

To: Cabinet
Date: 13 October 2021
Report of: Executive Director Development
Title of Report: Development of South Oxford Science Village (Land South of Grenoble Road)

Summary and recommendations	
Purpose of report:	This report sets out the progress to date on the South Oxfordshire Science Village (SOSV) proposals and seeks agreement to the next stages of work to progress towards delivery of the proposed development. This report covers the proposed delivery approach for the site, consideration of the key principles for collaboration with the other land owners within the site allocation, and the procurement of consultants, to support the landowners to secure a development partner, and entering funding agreements to secure the sharing of costs of advisor appointments with the other landowners
Key decision:	Yes
Cabinet Member:	Councillor Ed Turner Deputy and Leader and Cabinet Member for Finance and Asset Management and Alex Hollingsworth, Cabinet Member for Planning and Housing Delivery
Corporate Priority:	Enable an inclusive economy; Deliver more, affordable housing; Support thriving communities; and Pursue a zero carbon Oxford.
Policy Framework:	South Oxfordshire Local Plan allocation Policy SRAT 11
Recommendations: That Cabinet resolves to:	
<ol style="list-style-type: none"> Delegate to the Director for Development in consultation with the Head of Law and Governance and Head of Finance the final wording of the key principles of collaboration and the entering into a formal collaboration agreement if the partners so wish; Delegate to the Director for Development in consultation with the Head of Law and Governance and Head of Finance, working in collaboration with the other land owners, the procuring of a development partner to bring forward the site for development (although the entering into an agreement with the proposed development partner would be subject to a further decision); 	

3. **Delegate** to the Director for Development in consultation with the Head of Law and Governance and Head of Finance the appointment of consultants on behalf of the partnership, with sharing of costs secured through an agreement, to develop and implement the development partner procurement strategy and to undertake the procurement of a development partner; and
- 4 **Note** the spend to date and approve the continued use of the allocated budget to enable the project to move forward, including for procuring specialist advice, progressing issues impacting the site, the setting up of a delivery vehicle and procurement of a development partner. Delegate to the Director for Development, in consultation with the Head of Law and Governance and Head of Finance, the agreement of works and spend within the allocated budget.

Appendices

Appendix 1	Confidential Risk Register
Appendix 2	Confidential Appendix
Appendix 3	Plan

Introduction and background

1. The Council owns land south of Grenoble Road, to the west of Sandford Brake substation, which has long been identified as within an area with potential for development. The promotion of the land has been pursued, latterly through the South Oxfordshire Local Plan (SODC LP). The land, together with adjacent land in the ownership of Thames Water (TW) and Magdalen College (MDC), has now been allocated for a mixed use development including approximately 3000 homes (2480 within the local plan period). This report recommends the approach to delivering development on the site and the steps necessary to for this to take place.
2. 11 May 2017 the Council resolved to pursue the development of the land south of Grenoble Road in partnership with Magdalen College and Thames Water who own adjoining land, https://mycouncil.oxford.gov.uk/documents/s35976/Report_South%20Oxford%20Science%20Village.pdf. Due to delays in the progress of the SODC LP it was agreed to pursue an outline planning application for the site, including through an appeal if necessary.
3. Documents were prepared to support a planning application for the site, including work on a masterplan, should the partners have felt that that was the most appropriate way to proceed. In the event a planning application was not submitted , because the SODC Local Plan progressed with the proposed allocation of the site, and this was felt to offer a more secure basis for proceeding. The SODC LP was adopted in December 2020 and includes the allocation of the site (Policy STRAT 11 <https://www.southoxon.gov.uk/wp-content/uploads/sites/2/2021/02/SODC-LP2035->

Publication-Feb-2021.pdf) and the removal of it from the green belt. The justification for the allocation of the site includes the need to accommodate unmet housing needs that can't be met within the administrative boundary of the City.

4. The SODC LP policy sets out the planning requirements for the site including the delivery of a comprehensive development, 50% affordable housing (40% affordable rented, 35% social rented and 25% other affordable routes to home ownership) extension to the Science Park, park and ride, schools, open space and supporting facilities. The policy seeks a regeneration strategy for Blackbird Leys.
5. Work with regard to the site to date has been done in partnership with Magdalen College (MDC) and Thames Water although no formal arrangement has existed between the landowners. This report now looks to address the work needed moving forward including the principles for a collaboration agreement with the other land owners and options for securing development of the site.

Delivery Approach

6. Consideration has been given to the different approaches to the delivery of development on the site. The approach taken will affect the amount, timing of the return to the Council, the level of control the Council has and the amount of resource required to pursue the approach. The options considered are set out below together with the pros and cons of each;

	Disposal / Delivery Option	Summary Detail	Pros	Cons
1	Outright Sale on Day 1	Unconditional sale of the whole site with overage in place (uplift in land value compared to existing use with potentially some hope value).	<ul style="list-style-type: none"> • No financial risk to OCC • Capital receipt in shortest timeframe 	<ul style="list-style-type: none"> • Passes upside to developer or other landowners • Loss of control of asset and process • Financial return would be significantly below other approaches and would not maximise value
2	Tranched Land Sales (with planning permission)	Straight disposals to developers – likely to be a number transactions of several phases.	limited number of disposals required can be linked to infrastructure, thus passing risk of some infrastructure to housebuilders.	substantial planning risk taken on by partners. Possibly weaker financial offers as larger, more risky housing tranches together with infrastructure obligations. Very challenging to ensure infrastructure is delivered in a cohesive manner, creating risk to placemaking.
3	Option Agreement	A development partner (usually housebuilder) takes on the cost and risk of obtaining planning permission in return for the option to purchase all of the consented land for a discount of open market value.	Very low management input time and cost. Understanding at the outset as to the type and style of development to be delivered. Strong financial covenants from the key market players. Ability to require right of pre-emption in favour of OCC acquiring affordable housing on market terms.	lack of control. Partners in this sector (housebuilders) not renowned for collaborative working. For sites with significant infrastructure, housebuilders don't have most cost-effective use of funding both in terms of transparency in build costs and internal costs/rates. limited scope to drive further value by selling serviced parcels or high quality placemaking. lack of competitive tension in the sales process results in depressed land receipts.

	Disposal / Delivery Option	Summary Detail	Pros	Cons
4	Hybrid Option Agreement	<p>A development partner (usually housebuilder) has option to purchase a certain share of the site, with the remaining land being sold on the open market.</p> <p>For the land which is subject to the Option element of the Hybrid, the partner will be able to purchase the land for a % discount of market value.</p> <p>For land which is sold on the open market, the partner will be due a % share of the sales receipts.</p>	<p>Designed to both have a developer on board but also to ensure that any price they pay for the land is sense checked and driven by the land open market values.</p> <p>With the selection of a quality housebuilder, a developer with a vested interest in driving value for later phases, to 'set the scene' on key phases to help define quality and value.</p> <p>Limited amount of post agreement management time and cost.</p> <p>Ability to require right of pre-emption in favour of OCC acquiring affordable housing on market terms</p>	<p>Partners in this sector (housebuilders) are not renowned for collaborative working.</p> <p>Non-competitive tension in the sales process for the option land results in depressed land receipts.</p> <p>Hard to translate the basic premise of the structure to formal agreements. For example, the partner setting the tone for the scheme is a key Pro for the structure but to set the tone requires an option sale before the wider market has been tested and the price point for land values set.</p>
5	Promotion & Master Developer Agreement (Contractual Partnership)	<p>Procurement of long term delivery partner who acts as Master Developer and delivers serviced plots to the market.</p> <p>Master Developer may pay an initial premium at the outset, plus a pre-agreed percentage of ongoing land or unit sales.</p> <p>Partner will also take a PM fee (% of costs).</p>	<p>Interests aligned between Master Developer and landowners via tender & contract.</p> <p>Reduced / low financial risk to Partners</p> <p>Use of developer's expertise and resources</p> <p>Long term arrangement – benefit from land value uplift (Placemaking premiums etc.)</p> <p>Substantive opportunity to influence outcomes via contract terms/obligations incl. governance.</p> <p>Infrastructure delivered by proven, specialist operator, so allowing cost efficiencies.</p> <p>Ability to require right of pre-emption in favour of OCC acquiring affordable housing on market terms</p>	<p>Costs associated with master developer role – management fee and % of land sales reduce overall land return.</p> <p>Delayed receipts.</p> <p>Requires a material amount of professional support and internal management time to oversee the relationship with the Master Developer.</p>
6	Joint Venture (Corporate Vehicle)	<p>Joint Venture with a Development Partner, whereby the land (and potentially infrastructure investment) is included as the equity stake by OCC / landowner Partners.</p> <p>Joint venture private sector partner (PSP) typically contributes funding and development expertise to oversee development.</p> <p>Profit or net land receipts would then be split between the parties at pre-agreed %.</p> <p>Potential for some early capital payments also (at diminution of equity stake)</p>	<ul style="list-style-type: none"> Interests aligned between PSP and landowners via company structure (Members Agreement etc.). Continued substantial influence in the project via joint decision-making. Long term arrangement – benefit from land value uplift (Placemaking premiums etc.) via share of profits Potential for higher returns Typically all other investment (i.e. planning, infrastructure, development) costs are met by JV partner in lieu of land value, but can be negotiated Infrastructure delivered by proven, specialist operator, so allowing cost efficiencies. Ability to require right of pre-emption in favour of OCC acquiring affordable housing on market terms. 	<ul style="list-style-type: none"> High set up costs – can be challenging and lengthy to set up. Substantial ongoing professional support and internal management time to service the JV. Uncertain returns – potential share of losses. Higher risk – sharing construction and sales/exit risk. Requires complete alignment between landowners over long-term.
7	Direct development: Landowners in Master Developer Role	<p>Straight disposal to developers – multiple transactions over a number of phases. OCC (and landowners)</p>	<ul style="list-style-type: none"> Highest land value receipts as all infrastructure obligations have been undertaken. Ability to influence the scheme 	<ul style="list-style-type: none"> Requires the greatest level of investment and therefore risk. Very labour intensive Multiple disposals required.

Disposal / Delivery Option	Summary Detail	Pros	Cons
& Potential housebuilder role	act as a master developer delivers all the necessary infrastructure. This provides a series of serviced plots for disposal, (say 150 – 250 units per plot). The developers who purchase the service plots would only need to discharge reserved matters prior to starting development.	design / mix / uses. • Ability to build houses directly	

- Of the options set out above the option 1 was discounted as it would not maximise the return and the Council would have no future input into what was delivered as a land owner, option 2 was also discounted because of the difficulty it would present in managing the approach and controlling the delivery of infrastructure. Option 7 was discounted as the landowners did not have the appetite to fund direct delivery.
- The other options were considered further against a range of weighted criteria to come up with a ranked approach to delivery which is set out below;

Commercial Objectives & Delivery Parameters		Scoring							Total Rating	Rank
		Financial Risk	Financial Return (Net Receipts)	Level of Council Control / Influence	Council Professional Resource Requirements	Dependency on Landowner Governance & Alignment	Alignment between Landowners & Partner	Market Attractiveness		
Weighting (informed by objectives)		25%	20%	10%	10%	20%	10%	5%	100%	
	Tranched Land Sales (post planning)	2	3	2	3	3	3	5	2.75	4
	Option Agreement	3	2	1	5	4	1	4	2.85	3
	Hybrid Agreement	3	3	1	5	4	2	4	3.15	2
	Promotion & Master Developer Agreement (Contractual Partnership)	4	4	3	2	3	4	3	3.45	1
	Joint venture (Corporate Vehicle)	1	5	5	1	1	5	2	2.65	5

KEY: Scoring	
Lowest score/ highest risk	1
	2
	3
	4
Highest score/ lowest risk	5

- The consideration of the options weighted financial risk and return to the Council as well as the extent to which landowner governance would be required, with its resource implications. The outcome of the weighted consideration of options resulted in the promotion and master developer route being identified as the preferred approach for the development of the site. This route is favoured by the other landowners, an important consideration given the need to work collaboratively to bring the site forward. It is also the route that has less financial risk for the Council and still enables influence on the development of the site. Although return is potentially lower than a joint venture, because of the fees to the master developer, there are benefits in the reduced need for finance and lower resource requirements than a JV. The master developer approach therefore is recommended as providing the best fit for this development.

10. Subject to this approach being agreed the next steps would be to obtain advice that will enable the necessary work that will allow for the procurement of a delivery partner for the partnership.

Collaboration Agreement

11. The first step towards formalising the arrangements between the land owners has been to identify key principles to inform a collaboration agreement (CA). This is a step towards arrangements to create a single entity that will be able to partner to deliver development on the site. The structure of this next stage has not yet been established.
12. Key principles have been identified for the CA and agreed with the partners (subject to formal approvals) that address how the partners will work together and some principles about how the site will be brought forward.
13. The key principles include;
 - that the partners will seek to deliver a policy compliant development,
 - how the costs and values across the site will be equalised,
 - MDC will have the ability to draw down the science park land
 - enable Thames Water the opportunity to provide renewable energy and use their pipes to convey services on a market basis
 - approach to odour issues affecting the allocated site,
 - gives the landowners the ability to direct how the affordable housing will be delivered on their share of the land and
 - commercial arrangements
14. Agreement is sought to the key principles that have been put together with delegated authority being sought to agree the detail and wording. Whilst it was originally intended that the key principles would be turned into a formal collaboration agreement the other landowners are keen to move directly to establishing a formal partnership, which could include establishing a form of Joint Venture or Limited Liability Partnership (LLP). If this happens, the key principles would provide the basis for this formal arrangement.
15. There is a need to formalise arrangements between the partners to establish a delivery structure and focusing on this now will potentially be quicker than completing a collaboration agreement before commencing this work. However there is a risk that there could be a longer period without a formal agreement in place and this will be kept under review.
16. Given such a formal partnership arrangement would move the partners beyond the detail set out in the CA, this will need to be brought back to the Cabinet for a further decision in due course. External legal, tax and development advisors have been appointed to support the Council in the negotiation of the collaboration key principles and the form of delivery vehicle.

Procurement of Advisors

17. It is important that the Council has the right advice to pursue the development of the site. Where advice is not available internally external advice has been sought and a budget established to support this.
18. Whilst some work has been undertaken jointly, each of the landowners is currently being advised separately with regard to the CA. Going forward, and moving towards the formalising of the partnership arrangements and delivery structure, as well as the procurement and appointment of a development partner, the landowner partners need to be aligned. It is therefore proposed to appoint development and legal advisors that will be responsible to the partnership (although the Council may still need to retain its own advisors in addition). Given that the Council has the most rigorous procurement rules of the partners the proposal is that the Council will lead on the appointment but that the cost will be shared between the partners on the basis of the % share of land ownership. Approval is sought to appoint the consultants to advise on the formal partnership structure and agreement and the procurement of a development partner. This is subject to securing the necessary contributions from the other partners.

Programme

19. The allocation of the site is a significant step forward in being able to plan for the delivery with confidence. The work on collaboration key principles has also focused work on landowners' requirements moving forward which will inform proposals for the site. In addition work is continuing on issues that will need to be resolved to inform proposals for the site, for example exploring the impacts of odour and the overhead lines crossing the site, initial engagement with the SODC planning team and reviewing and responding to consultations on documents that could impact the delivery of the allocation.
20. The programme going forward is to identify the options for the delivery vehicle, to be able to report back to Cabinet with a recommended approach before the end of the calendar year. At the same time to receive advice around the procurement strategy for the master developer and agree an approach with the other landowners. Once the delivery vehicle is in place the proposal is to commence the formal procurement of a master developer partner. 30 Weeks have been allowed in the programme for the procurement and selection but this may be refined when the procurement strategy is agreed. The appointment of the master developer will be brought back to the Cabinet for a decision.
21. It is anticipated the master developer partner, once appointed, will lead on the planning application for the site. They will need time to review work to date and update as necessary before submitting. Currently six months has been allowed for this work, enabling a submission in 2023, but again this will need to be reviewed and refined when a partner is appointed.
22. In addition to the above work it is anticipated other issues that may impact the site will continue to be progressed as necessary, with a focus on areas where it would facilitate a planning application.

Alternatives Considered

23. As well as the options for delivery of the site, as set out above, the following options have been considered
 - not to seek to develop the land currently
 - not to seek to develop the land in partnership
24. The Council's land within the allocation is currently leased to Thames Water and used for agricultural purposes. Given the allocation in the South Oxfordshire Local Plan, and its potential to provide housing, which will contribute to the housing needs of the City and provide a return to the Council, it is not recommended to continue with the current arrangements due to the lost opportunity that would result.
25. Consideration has been given to the implication of not progressing with the other land owners or entering a collaboration or other formal partnership agreement. This was rejected as a comprehensive scheme, across all three land ownerships, is required by the planning policy for the site. Continuing without a formal agreement is likely to be unattractive to potential development partners for the site and also has risks as a landowner could decide not to continue to seek the development of their land resulting in abortive work.
26. A range of possible approaches to developing the land has been considered as identified above. Consideration of the Council's objectives has led to the identification of the preferred approach.

Other implications

27. Proposals for land that is now allocated were subject of consultation in 2016/17 and more recently through the South Oxfordshire Local Plan process that culminated in an examination last summer with a session to hear objections related to the allocation of the site. These were considered by the Planning Inspector who supported the allocation of the site in the SODC LP. As proposals for the site are developed further local engagement will be necessary.

Carbon and Environmental Considerations

28. This report is focused on how the land allocated in the South Oxfordshire Local Plan is to come forward rather than the detail of how the site will be physically developed. Proposals for the site including a planning application will be developed with the selected development partner subject to this approach being agreed.
29. Going forward there will be a need to balance the requirements to achieve a good development that is viable to deliver and creates a location that is attractive and accessible for residents, including the provision of affordable housing, and for businesses whilst minimising its environmental impacts and maximising the opportunities that can be derived from new development.
30. The vast majority of the site is within South Oxfordshire but was allocated to help address housing needs in the City. The site is located on the edge of Oxford where there are more opportunities for green and active travel to and from the city than other sites further from the city. The impacts of a major development on the edge of the city will be felt by the city and its residents as well as surrounding villages that fall within South Oxfordshire.

31. The Council owns less than 1/3rd of the allocated site and is working with other landowners to bring forward development. As such, the City Council does not have overall control and is unable to act alone in bringing forward its land ownership for development. Carbon and environmental considerations will be important factors to be considered in the design of the site and the infrastructure to support it, and the City Council continues to work with partners to promote this agenda. However, whilst partners have committed to meeting the planning policy requirements for the site, it may not necessarily be possible to go beyond these.

Financial implications

32. A budget of £1.38m was established, funded through reserves, to enable the proposals for the site to be progressed. Fees to date have been split 3 ways by the partners and in October 2020 were equalised, the Council's costs were £856k. Around £643k remains from the original budget sufficient to cover the next stage of the work to bring the site forward, and the cost of moving to a formal partnership will be reviewed when it is clear the preferred vehicle but costs of £350k have been identified for the next phases of the work, to be met from the existing budget, to cover internal costs, legal, tax and development advice to the Council, share of partnership work including the procurement of advice on appointment of a master developer. Delivery vehicle costs will be refined and be reported back to the Cabinet as part of the recommended structure.
33. Costs have been shared between the partners reducing the cost to the Council. Never the less moving to the next stage of the project will require the funding of advisors, again shared between the partners, and specific advice to the Council with regard to the drafting of the agreements and future delivery vehicle.
34. The approach to the development of the site recommended will lead to a development partner being appointed who will bring additional resources, in exchange for profit, to support the next phases of the project. This provides a balance between risk and reward.
35. The development of the allocated land will provide a return to the Council (see attached confidential annex).

Legal issues

36. The development of the Council's land raises a number of legal issues particularly around land, legal agreements and arrangements required in support. The Council currently has external legal advisors to advise on the collaboration key principles and provide advice on delivery structures, further advice has been received regarding tax implications. There is also ongoing procurement and tax implications from the proposals.
37. Legal officers are also ensuring constitutional compliance and governance as the work progresses.

Level of risk

38. The risk register is confidential and attached as an appendix to this report.
39. The development of the allocated site will provide much needed housing and facilities, however, development does give rise to the potential financial and reputational risk to the Council if problems with the development were to occur. Whilst care has been taken to ensure the Council has been appropriately advised

there remain risks in ensuring satisfactory completion of agreements, potential changes in the development environment (such as changes to planning policy), potential for unknown costs associated with developing the site and the appetite of the market to partner to deliver the site. There would also be reputational risks in failing to progress the development of the site as housing needs would not be met. These risks will continue to be monitored and managed.

Equalities impact

40. There is no equality impact directly arising from this report, which addresses the process for moving forward the delivery of the site allocated in the South Oxfordshire Local Plan. However this is part of the process to bring about development of the site in due course that will bring benefits such as additional affordable housing and employment opportunities. It is recognised that the future development of design proposals for the site, including the buildings and services to be provided, will give rise to equality impact issues. Given the proposal to work with other partners it will be strategically and sustainably important to ensure that equality is embedded and fully understood by all involved in the work undertaken at each stage of the project. The Council's accessibility champion has advised 'It is important to normalise these conversations and ensure all project groups make use of our Accessibility and Equality Champion to sense check strategy documents and proposals as they come across'.

Conclusion

41. This report provides an update on the latest position with regard to the delivery of development at South Oxfordshire Science Village. Since the previous report the site has been allocated for development in the South Oxfordshire Local Plan and this provides greater certainty about the ability to develop the site. In addition as the justification for allocating the site includes the contribution it will make to meeting Oxford's housing need there is a good reason to progress towards the development of the site to help meet the Councils objectives.
42. The agreement of principles of collaboration enables the landowners to move forward together towards the delivery of the site. Having considered the range of options available for the delivery of development of the site, the appointment of a promoter/ master developer is considered the recommended approach as it provides a balance between risk and reward. The procurement of a master developer requires consultant support. This work is needed for the landowners and it is proposed to jointly appoint that consultants that will represent all three landowners, which will be more efficient than each partner seeking separate advice.
43. Subject to the above steps being agreed the next stage will be to negotiate a formal agreement and structure between the partners which will enable any master developer to enter into an agreement with a single entity.

Report author	Jenny Barker
Job title	Regeneration Manager
Service area or department	Regeneration
Telephone	01865 252095
e-mail	jbarker@oxford.gov.uk

Background Papers: None

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