

## Trust Board Meeting – 31 March 2011

### Land Equalisation

**Report by:** Sarah Wiles, Director of Strategy & Infrastructure

#### 1 Purpose

- 1.1 To describe the principles behind the recommended approach to achieve land equalisation in order to enable the assembly of developable packages of land for the Watford Health Campus.

#### 2 Background

- 2.1 The Watford Health Campus is the strategic vision for the redevelopment of the Watford General Hospital site and the surrounding land. The Trust has been working in partnership with the Watford Borough Council, Watford Football Club, East of England Development Agency, Hertfordshire Partnerships NHS Foundation Trust and other local stakeholders for in excess of 7 years.
- 2.2 The Campus has recently achieved a formal grant of Outline Planning Permission. Further a development appraisal indicates that the project is a cash generating scheme (profitable) even using income projections based on the lowest point of the recent development cycle and forecast cost projections on the upper end of the scale.
- 2.3 As a result the Campus SMG has agreed that WBC should progress the procurement of the non-hospital elements of the Campus. It should be noted however that the development appraisal referred to in paragraph 2.2 is based on there being a Hospital redevelopment as part of the overall Campus scheme.
- 2.4 In order to progress the scheme, the principles of how to assemble the land packages that are currently in multiple ownership need to be established and agreed. This paper does not discuss actual land values to be achieved.
- 2.5 The Campus has appointed Nabarro (supported by Grant Thornton and Drivers Jonas Deloitte) to advise all the Stakeholders on the appropriate approach. The Trust is the appointing body, and in the event of a conflict of interest, Nabarro's advice is to be seen as to the Trust, with the other bodies taking independent legal advice, if they consider necessary. To clarify, Nabarro's advice on these matters should be seen as independent professional advice.
- 2.6 This document is a summary of the detailed paper from Nabarro, which is attached as Appendix A. That paper was addressed to all the stakeholders and is not to be taken as advice to the Trust only; its purpose being to establish equitable principles for land equalisation as between all the stakeholders.
- 2.7 It should be noted that the recommended approach taken to land equalisation takes account of the current legal position on disposal of land by the Trust (as set out in Appendix A) but this will need to be kept under review in light of potential FT status and any changes in the legal position consequent to the Health Bill when enacted.

#### 3 Key Matters of Interest

- 3.1 There are a number of complexities in the current land arrangements and ownerships that need to be resolved, if each land owning organisation is to be able to demonstrate the achievement of value for money for their parcels of land. Examples of such complexities are:
  1. The timing of when each parcel of land is transferred
  2. The nature of the land interest transferred (freehold, leasehold etc)
  3. The future use of the land parcel
  4. The current use of the land parcel
  5. The extent of any overage or clawback clauses

6. The timing of “value release” for land transferred by the owner
7. How the un-developable land is valued
8. The value and recovery of non-land (cash etc) contributions made by each of the Stakeholders towards the Campus

- 3.2 Nabarro have considered the options available for the Campus in detail and have identified 4 options for the necessary land equalisation. A recommended approach has emerged.
- 3.3 The basis for all of these options is a “pooling” approach for the land. That is, all land is pledged to the Campus and only “drawn down” as and when the conditions precedent for the development of the necessary parcel are met and development commences. It is envisaged that the land would only actually transfer at this point, thereby minimising Stamp Duty Land Tax obligations. The options discussed below relate to how the value of the “draw down” land is established.

### 3.4 **Option 1 – Current Land Value PLUS enhanced Land Value**

#### 3.4.1 Description

This approach attributes land values entirely on the basis of current land holdings and land values/ uses, together with an allocation of future returns based on the actual values achieved at the time of the transfer of the land.

#### 3.4.2 Example

Therefore, if a Stakeholder has a demonstrated current land value of £1m, it would expect payment of £1m at the time of the land transfer AND a percentage split of any overage (the amount of value achieved by a development over and above a threshold agreed with the land developer) achieved for that land as it gets developed for the new use.

#### 3.4.3 Discussion

While this approach may seem logical, it does not reflect the fact that parcels of land owned by one organisation are essential for the development of key elements of the Campus by another land-holder. In effect this would not be a partnership approach. By way of example, this approach would not reflect that the Borough Council and EEDA own land that is essential for the delivery of the new access road and elements of the proposed Hospital site.

#### 3.4.4 Conclusion

This approach does not reflect the strategic interdependencies of the land holdings and the partnership approach adopted throughout the Campus.

### 3.5 **Option 2 – Pro-rata Current Land Values & Pro-rata Enhanced Value**

#### 3.5.1 Description

This approach would pool all land values and then reallocate the current value of that land to each Stakeholder in proportion to the area of land they have put in to the “pot”. The land-owner would then expect the same proportion of all overage achieved.

#### 3.5.2 Example

If a land-owner had 30% of land within the defined Campus land-owning they would expect 30% of the total current land value and 30% of any overage achieved.

#### 3.5.3 Discussion

This approach is a very simple method of sharing the land values of the current site and attributing the future land values to each land owner. It does not address the variation in current land use values, nor the varying ownership of the high future use land.

#### 3.5.4 Conclusion

This approach is overly simplistic and does not reflect the reality of how each parcel of land has a degree of genuine potential development value in its own right. It also fails to address the other “non-land” contributions made by each Stakeholder, for example the de-risking of sites (removal of contamination etc) and any potential contributions to infrastructure (such as for the road).

### 3.6 **Option 3 – Pro-rata Current Land Values & Weighted Distribution of Enhanced Land Value**

## by Area

### 3.6.1 Description

This approach would pool all land values and then reallocate the current value of that land to each Stakeholder in proportion to the area of land they have put in to the “pot”. This approach also enables the payment of “priority returns” (such as the return of early days cash investments for items like the road infrastructure) before the redistribution of the increase in the land values generated by the development adjusted by a weighting that reflects the extent of land ownership.

### 3.6.2 Example

A land owner with 30% of the land area would receive 30% of the current total land value and would then receive a proportion of the increase in land values achieved based on the proportion of their land owning. It is to be noted that this sharing of the increased land values would be AFTER “priority returns” had been provided for items such as up-front contributions to necessary infrastructure.

### 3.6.3 Discussion

This option creates a potential issue for any Stakeholder that has a current book value for its land that is greater than the pro-rata allocation of the current total land value (eg, if a Stakeholder has a £50m land valuation with only a 10% land area holding, against a current total land value of £60m). A further issue related to this option is that no overage based on actual development value is paid as the figures are calculated using forecasts and extent of land ownership.

### 3.6.4 Conclusion

This is a fairly sophisticated approach and more closely reflects the complexities of the land deals required, but there remain issues with the equity of the distribution of the gains achieved through the development.

## 3.7 **Option 4 – Weighted Land Value PLUS Weighted Distribution of Enhanced Land Value**

### 3.7.1 Description

Under this approach the future use and values of land are considered at the outset, with land transactions being conducted on the basis of agreed valuations for the future uses. Any enhancement in the overall development value of the total site (after payment of priority returns) is then distributed back to the land owners in accordance with a weighting based on the enhanced value generated by each party's land owning and reflecting the essential nature of certain parcels of land used for enabling and infrastructure works.

### 3.7.2 Example

The Trust needs to secure some land from the Borough Council in order to build the new hospital. The Trust pays the Council for that land based on its future use value (as a hospital). After relocating the hospital facilities the Trust is able to release the entirety of its land-holding to a residential usage and achieves a significant capital receipt. Some of that receipt (a pre-agreed percentage) is then shared with the Borough Council to reflect that they gave up the opportunity of developing their land in order to secure the hospital premises.

### 3.7.3 Discussion

This option requires that upfront valuations both of current and future land values are made and agreed. Further a weighting mechanism to redistribute enhanced value according to the extent to which the site generates that enhanced value is required to be agreed. Further work is therefore required before this approach can be put in to action.

### 3.7.4 Conclusion

This is the only option that equitably distributes enhanced land value and recognises the unique value brought to the wider site by some, nominally low value development land that is “sacrificed” to provide enabling and infrastructure space.

## 4 **Recommendations**

- 4.1 The recommendation from Nabarro to Campus Ops Group and Campus SMG was for Option 4 above to be adopted. Both Campus Ops Group and SMG agreed and endorsed this recommendation subject to formal board level approvals.

- 4.2 It is recommended that the Board consider this recommendation, take Chairman's action if agreed and formally ratify.

**Sarah Wiles**

Director of Strategy & Infrastructure