as a minimum, just under a fifth of the Borough's annual general affordable housing need, including over 30 genuinely affordable social rented dwellings.

Given the strategic development location approach, major developments are infrastructure thirsty, with the associated requirement to provide new roads, schools, sports facilities, etc. Where affordable housing is exempt from CIL, increasing levels of affordable housing significantly will reduce CIL receipts and therefore may act to prejudice the delivery of essential infrastructure. A balance will need to be struck between providing higher levels of affordable housing and delivering the infrastructure improvements needed to support the new developments.

Initial calculations based on 130 units indicate that at 35% affordable housing the residential could generate a CIL receipt of circa £4.3m to the Council. This would reduce to £3.5m if affordable housing provision is increased to 50% and still further if affordable housing is increased above 50%. To ensure satisfactory contribution towards strategic infrastructure provision, it is recommended that any development agreement includes provisions such that any developer may not apply for CIL exemption on any more than 50% of the units.

Requiring a higher level of affordable housing will also impact the capital receipt that the Council could expect from the development. The financial impacts of requiring additional affordable housing provisions are set out in the Part 2 paper. In summary, it is estimated that by increasing the required provision of affordable housing from the current proposed 43-45% to 50% could reduce the capital receipt by circa 7%. In order to optimise best value it is the recommendation that additional affordable housing, over and above that secured through the planning consent plus the 13 self-build units, will not be provided within the development. The recommended provisions comply with policy and would include over 50 affordable residential units on the site.

Infrastructure provision - Carbon reduction initiatives

Wokingham Borough Council declared a climate emergency in July 2019 which commits the council to playing as full a role as possible in reducing our carbon footprint to be carbon neutral by 2030. The Council's Climate Emergency Action Plan and associated Progress Reports demonstrates the planned steps towards achieving this goal. One of the key areas for action within the Council's Climate Emergency Action Plan is the opportunity presented through new development. In particular action 8.1 is an action which enables Wokingham Borough Council to take the lead and set an exemplar approach by requiring major residential development to be designed and built to achieve carbon neutrality, including through new policy requirements in the emerging new Local Plan. For the Council's own developments, action 8.6 targets that the Council's new development will be built to carbon neutral standards. The outcomes from this action are that carbon neutrality is considered from the design stage and associated costs are identified and that net zero carbon standards are considered for all new developments.

Currently all new buildings constructed in the UK are required as a minimum to meet UK Building Regulations. Specifically, with regards to energy and carbon compliance, all buildings must meet the building regulations Part L ‘Target Emission Rates’ (TER); which were updated in June 2022 (requiring new homes to cut carbon emissions by 31% compared to previous standards) and are due for further more stringent changes in 2025 as part of the government’s Future Home Standard whereafter all new homes will be expected to be zero carbon ready. A net zero carbon ready home is designed and built to the same efficiency standard of a net zero home, but does not have a renewable energy system installed yet

The planning permission for the Toutley scheme imposes a further requirement that the dwellings will be constructed to achieve a 10% reduction in carbon emissions above the minimum requirements of Part L: Building Regulations. These requirements will be delivered through a range of energy conservation measures and low/zero carbon technologies; which will be finalised through the detailed design process of the development. Exactly how these standards are achieved will need to be evidenced to the Local Planning Authority pursuant to the planning conditions of the development. The development therefore will achieve energy efficiency standards in excess of industry minimum standards .

As the landowner of the site, the Council could seek to deliver additional energy efficiency performance, in excess of the current planning consent and Building Regulations, subject to further planning approval. If the site was to be disposed of, any additional provisions would need to be secured within a Development Agreement with the purchaser.

The estimated financial impacts of any additional energy efficiency provisions are set out in the Part 2 paper. The estimated costs of delivering Net Zero Carbon have been advised by costs consultants with experience of working with sustainable house builders and have been bench-marked against industry figures. In summary, current advice is that achieving full Net Zero Carbon design could decrease the overall capital receipt up to over 50% due to higher build costs currently incurred with Net Zero Carbon construction.

The market testing undertaken for this development was undertaken in 2021/22 and the construction industry, in particular in relation to Net Zero Carbon technology and construction practices, is evolving at rapid pace. Therefore it would be prudent to go back out to both test the market appetite for Net Zero Carbon construction on this site and update our understanding of how this might affect the residential delivery models financially (both from cost and value perspective). This real market data would then input into the final decision of the residential delivery model.

Residential delivery models

July 2022 Executive decision

The Strategic Masterplan and Return on Investment for the Toutley East development was previously presented to Executive on 28 July 2022, wherein the Executive Members resolved the following relating to the residential element of the development:

> [4] To note the delivery options for the residential development identified at that stage, which will be subject to a future business case being approved by Executive and Council;

The financial business case (outlined and approved at Executive in July 2022) assumed the sale of the residential site to a housebuilder and relied on this income to fund part of the care home and infrastructure construction costs. The Executive were however asked to note that the residential element of the Toutley East scheme could be delivered in a number of different ways, each of which carry differing levels of risk exposure and potential financial return.

Informed by discussions with the market in 2021/22, at the time of the July 2022 Executive WBC officers were erring towards the recommendation of a Joint Venture approach. Further discussions with the market since July 2022 has identified a number of risks and considerations of a Joint Venture approach and this market testing has informed the assessment set out below.

Delivery model options

Since July 2022 officers have had further conversations with the market and received up-dated valuation advice from our valuation consultants. Below is set out the opportunities and risks associated with each of the delivery options. The full details of the cost and value implications of each option are included in Part 2 of this report. This information is commercially sensitive as it sets out the financial assumptions of each option and if these were in the public domain this would potentially undermine the Council's commercial negotiating position and thus potentially impact ability to secure best value.

(a) Disposal

In this option the Council would sell the site to a third party, who would in turn build the residential development themselves – likely a private house builder. This process would secure a significant up-front capital receipt to the Council, which could immediately be introduced into the Council's budget to help fund other services/priorities.

The Council could look to dispose of the site via a market sale (where the site is offered to the market as a freehold land transaction) or at auction (whereby the land is auctioned and sold on the day). In each of these instances the Council would forego any control over the product design/quality/delivery or other WBC priorities such as sustainable design or affordable housing (over and above what is required by planning policy). The only control over development would be via the Local Planning Authority under the enforcement of planning obligations. Such disposal will also be unpalatable to the market, as the developer would be wholly beholden thereafter on the Council to deliver other measures before the new homes could be occupied – i.e. the emergency access route through the depot and a foot/cycle path across the land to the south connecting into the Matthewsgreen local centre.

The realistic option for disposal would therefore be via a <u>Framework with development agreement</u> – where if desired WBC could apply additional obligations upon the housebuilder/purchaser regarding the delivery of the development. This would afford WBC some control over quality, design and delivery programme, should that be required.

It may be that the Council would wish to nominate disposal of the affordable housing to a specific landlord, such as a Registered Provider under the development agreement.

Such decisions will need to be considered in the round and against the financial performance of the project as a whole.

The opportunities and risks of this model are as follows:

Opportunities	Risks
No up-front costs for the Council – no exposure to debt during a time of inflated finance costs	Will reduce WBC overall control over the quality of housing product
Would secure up-front value certainty for land disposal - money that could be introduced immediately into the Council's budget to help fund other Council services/priorities at a time of economic challenge.	Will reduce WBC control over delivery programme for construction of the residential; although these could be secured to a degree by the development agreement.
Removes residential sales risks following completion; risks associated with fluctuations in the market.	Foregoes opportunities for profit share associated with other delivery models.
Potential to nominate a specific landlord such as a Registered Provider via a development agreement – albeit with potential implications for land receipt.	Asks for additionality such as additional affordable housing provision and carbon efficiency measures would reduce the value of the capital receipt to WBC, and may in actuality be unpalatable to potential purchasers.

The potential values that could be achieved through the disposal model are included in the Part 2 paper.

This framework method would require WBC resource in procuring and managing the contract to ensure that it meets WBC's requirements and that the Council delivers against its commitments. The Council would need to deliver both the emergency access/egress route through the adjacent depot and the pedestrian/cycle path to the local centre across the WBC controlled land to the south; as both of these elements are a requirement of the development but would sit on WBC land outside of the red line boundary.

(b) Joint Venture

A joint venture delivery model would involve WBC working with a private sector developer to deliver the proposed scheme. Both parties would be required to sign a development agreement to contract them to delivering a number of outputs. For the proposed scheme at Toutley East, this could include the achievement of detailed planning permission, delivery of affordable housing to a nominated Registered Provider and the delivery of sustainable housing. The joint venture model effectively means that WBC would receive the land value and potentially a proportionate share of the developer profits; although some developers do not like to give profit share and would rather give growth in land value over time. The receipt of value is not however secured until realisation of profit on sale of the residential properties.

WBC already do have some experience of this option via its partnership with David Wilson Homes at Elms Field, in Wokingham town centre.

The opportunities and risks of this model are as follows:

Opportunities	Risks
Would potentially secure greater value to WBC than direct disposal because 1) housebuilder does not have to purchase the land and does not therefore incur additional cost burdens of finance and stamp duty etc. and 2) potential to share profit – although the potential to profit share in the current economic climate will likely be limited.	Previous market engagement has indicated that market appetite for JV on this single/relatively small site is likely to be limited. In addition, given the current market volatility, WBC's negotiating position in the JV partnership would be reduced. Both of these aspects may impact WBC's ability to achieve best value.
Allows WBC to potentially benefit from the growth in sale values over time (if they increase), which would not be the case for a traditional land sale to market	Profit not realised until end of development (3 years)
Would provide access to partner's standard house types which will reduce fees and project delivery timescales	Sales risk associated with potential decreases in residential values or deflation of the market.
Access to partner's design and build expertise and knowledge	Will reduce WBC overall control over the quality of housing product
Access to partner's established supply chain enabling utilisation of buying power to drive efficient pricing	Will reduce control over delivery, as this will be managed by JV partner, although some WBC control may be included within JV agreement
Partner able to access funding will reduce WBC risk exposure	JV partner will require market facing profit return which may impact scheme viability, WBC return and/or other WBC aspirations
Partner will manage delivery and provide skills, experience and capacity	WBC would have to purchase the affordable housing from the JV Partner in order to create a revenue stream. This would be deducted from WBC's return.
Partner will bring experience in the market to ensure product meets market demand	Asks for additionality such as additional affordable housing provision and carbon efficiency measures may reduce the value of the JV to WBC, and may in any event be unpalatable to JV partners

The viability testing in Part 2 of this report indicates that the value of the Joint Venture to WBC would vary depending upon the level of affordable housing required and the ability to negotiate profit share.

Under this model the Council would not receive any income until such time as the residential receipts from the Joint Venture are received (circa 3 years).

Market testing in 2021/22 showed some limited interest in Joint Venture working at that time. That market testing however was undertaken at a time when there was less volatility in the market and on the premise of two available development sites within the Council's ownership. Given the continuing macro-economic uncertainties and subsequent projections of a downturn in residential property values nationally, there is a lot more uncertainty in the market at this time. It is therefore questionable whether there would be continuing interest in Joint Venture partnering at this time for what would be a relatively small development site. Lack of interest will limit WBC’s ability to achieve competitive tendering and therefore drive best value through the Joint Venturing model.

The previous market testing undertaken at the site dates back to 2021/22. The construction industry has moved on since that time such that it would be prudent to go back out to test the market’s current appetite for Joint Venture partnering to help inform future and final decisions on delivery.

(c) Cost Plus

In this scenario the Council would retain control over delivery of the proposed development by securing funding for the scheme and working alongside a contractor partner to deliver the scheme. WBC would work alongside a housebuilder to establish market demand and refine the masterplan accordingly. The housebuilder would be able to provide insight as to market demand and, once the house types and mix are established, a financially viable delivery model would be developed.

The advantages and disadvantages of this approach are as set out below:

Opportunities	Risks
WBC would retain control of the quality of the housing product	WBC required to fully fund the construction of the residential development, and therefore requires significant up-front funding and debt exposure, at a time of market volatility and considerably inflated interest rates.
WBC would have control of project delivery via a development manager and professional team	WBC assumes full sales risk
Would provide access to house builder’s standard house types which will reduce fees and project delivery timescales	Profit not realised until end of development (3 years)
Access to partner’s design and build expertise and knowledge	Depending upon the partnership working, there is risk that the house types might not meet market demand and/or that the house types may not deliver development optimisation in regard of the ratio of space to value
Access to partner’s established supply chain enabling utilisation of buying power to drive efficient pricing	
Model generally requires reduced profit margin for partner compared to JV	
Ability to retain affordable housing and generate revenue stream	

As indicated in the Part 2 paper, whilst the indicative return to the Council demonstrated under this model is significantly increased from the Disposal and Joint Venture models, that increase is directly reflective of the additional risk associated with the up-front funding of circa £30-40m construction costs. This model therefore will significantly increase the Council’s exposure to debt and associated risk; during a time of market volatility.

(d) Direct Delivery

Direct delivery of the housing by WBC would broadly follow the same structure as the cost-plus model. WBC would fund the scheme via the PWLB, however in this case WBC would create their own house types.

Opportunities	Risks
WBC would retain control of the quality of the housing product	Requires significant up-front funding and debt exposure, at a time when interest rates are considerably inflated.
WBC would have control of project delivery via a development manager and professional team	WBC assumes full sales risk
Potential to develop speciality house types that respond directly to the market (e.g. Net Zero Carbon), and which could be marketed to other LA's seeking to deliver those housing products – potential additional revenue stream	Substantial cost and risk will be incurred to develop house types. Higher design fees as WBC would be required to create their own house types.
Contractor would not require additional profit over and above standard rates for OH&P (Overheads and Profit – circa 7%)	WBC have no experience of direct delivery of residential on this scale
Ability to retain affordable housing and generate revenue stream	

As set out in Paper 2, forecasted up-front costs and returns are very similar to those that would be anticipated under the Cost Plus delivery model. Like in the Cost Plus model the up-front funding will significantly increase the Council's exposure to debt and associated risk; during a time of market volatility.

Use of capital receipts

The financial business case outlined and approved at Executive in July 2022 assumed the sale of the residential site to a housebuilder and relied on this income to fund part of the care home and infrastructure construction costs. If the care home is no longer delivered in this location, any value generated through any of the delivery models above would be generating a capital receipt which is no longer ring-fenced for a specific purpose and which would be an additional contribution to the Council's wider capital programme (the value of which depends on the delivery model chosen).

Alternative land use options

The site sits within the Wokingham settlement boundary and has been identified for development since the adoption of the Core Strategy in 2010. Whilst designated in the Core Strategy for employment uses, the site has more recently been promoted for residential in the local plan up-date (2020) and in 2022 secured planning permission for residential use.

If the Council does not pursue residential development at the site then this will potentially impact the projected housing delivery numbers under the emerging Local Plan Update. Moreover, if this site falls away then the LPA may need to identify an alternative site to compensate the loss of housing numbers towards its housing land supply.

The following alternative uses of the site have been considered and discounted for the following reasons:

- Employment – the site is allocated for Employment in the current Local Plan, as an extension to the Toutley Industrial Estate. Despite that allocation, no employment development/interest has come forward. A report by Avison Young commissioned in 2019 concluded that at the micro level the site is not suitable and/or viable to provide employment development given its locational and access constraints. In addition, a WBC commissioned Employment Land Needs Study (2019) found that at the macro level the borough no longer needs the land at this site to provide for employment needs. There is therefore neither an identified need for employment at this site, nor a likelihood that a viable employment scheme will come forward.
- Solar Panels – The installation of solar panels at the site could be explored further, although it is envisaged that grid connection may well limit the suitability/viability of such a project. It is also questionable whether a stand alone renewable energy scheme should be promoted in lieu of residential on what is an extremely sustainable site within the settlement boundary and so well served by the recently constructed SDL infrastructure.
- Revert back to farmland – The reversion of the site to farmland would secure minimal rental income for the Council. It would also run counter to the aspirations of the development plan, which seeks in the first instance to locate development within the settlement boundaries before sequentially considering edge of settlement and countryside locations.
- Public Open Space/SANG – The site could be utilised as public open space and/or Suitable Alternative Natural Greenspace (SANG). If SANG then the Council could explore opportunities for the sale of SANG units to help subsidise the initial capital cost of delivery and on-going maintenance. Similarly, there may be opportunities to increase bio-diversity at the site and sell credits to developers. The North Wokingham SDL is however already very well served by SANG (west of Old Forest Road, Bell Farm, etc) and POS. There is not therefore a strategic or local need for SANG or POS in this location.
- SEN school – The Council has recently been successful in securing DfE funding for the provision of two new SEND schools within the Borough. An Executive resolution in September 2022 approved the submission of the proposals to the DfE and supported the recommendation to utilise two sites – one at Rooks Nest Farm and one at Grays Farm – albeit caveating that the formal disposal of those sites would be subject to a further Executive resolution. Consideration of this site for a SEND school is included in a separate Executive Paper (Development of Wokingham's Two Special Educational Needs Schools) and following approval of that paper then this site is not the preferred location for a SEN school.

Recommendation

No sustainable or achievable alternative use for the site has been identified and therefore it is recommended that the site continue to be promoted and developed for residential use.

The upfront funding and exposure to debt set out in the Cost Plus and Direct Delivery models is not considered prudent at this time given current market volatility. It is therefore recommended that those delivery models should not be pursued further.

Previous market engagement undertaken in 2022 indicated that disposal of the site reduces the risks to WBC to the greatest extent and would secure a capital receipt quickest. Whilst the Joint Venture model does present opportunities for increased returns, it does increase risk and it should be noted that limited interest was expressed at the time of the market engagement. In those circumstances the preferred delivery model currently is the disposal of the residential site through a framework with a development agreement which would enable the Council to capture a capital receipt whilst ensuring the development is consistent with its wider strategic objectives. However Executive are asked to note that the officer team will undertake further market testing of the Joint Venture model to ensure the latest market position is known to inform a future and final decision on a delivery model.

It is recommended that the site is developed on the basis of the existing planning permission (minimum 35% affordable housing), inclusive of a requirement to deliver an additional 13 affordable self build units (in accordance with the grant funding already received) and a provision that CIL exemption may only be applied for on up to 50% of the dwellings. These provisions could be secured against both the Disposal and Joint Venture delivery models.

In relation to carbon efficiencies, additional market testing will inform our understanding of how the achievement of greater energy efficiencies measures (up to Net Zero Carbon) might affect the residential delivery models financially (both from cost and value perspective). This real market data would then input into the final decision of the residential delivery model.

Procurement Officers are currently looking into all relevant options for the land disposal and, at this stage, more information is required to understand if this can be categorised as land disposal or as development. Land disposal with no conditions is unlikely to fall under the Public Procurement Regulations (PCR) (2015), however if land disposed is with additional conditions over and above the approved planning permission conditions, it may fall under a Public Works Contracts under the PCRs. Such details will be worked through once the principle of disposal is established, to ensure that proper procedure is adhered to.

It is recommended that, following completion of the further market testing, authority is delegated to the Director of Resources and Assets, in consultation with the Leader of the Council, to implement the programme for the disposal/delivery of the residential land at Toutley East.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1) Next Financial Year (Year 2) Following Financial Year (Year 3)	Dependent on delivery model. Disposal would generate capital receipt in years 1 or 2. Profits from Joint Venture will not be realised until year 3 at the earliest.	Yes	Capital

Other Financial Information
The full details of the cost and value implications of each option are included in Part 2 of this report. This information is commercially sensitive as it sets out the financial assumptions of each option and if these were in the public domain this would potentially undermine the Council's commercial negotiating position and thus potentially impact ability to secure best value.

Stakeholder Considerations and Consultation

The proposed redevelopment of the site has been subject to extensive local consultation as follows:

- January 2020 – Draft Local Plan Update – consultation inclusive of a site allocation at Toutley East for 100 dwellings
- February/March 2021 – Pre-planning - Public engagement on the planning proposals in advance of application submission
- May 2021 – Planning application submission - Full statutory consultation by the Local Planning Authority (LPA) on the development proposals to inform the LPA's determination of the planning application
- November 2021 – WBC's Revised Growth Strategy – consultation inclusive of an allocation in line with the planning application for up to 130 dwellings and a care home.

Public Sector Equality Duty
An Equality Impact Assessment was undertaken in July 2020 and has been updated to reflect the proposed changes to the strategic masterplan. The Impact Assessments have not identified any potentially negative impact upon persons with protected characteristics.

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
The development would deliver a highly sustainable development in accordance with current planning policy and in excess of minimum building regulation requirements. The ability and financial implications for achieving Net Zero Carbon will be explored through the recommended market testing to help inform thereafter final decisions around the delivery model.

Reasons for considering the report in Part 2
By Virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

List of Background Papers
• Part 2 Residential Delivery Models – Financial Performance • Part 2 Update to Strategic Business Case Since July 2022

Contact Sarah Morgan	**Service** Commercial Property
Telephone Tel: 07801 664394	**Email** sarah.morgan@wokingham.gov.uk