

APPENDIX 1: Otterpool Park – Strategic Financial Objectives

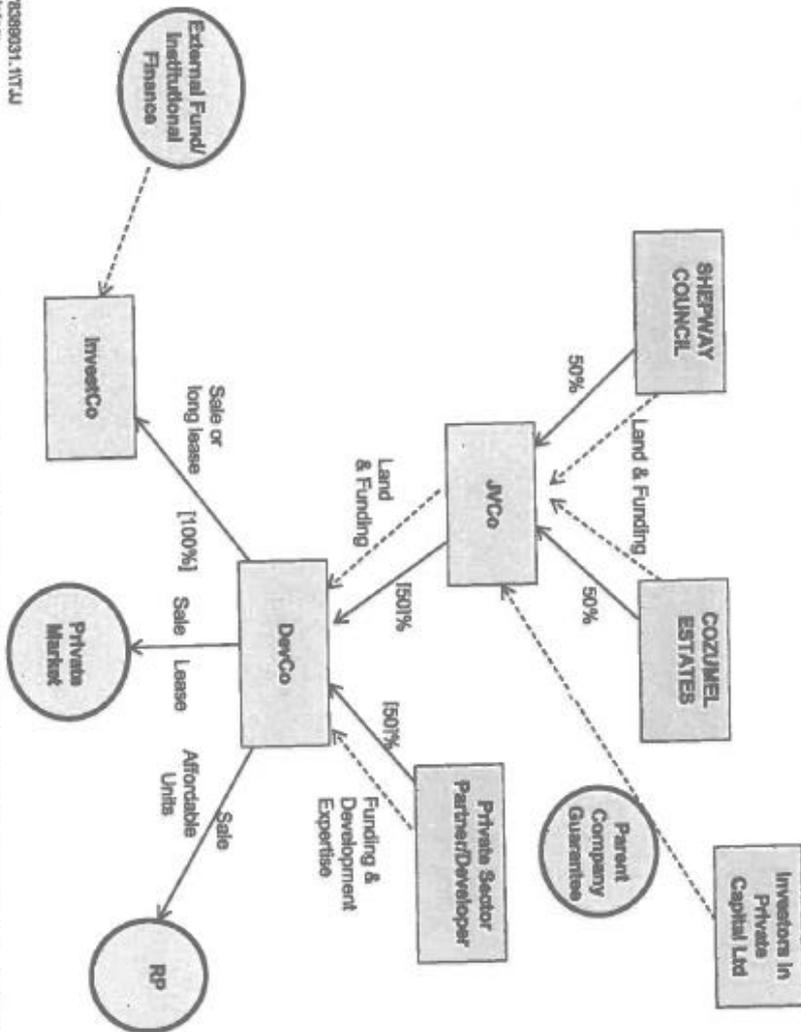
1. The purpose of this paper is to set out the strategic financial objectives of the council in relation to the development of Otterpool Park Garden Town. The development of the town is large, complex and will take place over a significant period of time (up to 30 years). As the development proceeds, there will be a number of points at which decisions will need to be made as to the direction the council and the level of its exposure and involvement within the garden town. This will be influenced not only by the status and the nature of the garden town, but also by the financial position of the council at any point in time.
2. There will be a significant amount of financial modelling undertaken in order to determine the commercial return of the development and to manage the financial impact on the council. Much of this work will be iterative and will vary according to a range of factors including those external factors (such as market conditions) which cannot be controlled. Any financial strategy will therefore need to be flexible enough to respond to shorter term fluctuations whilst still giving a longer term horizon to act as a route through the complexities of the development. Appendix 1 shows the types of considerations and options which are possible.
3. At present the council's financial stake within the project is represented by its initial £5 million purchase of the land at Otterpool Park (plus £0.2 million in stamp duty and fees) and an estimated cost of £2.3 million net of other party contributions to achieve outline planning permission. In addition, there will be other significant investment decisions. The process of land assembly will be an expensive one with options being taken out and the provision of infrastructure for a development of this type will be significant. The outgoings of the council will be of a scale not undertaken in recent years and it is therefore important that it is clear as to the underlying financial rationale behind the development.
4. There are key questions which need to be considered when designing the strategic financial objectives:
 - What is the desire of the council – is it to maximise commercial return or to deliver a quality product with finance being a secondary matter and what is the balance between these two approaches?
 - Does the council want a significant capital receipt or revenue returns and over what timescales?
 - How much commercial investment will it wish to have and how much residential and to what extent does the Council wish to share the risk/opportunities with third parties?
 - What are the longer term sustainability plans for the town?

- How will the rest of the district benefit from the development?
 - How much is the Council prepared to borrow to facilitate the project?
 - How long is the Council prepared to wait for a positive financial return?
 - What degree of control of the project does the Council wish to retain?
5. The current financial backdrop for the council is one of the availability of historically cheap capital but a medium term revenue shortfall. Any consideration needs to take account of this context but also to be aware of the long term nature of the development. In considering the strategic financial objectives, the following assumptions have been made:
- That a financial return is important to the council
 - That a quality environment is established for the garden town which may conflict with some commercial aspects, but may also raise values there over the longer term
 - The council has a desire to retain a long term stake in the development
 - There is a strong importance attached to the long term sustainability of the council and the development
6. Considering the above, it is suggested the following represent the strategic financial objectives:

- To commit to a long term involvement with the garden town to explore means of generating ongoing revenue streams from commercial, retail and residential elements of the development.
- To recognise the capital input and to release this value to ensure any borrowing costs are sustainable within the financial parameters of the council
- To optimise the resources from the garden town to provide a financial benefit for the whole district
- To work towards an ongoing financially sustainable model for the new town and to avoid, as far as possible, creating unfunded liabilities
- To work with private sector and public sector partners to maximise external funding in support of the project
- To consider at each critical decision point the future financial model with an emphasis on affordability for the council

Appendix 2 – Potential Delivery Structure – contractual joint venture

SHEPWAY DISTRICT COUNCIL & COZUMEL ESTATES LTD – OTTERPOOL PARK: POTENTIAL DELIVERY STRUCTURE



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Notes:

1 JV Co would be a genuinely separate entity from the Council, although particular consideration should be given to the exit arrangements under the JV agreement to avoid circumstances that would leave the Council as controlling entity for JV Co whilst the planning application is in process.

2 JV Agreement to provide for JV Co to conclude a s106 agreement that binds sufficient land to allow the grant of planning permission. This will entail the grant of options to JV Co over Council and Cozumel land prior to determination of the planning application. S106 agreement to oblige JV Co to enter into a confirmatory deed on exercise of option and site draw down.

3 Obligation on Cozumel and (via option agreements) third parties to enter into any necessary S106 Agreement to bind their respective freeholds.