

**BRISTOL CITY COUNCIL  
CABINET**

**2<sup>nd</sup> February 2009**

**Report of:** Strategic Director of Neighbourhoods

**Title:** Proposed Regeneration and Development Company -  
Outline Business Case

**Ward:** Citywide

**Officer presenting report:** Nick Hooper, Service Director - Strategic  
Housing

**Contact telephone number:** 0117 922 4681

**RECOMMENDATION**

That the outline business case is agreed and approval is given to proceed with preparation of a detailed business plan, including procurement of a business partner.

**SUMMARY**

The report outlines the work undertaken in preparing an outline business case for a regeneration and development company, as part of the government initiative to pilot local housing companies. It highlights key issues needing consideration as part of the detailed business plan. The report also sets an indicative timetable for completion of the detailed business plan.

**The significant issues in the report are:**

- The approach taken to developing the business case and objectives for the regeneration and development company
- Key assumptions made in developing the financial model
- Key issues that will be dealt with as part of the detailed business case.

## **Policy**

1. The Corporate Plan has, as one of its themes, being Ambitious Together. This theme sets out that the city's prosperity should be more widely shared with a specific LAA target to increase the amount of new affordable housing by 1320 new affordable homes over the next 3 years. The establishment of a regeneration and development company will enlarge the number of development options available to the Council and help us to deliver this target. However it should be noted that this will be a long-run project (10-15 years) and most of what it will deliver will be at the back-end of, and beyond, the Corporate Plan period. In addition as this is intended to be a housing-led regeneration mechanism other outcomes will be delivered, including the creation of jobs through local labour arrangements.

## **Consultation**

### **2. Internal**

City Development, Neighbourhoods, Corporate Resources, Quality of Life Scrutiny Commission, Asset Management Board.

### **3. External**

Knowle West Project Board has been advised of progress (which includes all 6 ward Councillors), Janet Johnson, Homes and Communities Agency; Community in Partnership (acting as Knowle West Neighbourhood Partnership) has established a community planning group which has been briefed on the concept and on the regeneration framework. Further briefings are planned once Cabinet approval is gained.

### **4. Context**

- 4.1 The concept of a local housing company was introduced by the 2007 Housing Green Paper as a key way of delivering more new homes from Council owned land. Bristol City Council was announced as one of the 14 pilot authorities.
- 4.2 The idea is proposed as an incentive for Councils to bring forward their land for new housing and other development. More broadly the initiative

is one of the ways in which the Government aims to speed up the supply and quality of new homes. In its simplest form:

- It is a joint venture company formed by the Council and a Private Sector Partner to undertake development
- The Council invests land into the company matched by an equal cash investment by the private sector partner
- Is classified as a Private Sector company and is therefore off the public sector balance sheet
- Carries out development, including new homes which would typically include affordable homes for rent and low cost sale, intermediate housing for rent and sale at sub market levels, and homes sold on the open market. In addition in the case of the Bristol LHC it will include other uses too
- The Company will take some or all of the risk of development, it will therefore have the ability to take some or all of the rewards
- Typically such a Company would expect to deliver in excess of 750 new homes over 10-20 years

4.3 The Council has investigated the opportunity provided by the local housing company idea. The City Council has targeted Knowle West as an area where the Council and other public sector bodies own significant land, and where managed redevelopment of these sites could provide significant regeneration benefits. In the form proposed for Bristol it will be a regeneration and development organisation where the objective will be to develop a wide range of projects alongside housing. Once approval of the outline is granted a name will be chosen that better reflects this wider role.

4.4 The new company will be a development organisation. It will not retain or manage any housing stock or other property assets and is not therefore a means of creating an ALMO (Arms-Length Management Organisation) or for stock transfer. It may be able to transfer community assets to local organisations (using the Quirke proposals); this will be investigated at the detailed business plan stage.

4.5 With set-up funding from English Partnerships the Council employed a consultancy to develop an Outline Business Case to:

- Set out for the City Council what such a company is and the generic benefits for Bristol
- Provide guidance on the structure of a local housing company
- Provide options analysis comparing this approach against other, more traditional, development routes such as disposing of land on the open market or on a joint venture basis
- Provide a timescale for its implementation

## **5. Proposal**

### **5.1 Objectives**

- It is proposed that the main purpose of the company is to contribute to the regeneration of Knowle West and the wider aspirations for the comprehensive regeneration of South Bristol. It will be set in such a way that its geographical limits will cover the whole city, leaving open the possibility of taking on other projects in future.
- It will tackle regeneration issues, in addition to developing new homes by improving the range and quality of employment opportunities in the area, improving local retail centres, improving community and leisure facilities, health facilities and enhancing important areas of open space
- The Bristol Development Framework, currently out to consultation, focuses on South Bristol as the main area for growth in housing and new employment. From 2006 - 2026, it states that 11,000 new homes will be provided in South Bristol. The company will help us to develop sites for housing and maximise density, on sites that might not otherwise come forward for development, thus contributing to meeting the target for new homes, as well as minimising the need to develop green belt land.
- As a separate project a regeneration framework will be produced for Knowle West, which will look at each of these areas of improvement in detail, in consultation with the local community, in the context of the wider South Bristol regeneration objectives. This will provide the plan for which the company will be the development vehicle

- The financial appraisal has been undertaken on the basis of assumptions about the sites that might be included, as well as assumptions about cost, value, density, quality and other development requirements. The inclusion of particular sites will be ultimately determined by the regeneration framework and subsequent cabinet approvals. All the other assumptions will be rigorously tested as part of the detailed business case.

## 5.2 The benefits of a regeneration and development company in Bristol include:

- By investing its property as a 50% equity stake in the company, it no longer has to borrow up-front to acquire the land, thus saving substantial borrowing costs. In due course BCC will receive 50% of the company's project surplus which it will then re-invest by buying back additional service, such as an enhanced proportion of affordable housing, from the company. Because BCC takes its share of surplus as the development unfolds, rather than up-front, it takes a share of any uplift in property values over that period.
- As an equity owner of the company the City Council will have more influence on the sites developed - for example the type of homes provided and the quality of development and construction
- Market testing nationally indicates that private sector profit margins are lower when risk is shared with the public sector and there is a long-term flow of land; this provides more cash for the company to spend on items such as affordable housing
- The City Council saves the multiple costs of selling sites individually
- Delivery of schemes is likely to be faster than the traditional development process
- There is potential for wider involvement of the local community and stakeholders in major schemes

## 5.3 There are 2 stages to the establishment of the company. The first is an Outline Business Case, which establishes the main objectives, determining that it is legally possible to set it up, that the company is likely to be financially viable and is likely to attract an investor partner. Following cabinet approval a detailed business plan will be prepared, along with governance arrangements, formal legal establishment, and

procurement of a private sector partner. This stage will also attract set-up funding from English Partnerships. It is anticipated that the company will be formally established by the end of 2009.

## 6. Key Issues

In agreeing the outline business case and preparation of a detailed business plan the Council will be agreeing to:

- In principle commitment of land assets to the company. Whilst the precise programme and location of sites can be varied, it needs to be confident that an initial stream of development opportunities will be available from 2010/11
- Payments to the City Council for assets held within the HRA
- Deferred payments back to the Council for land held as Parks and Green Spaces
- In terms of structure, the company has been progressed on the basis of risk share between the Private Sector Partner and the City Council. Whilst this can be flexed at the Detailed Business Case stage, this approach will be endorsed in the OBC
- Confirmation of objectives namely:
  - Regeneration and focus on Knowle West
  - Enable the City Council to control the development programme
  - Promote quality and sustainable development in South Bristol
  - Plough back any surpluses accruing to the City Council back into the company to meet its objectives
  - Progressing individual site(s) to provide certainty to the Detailed Business Case financial model, and provide the opportunity for a fast start for the company once set up
  - Commencing the soft market testing of the concept to identify potential partners

## 7. Issues to be Resolved at Detailed Business Case Stage

- The relationship with other partners in particular Homes and Communities Agency, and Knightstone Housing Association (which owns a key parcel of land)
- Land to conclusively form the initial development programme for the company, phasing for these first sites and the impact on the debt profile from inclusion of some of the sites.
- Legal structure and governance for the company, including apportionment of risks and returns, Limited Liability Partnership (LLP) or Company Limited by Shares, City Council representation and influence
- Detailed funding structure including flows of equity, dividends, debt

- structure and key covenants including gearing
- Risk matrix and detailed sensitivity analysis
- Phasing of the schemes to ensure funding covenants are not breached
- Additional sources of funding in particular to support the infrastructure investment in two of the sites
- Procurement of partner

## **Other Options Considered**

8. These are covered in the option appraisal section in appendix

## **Risk Assessment**

9. An overall risk assessment has been undertaken by the consultants as part of the outline business case. This covers delivery, standards, financial return, viability, construction, housing management, default and procurement. A full and detailed risk assessment will be carried out as part of the detailed business plan, and the strategic risks have been incorporated into the Departmental Risk Register. The Outline Business Case is based upon independent valuation of land values and development costs. The current volatility of markets simply confirms the need to revisit these estimated values before finally committing to invest BCC property in the company but, as the project is anticipated to run over 20 years, it should not be particularly vulnerable to the current short-term uncertainties. The Council will need to make a contribution towards the set-up costs. This is a cashflow issue as these costs can be recovered once the company has been set up. Provision can be made in the capital programme. If for any reason the project does not proceed then the set-up costs will need to be underwritten by the enabling budget.

## **Equalities Impact Assessment**

10. This will be undertaken as part of preparation of the detailed business plan

## **Environmental Assessment**

The construction of a large number of homes will have a significant environmental impact through the use of materials and energy, the creation of waste and changes to land use. The operation of the homes will have a significant impact over many years, especially through the use of energy resulting in the emission of carbon dioxide. The homes will also need to cope with significant changes in weather as a result of climate change.

The City Council is committed to sustainable development of the area by building homes to the highest practicable standards to reduce environmental impacts and provide quality homes that have low energy bills. We will pursue these goals through the development of the business case, procurement, planning and development process.

## **Legal and Resource Implications**

### **Legal**

The City council has the legal powers to participate in a local housing company and to use its landholding as its investment in it, receiving best consideration for its land in the form of a share of the project's development profit rather than in an up-front cash payment. At this stage the exact legal structure remains to be settled following soft marketing of the project, and it will be necessary to design a legal structure which is tax-efficient and within the powers of the City Council.

As set out above, the City Council has to get best consideration for its land, unless it gets the consent of the Secretary of State (since the value would be above the £2m discount). Hence the legality is that it must take its share of profit as consideration for its land, but then it pays the company for enhanced service/extra facilities.

**Peter Keith-Lucas, Bevan Brittan**

### **Financial**

The business case and financial modelling conducted by Ikon Consulting for Bristol are based on H.M. Treasury standards and indicate that the scheme is viable and potentially attractive to private sector partners. The major assumption is that the current deterioration in house price and land values will improve in the longer term and the Council will benefit as a joint venture partner from the subsequent appreciation in value.

There do not appear to be any barriers to the transfer of surplus HRA assets into the portfolio of land invested in the company, should that be decided at detailed business plan stage. Other land held by the Council will be gifted to the company, except land held under the Parks and Open Spaces Strategy, where it has been assumed that there will be a deferred payment back to the Council



A key issue for the Authority will be the governance and accounting rules that emerge in the design of local housing companies and the legal vehicle they will form. The intention is that they are 'off balance sheet' private sector-controlled separate legal entities, however, if the proposal creates an 'influenced' company (possibly a 'controlled' company) this would in turn have a major impact on the Authority's financial accounting, including the requirement for Group Accounts, etc. The Authority will closely monitor the emerging guidance and participate in the national learning network hosted by Homes and Communities Agency to assess the accounting impact.

**Simon Bowker, Head of Finance (Neighbourhoods)**

## **Personnel**

N/A

## **Appendices:**

Appendix 1 - Outline Business Case - This appendix is exempt under category 3 of part 1 of Schedule 12(A) to the Local Government Act 1972 as amended by Section 1 of the Local Authorities (Access to Information) (Variation) Order 2006.

## **ACCESS TO INFORMATION Background Papers**

Local Housing Companies - Pilot Guidance (English Partnerships)