

**SOUTH EAST ENGLAND
REGIONAL HOUSING BOARD**

Date: 5 September 2007

Subject: **Brownfield Land Assembly Company (BLAC)**

Report of: Head of Housing and Urban Renaissance
South East England Development Agency

Recommendations:

It is recommended that the Regional Housing Board:

- i) confirms its support for the approach pioneered by BLAC;
- ii) instructs the Project Team to develop detailed proposals for the administrative and contractual arrangements for Board's investment in BLAC based on the framework set out in this paper;
- iii) instructs the Project Team to work with BLAC to develop a programme for the Board's consideration at its meeting in January 2008.

Purpose of Report:

At its last meeting the Board was given a presentation on the work of the Brownfield Land Assembly Company (BLAC). In its funding submission to Government the Board has indicated its support in principle to invest £30m over three years in BLAC. This paper provides the information sought by the Board on a number of issues raised by the Board during its discussion on BLAC.

Key Issue:

The Board needs to satisfy itself that the proposed administrative arrangements are acceptable.

1. Purpose of BLAC

- 1.1 The Brownfield Land Assembly Company (BLAC) is a company limited by guarantee, with the purpose of acquiring and remediating packages of small brownfield sites (typically less than 0.25 ha) for housing in the South East. It has been established to take forward the work of SEEDA's Brownfield Land Assembly Trust (BLAT) which was set up as a pilot project to remediate small derelict brownfield sites for sale in clusters for affordable housing.
- 1.2 BLAC's approach is focussed on identifying and purchasing clusters of derelict sites that are subject to market failure and therefore not otherwise coming forward for development. By remediating and selling as local portfolios for housing development, BLAC is able to release economies of scale thereby making otherwise uneconomic schemes viable.
- 1.3 BLAC is an example of the public sector acting as a catalyst that enables beneficial development to come forward in situations where market failure would otherwise prevent it from so doing.

2. Addressing Market Failures

- 2.1 Sites can suffer from market failure for a variety of reasons such as: derelict and on the market for more than two years; incomplete or defective legal title; sale prevented by contamination; reclamation costs preventing market sale or a failure at auction.
- 2.2 These sites benefit from public sector intervention that is targeted at reducing the risks associated with them, which often result in RSLs being unable or unwilling to develop them. These risks include:
 - i) Risks of cost over-runs – much of the risk associated with cost is in finding out the full extent of remediation required. By remediating the sites and making all site investigation reports available to the purchaser BLAC removes this element of risk from the development. Furthermore by grouping sites together in small clusters, economies of scale can be realised which reduce costs per site;
 - ii) Risks associated with timing – time can be just as much a barrier to development as cost, with certainty required regarding funding and delivery. By selling what are effectively 'oven ready' sites, the risk of timing slippage is reduced. As mentioned above, economies of scale can be realised through dealing with small sites in clusters. However this only works if they are ready at the same time. By concentrating on this process BLAC is able to release sites together;
 - iii) Risks associated with planning and design - A small site may be seen as harder to develop, with more time being needed to deal with the design challenges often associated with small sites and no guarantee that planning will be given for the number of homes needed to make a scheme viable. BLAC prepares a design guide for the site to help

prospective purchasers develop their proposals. Following marketing a sale is negotiated subject to planning with completion taking place once satisfactory planning has been obtained.

- 2.3 Many of the sites that BLAC deals with will be under the threshold set by many Local Authorities for affordable housing. While LA policies are changing in response to PPS3, even if there is a threshold, these sites will often only deliver one or two affordable units, whereas BLAC can insist that not only is affordable housing provided on such sites as a condition of the sale of the remediated site, but that the provision is 100% affordable. BLAC can specify the tenure of property developed on a particular site to reflect identified local housing needs.
 - 2.4 Many of the sites which BLAC deals with contain derelict buildings (bus garages, pubs, lock-up garages etc) which can provide a venue for anti-social behaviour. Remediating the sites to enable housing has a beneficial social effect to the community in removing this dereliction.
 - 2.5 BLAC supports developments which incorporate best practice in design, technology and sustainable materials and will insist that all developments be rated under the Code for Sustainable Homes at Level 3 or Level 4. BLAC is also keen for developers to embrace new methods of construction where appropriate and would support using its sites to trial new construction techniques to achieve carbon neutral schemes.
 - 2.6 BLAC works in partnership with local authorities and housing associations, contractors and private sector developers, to plan and secure the provision of new homes to meet identified local housing needs – principally affordable and key worker housing.
- 3. Public Sector Investment**
- 3.1 Public sector investment to bring forward derelict sites will be required to address two discrete issues:
 - i) the purchase and remediation of a site (funded through BLAC)
 - ii) the construction of the affordable housing (funded through RSL/HC)
 - 3.2 Both activities are part of the same development process and may release economies of scale which will reduce the total call on public sector investment.
 - 3.3 Experience shows that the greatest element of risk in bringing forward sites lies in the remediation works. It is this uncertainty that often discourages a RSL from bringing forward a proposal for consideration by the Housing Corporation. The benefit of BLAC lies in it being a mechanism that allows the public sector to provide the catalytic effect that overcomes this barrier to delivery. This is an improvement on the existing situation wherein this risk would have to be factored by the promoter (e.g. an RSL) into the submission for funding to construct the affordable housing. However, such are the potential risks for the promoter that they are unlikely to be willing to take

this on. As a result proposals that could lead to a beneficial development coming forward fail to materialise.

- 3.4 BLAC is a 'not for profit' company. Values realised through the sale of remediate sites is recycled by the BLAC and re-invested in bringing forward further sites. There may be cases where the value recycled is less than the initial investment. However, there are considerable benefits which flow from the Board acting as a catalyst for sites to come forward for development.
- 3.5 In order to illustrate this process and the costs involved it may be useful to look at an example of a site which was dealt with under SEEDA's BLAT pilot scheme as detailed in Annex I.

4. Reporting and accountability

- 4.1 BLAC is a properly constituted company limited by guarantee, regulated by the Companies Acts and with directors from SEEDA, Hyde Housing Group and Barwick Construction Services. The company secretary is Duncan Finn FCCA, who is also company secretary for Barwick Construction Services. The company holds monthly board meetings at which progress reports are considered and all contractual agreements are signed off at director level.
- 4.2 BLAC's operations are governed by its Memorandum and Articles of Association which are available for inspection and its processes controlled by its internal financial regulations which are also available. All costs of running the company itself are covered by its three members leaving all grant funding monies to be spent on projects. In addition SEEDA is funding project development including the costs of looking for sites.
- 4.3 It is proposed that BLAC will provide a site by site progress report to the Board on a six monthly cycle, or at intervals agreed with the Board. In addition BLAC's accounts will be made available to the Board upon request and a full set of year end accounts sent to the Board each year.
- 4.4 BLAC will be fully accountable to the Board through a funding agreement (described in the section on contractual arrangements below) which will require Board approval to the sale of remediated sites including who the site is sold to, the price and the proposed scheme. In addition it guarantees the full value of the net receipt from the sale plus any unspent project funds. This effectively provides a first legal charge over the property.

5. Prioritisation

- 5.1 BLAC's area of operation covers the whole of the South East. However it is flexible as to where it operates within this area and within the funding agreement (mentioned in contractual arrangements below). The Board has the option of providing guidance to BLAC on priorities for investment. It is recommended that at this stage in the development those priorities should reflect the recommendations set out in the funding submission to Government.

5.2 Much will then depend upon when and where sites are available for development that will meet the particular local housing need. In addition the BLAC model seeks to cluster small sites together and some sites may be given priority because of their match with others which are being, or have already been, acquired. However, ultimately it will be for BLAC to agree with the Board where and when sites are to be pursued.

6. Administrative Arrangements

6.1 BLAC has funding agreements with English Partnerships and SEEDA. It is proposed that the Board's interests are protected through a similar contract which would lay down the criteria for the sites to be procured and include a clawback arrangement entitling the Board to the full receipts of the sale. The site criteria could include location, size and even type of accommodation if need be.

6.2 BLAC would present proposals to the Board for each site it wished to buy. This would detail the total spend (including all remediation costs) together with the anticipated sales receipt. SEEDA has an established appraisal process which is used to evaluate all its projects and it is proposed that BLAC follow this format when presenting proposals. If the Board wished, SEEDA could be asked to appraise and report on each BLAC proposal as if it were a SEEDA project.

6.3 All remediated sites will be openly marketed. Both Hyde Housing and Barwick Construction are at liberty to bid for sites marketed in this way but must first have declared their interest and bid in accordance with the market criteria. No parties will enjoy preferential treatment and all members are keen to show that marketing and sales are open and transparent.

6.4 Subject to approval of the project, it is proposed that funds would be drawn down on a project by project basis. It is recommended that the Housing Corporation act as banker for the funds identified by the Board as being potentially available to BLAC. An application for funds would be made by BLAC to the Housing Corporation once the Board has given its support for a proposal. The funds would then be drawn down when BLAC is about to exchange contracts on site acquisition.

6.5 Receipts from the sale of sites will be payable to the Board via the Housing Corporation (Annex II). This arrangement would also ensure that any unspent funds could be utilised by the Housing Corporation to support the affordable housing programme elsewhere.

Contact: Pat Tempany, Head of Housing and Urban Renaissance, SEEDA
T: 01483 484260
E: PatTempany@seeda.co.uk



Location and description

Site of the former 'Plough' public house comprising 0.07 ha (0.17 acres) with an existing planning consent for 10 flats. The building was derelict and synonymous with squatters and problems of drug abuse.

Project activities

The property was acquired and surveys, including ecological and geo-technical investigations, were carried out and all buildings demolished. BLAT negotiated a sale to Amicus Group subject to planning and supported them in a new planning application for 14 two bed flats for vulnerable people, on condition that the scheme be built to an eco-homes standard of 'Very Good' which was in excess of the minimum standard of 'Good' required at the time by the Housing Corporation. It was agreed that the improved eco-standard would increase build costs by £12,200 and BLAT agreed to reduce the sale price by this amount to enable Amicus to meet the standard. The sale was completed once planning was obtained and the benefit of all survey reports which were novated to Amicus by BLAC at no extra cost.

Costs

BLAT purchased the site for	£ 465,000
Total costs including site remediation and sales costs	<u>£ 82,900</u>
	£ 547,900

Sale receipt	£469,700	
Less: Reduction for improved Eco-homes	<u>£ 12,200</u>	
		<u>£ 457,500</u>

Net cost to BLAT **£ 90,400**

Housing Corporation grant for development
£1,958,000

Total public sector costs for development **£2,048,400**

Cost analysis

BLAT subsidy	£90,400
This achieves:	

Improved eco-homes rating (otherwise funded by H.C.)	£12,200	
Demolition and site surveys (otherwise funded by H.C.)	<u>£52,600</u>	
		<u>£64,800</u>
		£25,600

Of the £90,400 public sector funding from BLAT, £12,200 was attributable to a reduced sale price to take account of the costs associated with the improved Eco-homes standards which BLAT required. For Amicus to otherwise achieve this standard it would have had to add this sum to its bid for Housing Corporation grant. Costs of demolition, surveys and project management incurred by BLAT amounted to £52,600 and this cost would also have otherwise been needed from Housing Corporation grant funding. This leaves a residual BLAT subsidy of £25,600. However we understand that the saving Amicus made as a result of securing a reduced development cost through economies of scale equated to approx £86,000 for three sites. This is because in addition to The Plough, BLAT also sold two other sites to Amicus in Swale. Amicus was able to group two of these (The Plough and a site in Hythe Road) with one they already owned at Chilham Close, Sittingbourne which they had not previously been able to develop. As a result they achieved a reduction in development costs as a result of economies of scale which manifested itself through the contractor lowering its preliminary costs per site and reducing its profit margin. This reduced the grant requirement for all three sites and meant that the site at Chilham Close became viable to develop. Amicus-Horizon Development Director, Mark Miles-Lea, has commented

'Swale HA ended up acquiring a number of sites from BLAT in Sittingbourne, including the Plough and Hythe Road. All these sites were of 15 units or less, and so it was very difficult to achieve any economies of scale in construction, although they were all within a few miles of each other. Swale HA therefore tendered these sites as a single package so that one contractor would construct all the sites, and thus achieve some economies in terms of overheads.'

PROPOSED FUNDING FLOW CHART

