

**SOUTH EAST ENGLAND
REGIONAL HOUSING BOARD**

Date: 5 December 2007

Subject: **Brownfield Land Assembly Company**

Report of: Housing Policy Advisor
South East England Regional Assembly

Recommendations:

It is recommended that the Regional Housing Board:

1. Agree that English Partnerships act as the accountable body for its investment in the Brownfield Land Assembly Company (BLAC).
2. Request the Project Team to work with BLAC and English Partnerships to prepare a funding agreement that sets out the basis on which the investment in BLAC is to be taken forward.
3. Establish a Project Committee as a sub-group of the Board for the purpose of project consideration and monitoring purposes.

Purpose of the Report:

To address specific concerns raised by Board members at the previous meeting in respect of the financial criteria, administrative and contractual arrangements for its investment in BLAC.

Key Issues:

BLAC invests in small brownfield sites in urban areas which would not otherwise come forward for development due to the unpredictable nature of remediation costs. The sites are remediated and sold on to be developed for affordable housing. Receipts raised through site sales are recycled into further site purchases.

The report shows how for a (net) cost of £7.4m the Board's investment will enable sites to the value of £30m to come forward for affordable housing. In addition to ensuring that all housing on these sites was affordable, the Board's involvement in the project will enable it to exercise leadership through setting higher standards for tenure, density, design and environmental quality than would otherwise be the case.

1. Context

- 1.1 This report clarifies the points raised by the Board at its last meeting in relation to the proposed investment in a portfolio of brownfield land through BLAC.
- 1.2 Since that meeting the Housing Corporation has advised that it is not empowered to hold funds for the scheme, however, BLAC has entered into a separate funding agreement with English Partnerships which could form a model for the relationship between BLAC and the RHB.
- 1.3 Further enquiries have clarified the position regarding reallocation of any unused funds to the Housing Corporation.
- 1.4 Additional analysis indicates that it is reasonable to assume that 75% of funds invested would become available for recycling in the following year, reducing the net financial commitment by the Board to £7.4m over the life of the project.
- 1.5 The draft Business Plan (Annex A) sets out how the scheme would operate and the provision made for risk management. Financial risk is further controlled at individual project level by comparing the anticipated costs of improving sites with the likely increase in value brought about by those improvements.

2. Proposed Funding from 2008/09 to 2010/11

- 2.1 It is proposed that the Board's investment over the three year period would be £18.7m (gross), falling to £7.4m (net) when all sites have been sold and receipts are returned. This is illustrated in the Business Plan by a table (Appendix 2) and a flow chart (in Appendix 3).
- 2.2 Based on analysis of sites which SEEDA worked on under its pilot Brownfield Land Assembly Trust (BLAT), an average net cost of 25% per project has been assumed. This includes the level of discount offered for improved sustainability standards. This cost should be considered in the context of the cost savings and social benefits which the programme releases as set out below.

3. Value for Money and Other Benefits

- 3.1 BLAC seeks to unlock small, problematic sites which are, by their nature, difficult to deal with; hence the forecast net cost of 25%. However savings can be achieved elsewhere in the development process or value added in terms of outcomes:
- 3.2 Cost savings through clustering
 - 3.2.1 Small sites tend to be more costly when developed in isolation. BLAC addresses this by acquiring local clusters of sites for development as a package, reducing overheads per site and enable the developer to achieve economies of scale. Releasing cost savings at the building stage can reduce the level of grant funding required (if any). The net costs to BLAT of sites in Sittingbourne were more than covered by the reduced build costs to the housing association; this was in turn reflected in a reduced level of Housing Corporation grant funding required.

3.3 Cost savings through risk reduction

- 3.3.1 Despite clustering, small sites could remain undeveloped and fall into dereliction because of concerns regarding the level of financial risk which they present to a developer should remediation costs (such as dealing with contamination) exceed expectations. Absolute profit on a small site is limited and more susceptible to an unforeseen rise in costs which would make the development uneconomic. Removing this risk by remediating sites and ensuring that the purchaser of the site benefits from all warranties gives greater certainty, reducing the level of provisional sums required within the building contract. Again some of this cost can be offset against construction costs and will reduce the level of grant funding required.
- 3.3.2 The cost of remediating this type of site will always be unpredictable. By working continuously with such sites BLAC is developing unparalleled expertise in estimating and managing such costs.

3.4 Sustainable construction premium

- 3.4.1 BLAC promotes sustainable construction by encouraging developers to produce schemes with higher sustainable credentials than they would otherwise build. Standards are set on a site by site basis. Estimated additional build costs are offset by a reduction in the market value of the site, enabling the developer to meet higher targets without the need for additional grant from the Housing Corporation. BLAC is keen to use this method to achieve Code for Sustainable Homes level 4 and above and to trial carbon neutral schemes.

3.5 Social benefits

- 3.5.1 The BLAC approach delivers social benefits in addition to the number of homes provided. Run down and derelict locations can attract criminal or anti-social behaviour with associated costs to local communities and agencies. Regeneration of such areas can play an important part in improving the quality of life of those who live and work in the local community.

4. Governance

- 4.1 BLAC will be responsible to the Regional Housing Board and representatives through a Grant Funding Agreement. This will set the criteria under which funding is provided, indicate the type of sites that should be put forward for consideration and establish a procedure in the event that the relationship is terminated. BLAC already has such an Agreement with English Partnerships. It is suggested that this be used as a template for an agreement between BLAC and the Board who, in this case, could be represented by English Partnerships.
- 4.2 English Partnerships have agreed to facilitate the draw down of funds from CLG on behalf of the Board. Funds would be drawn down on a project by project basis following approval from a Project Committee acting on behalf of the Board. It is proposed that membership of the Committee should consist of a representative from each of the following; the Regional Assembly, English Partnerships, the Housing Corporation and SEEDA. It is proposed that the Committee meet monthly.

- 4.3 It is proposed that BLAC be required to provide the Board with quarterly update reports on both sites in progress and those under consideration including a strategic review.
- 4.4 The value of all sales receipts (including any profit) from land purchased through this arrangement will be due to the Board. The Board would have the right to determine whether the funds recovered were recycled back into BLAC for new projects or returned for reinvestment in alternative priorities identified by it.
- 4.5 If there were a surplus of funds (including receipts) that would not be used in a particular financial year, this would need to be reported to CLG in order that they can be re-directed to the Housing Corporation. It is proposed that such an assessment would need to be done by the end of December.
- 4.6 If, as a result of the annual review, or at the end of three year pilot period, the Board decides not to continue with its investment in BLAC all unused funds would be returned to the Board; any remediated land still held by BLAC would be sold and the receipts passed on to English Partnerships.

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20 November 2007

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