Commercial and Financial Options Structuring

Bournemouth Christchurch and Poole Council

—

September 2021

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In particular, and without limiting the general statement above, since we have prepared this report for the benefit of the Client alone, this report has not been prepared for the benefit of any other local authority nor for any other person or organisation who might have an interest in the matters discussed in this report.

Our work commenced on the 5th August 2021 and the report was completed on 22nd September 2021. We have not undertaken to update our presentation for events or circumstances arising after that date

In preparing our report, our primary source has been information received by the Client and representations made to us by management of the Client. We do not accept responsibility for such information which remains the responsibility of management. We have not, however, sought to establish the reliability of the sources by reference to other evidence.

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Executive Summary

Executive Summary

Background & Scope	— Bournemouth Christchurch and Poole Council (BCP or 'the Council') has an ambitious capital programme in order to deliver its regeneration vision for the city region, comprising approx. at least 18 investments with an estimated gross development value of Council-owned sites alone nearing £1bn over the next 5 years. — Each investment within the programme varies considerably in terms of scale, complexity and the level of business planning and feasibility assessment undertaken to date. These range from small, discrete housing schemes (approx. £2m), redevelopment opportunities in town centres to large mixed use regeneration projects on significant sites of regional interest such as the former power station at Holes Bay seeking to deliver 800+ new homes in new communities. — The Council has appointed KPMG to undertake an options appraisal of the different commercial and delivery models available to BCP to deliver their capital projects based on its objectives and constraints.
BCP's objectives and constraints	— In order to assess the different commercial and delivery options available to the Council to deliver its capital plans, a set of criteria were developed in discussion with the Council. These are aligned to the Council's short, medium and long term objectives, seeking to evaluate the following: - the scale and pace at which delivery of the Council's regeneration aims is achieved; - the extent to which the proposed structures generate capital receipts in line with the timing constraints of BCP's wider regeneration and transformation plans; - the level of financial returns generated by the option for the Council both in the short and longer term; - the extent of control retained by the Council over the development including land use, design/specification and operational activity; - the level of risk retained by the Council including construction, demand/sale risk, operational and financing risk; and - the complexity involved in delivering the structure in terms of required management capacity and skills.
Commercial delivery structures under consideration	— Based on the above objectives, several delivery structures have been considered as follows: - Option 1 where the Council finances, develops and lets/sells the completed developments to third parties itself; - Option 2a where a Council owned subsidiary develops and manages the assets using debt and equity funding provided by the Council; - Option 2b is as per Option 2a with the SPV securing borrowing from third parties using a financial guarantee from the Council; - Option 3 is an income strip model where the Council grants a headlease over its land assets to a pension fund in return for capital funds, and commits to paying a predetermined rent over an agreed period (usually 30-50 years) with reversion of the asset to the Council at the end of that period; - Option 4a is Contractual Joint Venture where a development agreement is entered into with a development partner whereby the Council transfers its land assets in return for land payments, a contractual share of future income and potential future overage payments; - Corporate 4b is a Corporate Joint Venture ('JV') model whereby the Council forms a new JV entity with a developer/investor partner and transfers its land assets on phased basis on a long leasehold in return for a mix of land payment and an equity share in the JV; - Option 5 is a direct land sale model where the Council would sell its land assets to a third party (with or without planning consent). — Each structure is underpinned by different commercial arrangements, will lend itself to different types of assets/development projects from BCP's capital programme and meets BCP's different objectives to various degrees. These are assessed in more detail on pages 13-29.

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— A variant to Option 2a (Council ow ned SPV) w hereby the Council disposes of its assets to its w holly ow ned SPV and subsequently leases it back has been discounted as it is unlikely to provide good value for money and in our assessment it is probable that the original borrow ing undertaken by the Council (to fund its on-lending to the SPV solely to enable it to buy assets from the Council) w ould be expected to be deemed to be for an improper purpose (namely to artificially create capital receipts).

— Set out below is our indicative evaluation of the different structures assessed against the Council's evaluation criteria:

BCP Objectives	Option 1: Build & finance yourself	Option 2a: Council ow ned SPV	Option 2b: Council ow ned SPV with guarantee	Option 3: Lease solution direct with funder	Option 4a: Contractual JV	Option 4b: Corporate JV	Option 5: Direct Sale
Delivers regenerations aims	Amber	Amber	Amber	Amber	Amber	Amber	Red
Delivers capital receipts by 2025	Green	Amber	Red	Amber	Green	Green	Green
Value for money/ Financial Return	Amber	Amber	Amber	Red	Amber	Amber	Red
Control retained by the Council	Amber	Green	Green	Amber	Amber	Amber	Red
Risk exposure	Red	Amber	Amber	Red	Amber	Amber	Green
Management capacity an capability	Amber	Amber	Amber	Amber	Amber	Red	Green

— Option 1 may not be able to fully deliver the Council's ambitious regeneration aims at the required scale and pace given the additional borrow ing, resources and expertise required particularly for the delivery of the large mixed use tow n centre redevelopments w hilst exposing the Council to significant levels of risk. How ever, the option may be suitable to the requirements and needs of specific individual projects.

— Option 2a and b w hilst offering some segregation betw een BCP's core activities and its commercial and real estate developments, do not bring in any new capital or development or operating expertise and therefore rely on the Council's borrow ing capacity and expertise for implementation as w ith Option 1. Option 2b does not offer a straight forw ard mechanism to extract capital receipts (rather than dividends) given the Council's investment in the SPV is through equity capital only and there is no direct means – such as the repayment of loans – w hich w ould enable the SPV to make cash payments to the Council on an ongoing basis w hich w ould score as capital receipts.

— Option 3 (Income Str ip solution) is not considered to offer good value for money over Option 1 given extent of risk taken by the Council and the associated cost of finance impacting the level of returns retained by the Council. In addition, in order to achieve the des ired accounting treatment, the Council w ould need to dispose of the completed assets therefore losing the long term interest in the developments. The implementation of this option should take into account the guidance provided in MHCLG's (now DLUHC) Capital Finance Framew ork on assessing the commercial and financial risks to w hich the Council may be exposed to under such an approach and ensuring that they are appropriately mitigated.

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— Options 4a (Contractual JV) and Option 4b (Corporate JV) offer a good balance betw een delivering the Council's regeneration vis ion at required scale and pace particularly for the more complex large scale redevelopments, securing commercial upside for the Council from redevelopment, allow ing the Council to exert an optimal degree of of control/ influenc e over the development in terms of use mix, design/development and operational activity either contractually (Option 4a) or through a minority equity stake and governance structure w ith representation at JV Board level (Option 4b) and dow nside ris k mitigation by procuring an Inv estment Partner/ Developer responsible for masterplanning, gaining planning consent, redevelopment and securing occupiers, w ithout compromising the accounting treatment;

— Option 5 offers a quic k solution to secure a capital receipt in a short space of time given the Counc il's minimum requirement to achieve capital receipts by 2025 how ever, it does not allow the Counc il to exert any control over the land use going forw ard to achieve its regeneration aims and the Council w ill not benefit from longer terms value gains from redevelopment.

— Our analysis also show s that there are a range of structures that are better suited to specific schemes from BCP's capital programme, specifically:

- The large mixed use regeneration schemes could be delivered through a corporate joint venture w ith an investor or delivery partner w ho could bring access to additional funding as required for the Boscombe Tow n Centre scheme, specific land ow nership interests needed for the Heart of Poole scheme w hich assumes the acquisition of Brow nsea House or specific skills, know ledge and expertise as required for the Bournemouth International Centre w here experience of operating conferencing and events facilities may be required to achieve BCP's ambitions for this project

- The housing schemes inc luding some of the larger residential redevelopments such as Turlin Moor could be facilitated by a dedicated Counc il ow ned SPV (Option 2a), w hether by increasing the scale and remit of BCP's existing housing subsidiary, Seascape Homes and Property Limited or by creating a separate SPV to br ing forw ard these developments and potentially recruiting skills and experience not available w ithin the Council

- The leisure facilities at Queens Park and medical science and research development at Wessex Fields w ould benefit from a guarantee SPV structure (Option 2a) w hich w ould strengthen the demand case for raising the required financing

— Further analysis is needed to refine the options evaluation, inc luding the Council's consideration of w hich criteria are most important to the delivery of its strategic objectives and applying suitable w eightings against each criterion as w ell as a more in depth understanding of the schemes and projects w ithin the Council's capital programme (including feasibility assessments).

— Whilst we have presented these as discrete options, in reality a large regeneration project could combine aspects of different options – i.e. the Counc il may direct fund some elements, sell others plots to raise capital and enter into more complex JV or guarantee arrangements for others. The detail of this needs to be considered on a project by project basis in more detail than is in the scope of this report.

— Many of the options assessed have merit and could be applied in certain situation. Rather than there being one option that fits all projects, it is likely that across the portfolio of projects that BCP is considering that different models w ill be applicable. The r ight model w ill depend on the project particulars, w hilst the Council w ill also need to consider the combined impact on financial capacity, risk profile, management capacity and financial impact across its portfolio of projects.

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Background & Scope

Background & Scope

- Bournemouth Christchurch and Poole (BCP or ' the Council') have developed an aspirational regeneration vision for the city region to become one of the best coastal places in the world in which to live, work, invest and plan.
- Underpinning this vision is BCP's Big Plan which involves five large capital projects that will deliver significant changes across the whole area and support the creation of an estimated 13,000 jobs across all sectors of the economy as well a number of wider capital plans aimed at increasing BCP's housing provision and leisure facilities.
- The Council wishes to explore how to best to structure the delivery of these major projects in order to realise these opportunities and ambitions.
- KPMG has been appointed by BCP to undertake an options appraisal of the different commercial and delivery models available to BCP to deliver its capital projects. Specifically this report aims to set out:
  - an overview of the sites under consideration for development opportunities;
  - the range of potential options available to the council to deliver the projects and extract capital receipts which includes simple mechanisms such straight land sales to more complex structures including JV partnerships;
  - the evaluation criteria based on BCP's objectives and constraints used to appraise the different commercial options identified;
  - an initial qualitative assessment of the identified options against the evaluation criteria; and
  - consideration of next steps including quantitative evaluation of all the options being assessed, detailed accounting and taxtreatment commentary and other commercial considerations needed for implementation of the preferred options.

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Background & Scope

Overview of BCP's Major Capital Projects

— Alongside BCP's Big Plan, reflecting the scale of BCP's ambition, is a large and diverse capital programme, comprising approx. at least 18 investments with an estimated gross development value of Council-owned sites alone nearing £1bn over the next 5 years. Each investment within the programme varies considerably in terms of scale, complexity and the level of business planning that has been undertaken to date. These range from small, discrete schemes (approx. £2m), redevelopment opportunities in town centres to large mixed use regeneration projects on significant sites of regional interest such as the former power station at Holes Bay seeking to deliver 800+ new homes in new communities.

— Below is a summary of the different projects with more detail available at Appendix 1:

1. **Large scale mixed use regeneration projects**
   - Heart of Poole/ Town Centre North regeneration
   - Holes Bay (Former Power station site regeneration)
   - Boscombe Towns Fund Programme
   - Cotlands Road Car Park (BDC scheme)
   - Winter Gardens (BDC scheme)
2. **Housing led developments**
   - Civic Centre Poole: (300-326 units)
   - Civic Centre Christchurch (partly retained for mayoral services)
   - Oakdale redevelopment (80 units)
   - Chapel Lane (70 units)
3. **Housing schemes with transfer to HRA**
   - Turlin Moor Housing Development (350-400 units)
   - Constitution Hill (80-100 units)
4. **PRS schemes acquisition**
   - Carters Quay (161 units)
   - Richmond Gardens (211)
5. **Medical, science and research development**
   - Wessex Fields: including keyworker accommodation (500 units)
6. **Leisure/events/conferencing facilities**
   - Bournemouth International Centre
   - Queens Park Acquisition
7. **Proposed site disposals for residential schemes**
   - Broadwaters
   - Beach Road

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Overview of BCP's objectives

Overview of BCP's objectives

Based on initial discussions with the Council, we have developed a set of evaluation criteria to assess the suitability of each of the options under consideration, aligned to the Council's short, medium and long term objectives as follows:

#	Criteria	Description
1	Delivers regenerations aims/speed	— This criterion assesses the scale and pace at w hich the Council's regeneration vision is delivered
2	Delivers capital receipts by 2025	— The Council has a target to extract capital receipts from its land holdings and disposal programme in line w ith the timing constraints from its w ider transformation programme. This criterion assesses w hether the option delivers capital receipts by 2025 and the flexibility to use of those capital receipts. — This criterion also assesses the accounting treatment impact of the different options on: compliance w ith Prudential Code and Borrow ing Limits, impact on BCP's revenue and capital accounts, Impact on BCP's SoFP in its ow n right as a Local Authority and Impact on BCP's consolidated group accounts
3	Value for money/ financial return	— This criterion measures the level of financial returns generated by the option for the Council both in the short and longer term, including upfront capital, or share of ongoing revenue streams through equity returns, overage pay ments or ground rent, taking into account cost of capital, transaction costs and friction costs such as tax (SDLT, CT and VAT).
4	Extent of control retained by the Council over the development	— *Control over land use:* This criterion assesses the extent of control retained by the Council over the range of uses for the sites. — *Control over design and specification:* This criterion assesses the extent of control retained by the Council over the design and service specification for the new developments including massing assumptions, consideration of the volume and quality of residential and commercial units developed — *Control of operational activity:* the level of Council input into the operation of the new developments on a day to day basis or at a more strategic level exerting influence over the strategic direction of the development
5	Council risk exposure	— *Construction/development risk*: This criterion assesses w hether the option w ould effectively transfer the design and construction risk to a third party — *Demand risk*: The criterion assesses w hether the option w ould effectively transfer the demand/occupancy/sales risk to a third party. — *Operational risk*: This criterion assesses w hether the transaction w ould effectively transfer the operational risk to a third party (maintenance of the development). — *Financing risk*: This criterion assesses the extent to w hich responsibility for securing financing for the development rests w ith a third party w ithout seeking any guarantees or imposing financial obligations on the Council.
6	Management capacity and capability	— This criterion assesses the complexity of the option to deliver and implement in terms of required management capacity and skills

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Potential Commercial Delivery Structures

Commercial Delivery Structures

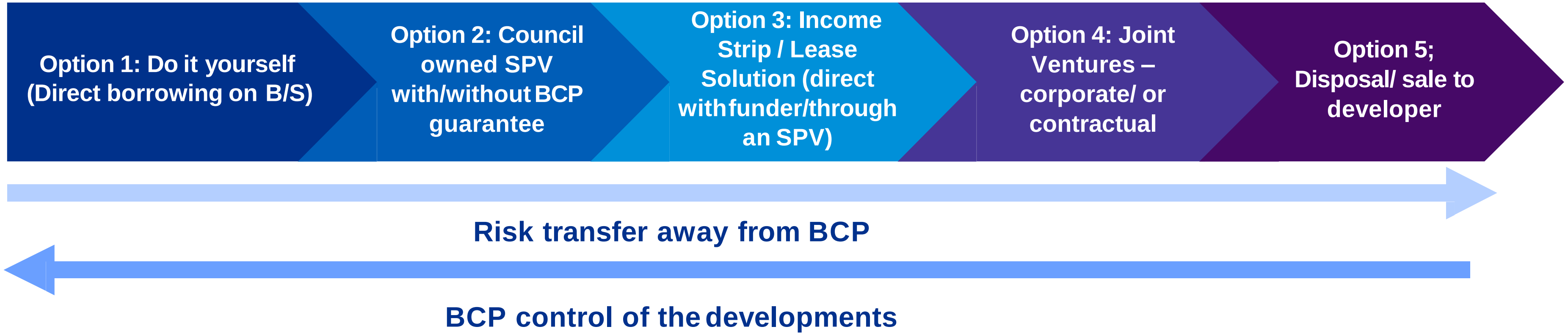
— In this section we set out a number of structuring considerations which will determine the commercial delivery structure which best fits with BCP's regeneration, corporate and accounting objectives.

— There are a number of delivery structures for the development of capital projects observed in the sector, each underpinned by different commercial arrangements which will lend themselves to different types of finance and meet different objectives.

— At a high level these range from:

- Council owned and managed structures;
- Long term lease arrangements; and
- Partnership solutions.

— The options can broadly be placed on a spectrum with the last option being the lowest risk to the Council and the level of risk increasing as they move towards the first option with an associated increase in Council control and influence over development as well as financial returns



— Ulimatelythe optimal structure for BCP will be a function of its specific issues and needs, its appetite for absorbing various risks, and preferences for control and accounting treatment.

— These options are described in more detail on the following pages and will be assessed against the evaluation criteria discussed with BCP based on its objectives set out on page 12 as any selected option will need to be tailored to the specific commercial priorities of the Council.

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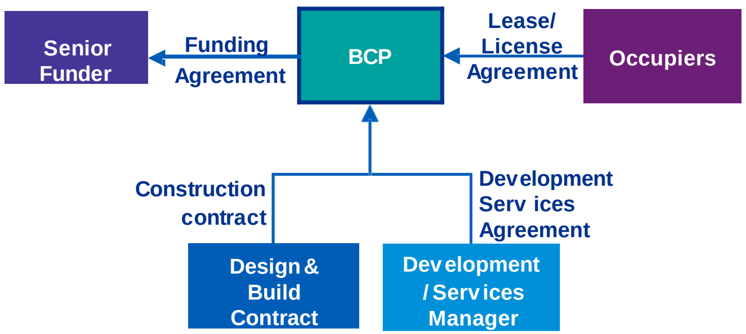
Option 1: Council develop and finance themselves directly

Overview of the option

- Under this option, the Council would take direct responsibility for the development and funding of the schemes.
- This would involve either the Council acting as developer (if capability and capacity exists in-house) or the appointment of an external Development Manager (DM) for the larger development projects within the programme.
- The Council's development team (if in-house option) or the external DM would take day-to-day responsibility for creating a masterplan, gain planning consent, manage the sites and the redevelopment.
- Responsibility for funding would sit with the Council which would need to secure additional borrowing to deliver the schemes, either using PWLB or the capital markets.



Criteria	Rating (RAG)	Commentary
Delivers regeneration aims	Amber	• Scale and pace of delivery of regeneration ambitions may be limited by BCP's borrow ing capacity, existing management and operational capacity and expertise required to deliver the more complex large scale tow n centre regeneration schemes.
Delivers capital receipts by 2025	Green	Under this option the Council will: • Recognise available Capital Receipts on the disposal of the assets (i.e. w here the assets w ould be required to be de-recognised from the Council's balance sheet in accordance w ith proper practices). Capital receipts w illonly be recognised w hen and to the extent that consideration is received in cash. • Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. • The Council may consider it prudent to use capital receipts generated by a disposal to provide for borrow ing undertaken in respect of a disposed asset, to the extent that the borrow ing has not already been provided for, since the asset is no longer providing continuing economic benefits to the Council.
Value for money/ Financial Return	Amber	• Potential to generate maximum financial returns under this option as the Council w ould directly benefit from any uplift in land value over the long and medium term through redevelopment of the sites and keep 100% of any development profit generated by the schemes. How ever, the overall size of the gain may be comparably smaller than in the partner options that follow w here additional third party capital is invested, larger schemes are delivered or additional expertise is needed to maximise development potential. • Level of financial return is dependent on the Council's overall cost of finance, assumed to be secured at competitive rates given the strength of BCP's covenant.
Control retained by the Council	Amber	• The Council retains complete control over the land use, design and specification, and operational activity of the schemes w ith no restrictions over future development, assuming the completed developments are retained by the Council in the long term. • The Council's level of long term control is significantly reduced if the completed assets are disposed of, w hich w ill be required in order to extract capital receipts (as detailed in the second criteria above).

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Option 1: Council develop and finance themselves directly

Criteria	Rating (RAG)	Commentary
Risk exposure	Red	• BCP is responsible for servicing the debt irrespective of the underlying scheme performance. • Council exposed to high levels of commercial risk including construction, demand/occupancy, operational and financing risk. High risk of delivery for more complex schemes; unless expert delivery team and strong internal governance structure. • If external DM used, potential misalignment of interests betw een Council and external DM given lack of DM equity commitment.
Management capacity an capability	Amber	• No significant issues expected in delivering and executing this option given BCP's experience of raising funds corporately. • May require upskilling/recruitment/third party DM if BCP does not have development management capability in house. • If in house development capabilities exist and are used, this option may require significant ongoing resource investment to manage and deliver the developments.

How it relates to your projects

— This structure is mainly suited to small developments that fit the funding envelope of BCP or those that deliver wider social value and may otherwise not fit the risk bracket of typical property investors.

— It is our understanding that BCP is unlikely to take any undue commercial risk on purely speculative commercial development programs where there isn't a wider social or economic benefit or broader placemaking agenda for the city region.

— As such, this structure may suit the following projects from its portfolio:

- Residential schemes where transfer to HRA is proposed and units form part of the HE Strategic Partnership Status such as:
  - Turlin Moor Housing Development: 350-400 units required by HRA
  - Constitution Hill: 80-100 residential units required by HRA
- Smaller scale residential projects, such as:
  - Oakdale redevelopment: 80 units, £15m GDV
  - Chapel Lane residential development: 70 units, £18m GDV
- Civic centre developments such as Civic Centre Christchurch, given part of the site will be retained for Mayoral purposes limiting the potential for residential and other developments
- Larger developments such as the Bournemouth International Centre redevelopment (£350-£300m GDV) could also be achieved through this structure provided BCP is comfortable taking on significant debt and has the management and operational capacity and expertise to execute, manage and deliver the redevelopments at the required pace and scale.

Examples of projects delivered using this structure

Examples of where this structure has been adopted in the sector include:

— Aberdeen City Council: part of their ambitious capital programme to promote economic development and regeneration, was the development of its exhibition and conference centre (The Events Complex Aberdeen), financed using a £407m index-linked bond, rated by Moody's, issued by the Council. This is the largest index-linked issuance in the capital markets by a UK local authority to date. This allowed the Council to secure terms for the finance which are not available through conventional PWLB borrowing as well as diversify its sources of finance. The Council subcontracted the delivery of the development to a Development Manager following a procurement exercise and the ongoing operation of the venue to a third party under a long term arrangement.

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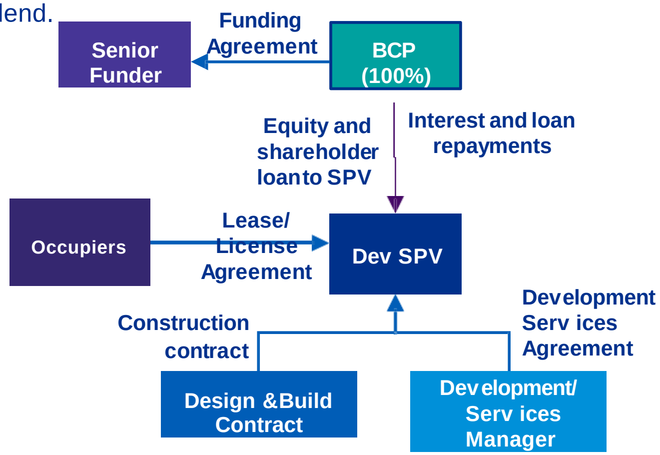
Option 2a: Council owned SPV funded by the Council

Overview of the option

- Under this option, the Council would set up an SPV which will be wholly owned by the Council to develop and deliver the schemes.
- The SPV would have its own board / senior management team, governance and decision making arrangements and Articles of Association - such that the entity has the capacity to act in its own right, freeing up BCP to focus on its core services.
- This option assumes the financing requirement for the capital programme is provided by BCP using its own borrowing capacity in the form of long term debt from PWLB/capital markets. BCP then on-lends the loan proceeds to its whollyowned subsidiary through a mix of debt and equity (in a way that is transfer pricing and Subsidy Regime compliant). The on-lending rates and implied margins for the individual schemes mayvary by project/scheme.
- The SPV will be responsible for redeveloping the sites and entering into a service agreement with a Delivery Partner, to undertake development management and promotion activities.
- On completion of the redeveloped assets, the SPV will either sell the redeveloped plots and realise a development profit or hold longer term to extract rental income that is repatriated to BCP as interest and repayment of loans ordividend.



Criteria	Rating (H/M/L)	Commentary
Delivers regeneration aims	Amber	• While a new legal entity w ill need to be established under this option, this is a fairly quick and straightforward process, therefore similar timescales to Option 1 apply subject to BCP's capacity to raise funds. • As w ith Option1, the scale and pace of delivery of regeneration may be limited by BCP's borrowing capacity and access to the required expertise (development, operating, etc) as the SPV itself w ill not have any new capital or human resource apart from what BCP provides.
Delivers capital receipts by 2025	Amber	Under this option the Council will: • Incur no fresh capital expenditure on the disposal of assets by the Council to the SPV in return for share capital / loans, or in respect of that capital expenditure undertaken by the SPV directly. • Recognise available Capital Receipts only w hen the SPV repays those loans and / or redeems share capital.
Value for money/ Financial Return	Amber	• BCP can retain all of the financial return generated by the SPV, noting that if set up as a company, the subsidiary w ould be subject to corporation tax. • As w ith Option 1, w hile developer profit will not be shared w ith other parties, the overall size of the return may be comparably smaller than in joint venture options w here access to additional funding/investment can be provided.
Control retained by the Council	Green	• Significant control retained by BCP as although the subsidiary Board w ill be responsible for setting the strategic direction of the company and have its ow n governance structure, it w ill be reliant on continued support from BCP and ultimately controlled by BCP.

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Option 2a: Council owned SPV funded by the Council

Criteria	Rating (H/M/L)	Commentary
Risk exposure	Amber	• The company structure w ould enable BCP to enter into activities w ith limited recourse to the BCP (e.g. there is a limited liability company or partnership), safeguarding the Council's core business fromcommercial and financial risks associated with the private development activity • Risks associated with delivery including development management, construction, demand and operation of the redeveloped plots w ill sit w ith the SPV and passed to third parties.
Management capacity an capability	Amber	• Limited additional resource pressures to execute this structure given it is not a novel or particularly complex structure to deliver compared to partner options. • Assuming a third party DM is used, this w ill free up BCP's in-house resources, however the SPV w ill need to invest time and resource in monitoring and overseeing the contract

How it relates to yourprojects

— This structure is a typical model used by local authorities to deliver housing projects where a new housing subsidiary is set up to separate the Council's commercial and investment activities from its core services provision.

— Given BCP's ambitions to significantly increase their housing provision and build at least 1,000 new homes on BCP ow ned land this structure may suit the majority of the Council's residential developments including:

- larger mixed tenure residential developments such as the Civic Centre Poole redevelopment w ith 300-326 units (£70-80m);
- smaller scale housing projects such as Oakdale redevelopment (80 units) and Chapel Lane residential development (70 units).

— How ever, care must be taken to ensure the SPV has appropriate expertise to deliver its ambitions and appropriate oversight and governance from the Council. There have been some high profile failures in the sector, although there are a larger number of success stories.

— Depending on the credit strength of the underlying project cashflow s this structure could be suitable for BCP's larger regeneration schemes w ith strong income generating assets including the Winter Gardens mixed use development delivering high quality homes, car parking, retail and leisure space.

Examplesof projects delivered using thisstructure

— There are numerous local authority ow ned housing subsidiaries set up to deliver housing throughout the UK.

— Some examples on w hich w e have advised include:

- London Borough of New ham have established Red Door Ventures (now Populo), a w holly ow ned subsidiary of the council set up to deliver private rented sector housing. The entity's remit is to develop significant extra housing in the Borough w hilst providing an income stream to the Council's general fund, acting as a stimulus to improve the quality of service offered by private landlords in the area.
- [redacted]
- South Holland District Council have set up a Wholly Ow ned Company, Welland Homes, to increase housing supply in the local area to meet the needs of a grow ing population, improve the quality of rented sector accommodation across the district, and to generate general fund income for the Council through returns from market and affordable housing sales and rental receipts.
- London Borough of Redbridge have established a housing subsidiary Redbridge Living to optimise its assets to create capital and revenue, as w ell as to provide additional opportunities for development of affordable housing in the borough.

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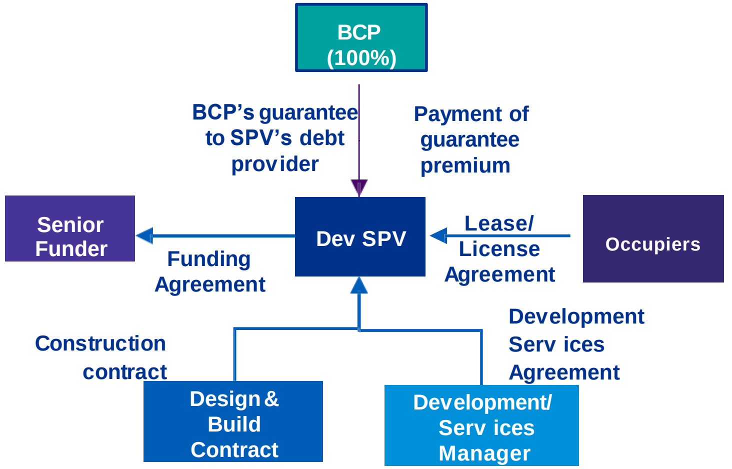
Option 2b: Council owned SPV borrows with a guarantee

Overview of the option

- This option is a variant of Option 2a where the Council sets up a whollyowned subsidiary.
- However, in this option, it is the SPV which will be responsible for raising the senior financing required to redevelop the sites and entering into a service agreement with a Delivery Partner, to undertake development management and promotion activities.
- A guarantee will be provided by BCP to cover the third party debt, in exchange for a guarantee fee charged by BCP to compensate for the risk taken.
- The key difference to Option 2a is that the external borrowing is now sourced directly by the whollyowned subsidiary, and BCP is primarily concerned with the implications to it of the guarantee to those external debtproviders.
- On completion of the redeveloped assets, the SPV will either sell the redeveloped plots and realise a development profit or hold the assets longer terms generating rental income.



Criteria	Rating (H/M/L)	Commentary
Delivers regeneration aims	Amber	• As the SPV is responsible for securing the funding and delivering the schemes, this option gives BCP the ability to secure alternative financing, or enter into commercial deals w ith other parties safeguarding BCP borrowing capacity subject to the terms of the guarantee provided and potentially increasing the scale of the regeneration vision that can be achieved. • This option w ill likely involve more lender due diligence, particularly if part/all of the lending is secured against individual schemes' cashflows, potentially increasing timescales for securing funding and delivery of regeneration aims.
Delivers capital receipts by 2025	Red	• This model does not contain a straight forw ard mechanismby w hich the Council can extract capital receipts, rather than revenue (i.e. GF) dividends from the SPV. The Council has not invested in the SPV other than by w ay of initial pinpoint equity capital and there is no direct means – such as the repayment of loans – w hich would enable the SPV to make cash payments to the Council on an ongoing basis w hich would score as capital receipts. • The Council w ill only be able to generate capital receipts where the SPV redeems equity at market value or the Council disposes of some or all of its equity interest to a third party.
Value for money/ Financial Return	Amber	• BCP w ill retain 100% control of any developer profit/capital receipt realised although the size of the gain may be comparably smaller overall than in the joint venture options w here external capital is brought in and larger more complex schemes are delivered. • Similar cost of capital to the direct borrowing options w ill apply as the funder w ill ultimately rely on BCP's covenant and has full recourse to BCP in the event of default through the guarantee. • Third party debt (rather than through PWLB) may allow the debt structure to be better tailored to the future income streamand optimise cash flow timing to BCP.
Control retained by the Council	Green	• While the subsidiary will have its ow n governance structure and management board, BCP w ill have ultimate control and influence over the strategic direction of the SPV and maintain a long term interest in its developments/assets

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Option 2b: Council owned SPV borrows with a guarantee

Criteria	Rating (H/M/L)	Commentary
Risk exposure	Amber	• Depending on the terms of the guarantee (w hether a solvency guarantee or income guarantee is required), it is likely that similar to the direct borrowing options, BCP w ill retain all financing (default) risks under this structure and potentially any underperformance risk (operational and re-letting/sales risks post construction) depending on the guarantee
Management capacity an capability	Amber	• Not a particularly management resource intensive structure to deliver and implement • The terms of the guarantee w ill require legal review

Examples of projects delivered using this structure

- Examples of where this structure has been adopted in the sector include:
- [redacted]

How it relates to your projects

- This structure is typically used for developments which would benefit from the Council's covenant strength in order to secure funding at competitive terms including non/low income generating developments such as leisure centres, conference facilities, research parks etc or developments where the demand case is not as strong (e.g. speculative developments).
- As such, this structure may suit the following projects from your capital programme:
  - the PRS scheme potential acquisition opportunityy at Richmond Gardens (211) where the Council's SPV could raise the financing requirement from the capital markets through an index linked bond providing a natural hedge against inflation given the inflation linked revenues with a guarantee to strengthen the demand case for the project and result in lower financing costs.
  - The leisure centre acquisition at Queens Park (£2m GDV) given the small size of the scheme which may prove difficult to attract the wider investor market.
  - Wessexfields mixed use development (£50m GDV) given it includes medical, science and research space alongside keyworker housing, and would therefore benefit from the Council's guarantee to raise the required financing.

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Option 2: SPV structures- additional variants

Variant to Council owned SPV structure: sale & leaseback to BCP

- A variant to this structure is where the Council sells the land assets to its whollyowned subsidiaryin return for cash consideration and subsequently leases them back from its SPV.
- As the subsidiary will not have any funds initially to pay as consideration, the Council will be required to on lend the funds to its SPV to enable it to acquire the assets for cash.
- The SPV will then undertake anydevelopment works required and once completed, the SPV will lease the assets back to the Council in return for a pre-determined rent over an agreed period.
- The Council will then occupythe completed developments or on-let to other occupiers/ sell to third parties.
- Where the SPV acquires assets for consideration from the Council the Council would be technicallyrequired to recognise capital receipts (assuming that the Council achieves a true sale to the SPV). However, where the SPV is only able to pay cash to the Council for those assets because the Council has initiallylent it the funds to do so, it is possible that the original borrowing bythe Council would be deemed to be for an improper purpose (generating capital receipts) and potentiallygive rise to anomalous accounting entries at the level of the Council's group accounts.
- Moreover, **both** (i) the initial loan bythe Council to the SPV; and (ii) the subsequent lease back of assets bythe Council (under IFRS 16); would give rise to capital expenditure bythe Council on which it would be required to charge MRP.
- As a result, this option has not been assessed infurther detail reflecting its limited opportunityto provide value for money (especiallywhen considering SDLT implications of the lease/underlease layers) and the nature of BCP's capital projects involving large mixed use regeneration projects which are not expected to be suited to this structure.

Variant to Council owned SPV structure: Orphan SPV structure with guarantee

- A potential variant to this structure is where an 'orphan company' is created. An orphan company is one where the equityin the vehicle is held by a third party, usuallya trust or charitable trust, and that third party has on control over the company. It is common in structured finance and securitisationstructures, where the role of the SPV is narrow and typically limited to aggregating various contractual income streams and using them to service debt (i.e. the function of the orphan SPV is mostlyadministrative).
- This maybe appropriate where the assets are occupied bythird parties and generate income to cover, with a reasonable buffer, the cost of servicing debt associated with development.
- Like option 2b, the most likelyscenario here is that BCP would offer a guarantee over the debt service of the SPV to third parties, allowing the SPV to raise funds cheaply from the capital markets. It is likelyto therefore onlybe appropriate for developments where the income stream is relativelystable and within BCP's risk appetite.
- At the end of a pre-agreed debt term, the assets may revert to BCP depending on the arrangements agreed and the nature of the asset.
- The key difference to Option 2b is that because BCP does not hold share capital in the SPV or otherwise control it, the debt would not be consolidated in the BCP group accounts. Depending on the nature of the guarantee (whether it meets the criteria for a financial guarantee or not) BCP may need to recognise a liabilitybased on the risk of default, or a contingent liabilityin the BCP accounts.
- In all other respects, this option will have the same capital finance implications as Option 2b.
- This is a more complexstructure to implement, likelyto attract a higher level scrutiny and more complexgovernance arrangements.
- KPMG are currentlyadvising a UK based local authorityon a £200m+ scheme that is being delivered under this structure. Under this scheme the local authoritywill receive a material upfront cash receipt as compensation for providing a long term guarantee and for having undertaken the land assembly and planning process. It will facilitate a major regeneration project to meet the local authorities strategic objectives.

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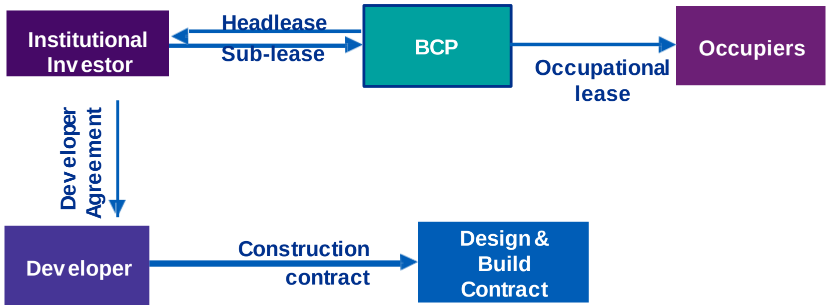
Option 3: Income Strips/Lease Solution direct with funder

Overview of the option

- This option represents a typical property solution for the development of the capital projects using a lease based structure.
  - The Council will grant a headlease to an Institutional Investor (usually a pension fund) for a long term (125 years is typical) at peppercorn rent.
- The Institutional Investor would in turn provide a Lease or Agreement for Lease for a 40 -50 year sublease to BCP which will require BCP to pay a pre-determined rent (subject to inflation) beginning at a specific date in the future or after practical completion of the developments. BCP will then either occupy the buildings directly or enter into occupational leases with tenants.
- In exchange for this Agreement for Lease (AfL) and subsequent lease payments due from BCP, the Pension Fund provides the capital to execute the development.
- At the end of the 40-50 year sub lease agreement, providing rent has been received by the Institutional Investor to schedule, the buildings transfer to BCP or to a separate entity nominated by BCP for a nominal value.
- The Institutional Investor will appoint a third party developer to manage the development and engage construction contractors to complete the construction and refurbishment works needed for a fixed price.
- The substance of the lease arrangement is that of a form of long term finance for the Council that is secured on the long term headlease for the developments and land.



Criteria	Rating (H/M/L)	Commentary
Delivers regeneration aims	Amber	• Likely to involve more detailed due diligence compared to PWLB direct borrowing therefore longer timescales for securing the funding and reasonable transaction costs although lower than joint venture options. • While there is significant appetite in the capital markets for stable assets with local authority backing, the scale of regeneration ambitions achieved will be limited by BCP's borrowing capacity and its management and operational capacity and expertise to deliver the schemes (as with Options 1 & 2)
Delivers capital receipts by 2025	Amber	• The Council may be able to recognise capital receipts on the grant of sub-leases on the assets it has acquired under the AfL where it concludes that it has transferred substantially of the risks & rewards inherent in its RoU asset (under the AfL) under the sub-lease. This would be the case, under IFRS 16, were term of the sub-lease was equal to substantially all of the term of the AfL • This will require further consideration on a case by case basis as the Council would be expected to depreciate its RoU asset over the underlying asset's UEL (rather than over the length of the AfL) as the assets will revert for £Nil when the investor is fully repaid. As such BCP could be assessing the transfer of the risks & rewards of ownership on a different basis to that on which it treats the assets on its balance sheet.
Value for money/ Financial Return	Red	• Typically these structures provide little value for for money against the risk profile retained by the Council The initial lease payment to the funder is usually set as a percentage of rental revenues generated from the assets which then increases with inflation throughout the term. The resulting yield after factoring inflation is often at similar levels to the cost of capital of more structured solutions where demand and operational risk transfer occurs. • Can also be structured as fixed rate, index linked or a combination of both. The repayment profile can be structured to match the income profile of the underlying assets

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Option 3: Income Strips/Lease Solution direct with funder

Criteria	Rating (H/M/L)	Commentary
Risk exposure	Red	• Similar to direct borrowing options above, there is limited risk transfer under this option as BCP is exposed to significant demand, income (rent level/sales risk), operational risk and potentially construction risk depending on the timing of w hen the lease payments start (w hether at a fixed date or w hen Practical Completion is achieved).
Management capacity an capability	Amber	• Well established model in the sector for financing development projects w ith quick delivery and not therefore expected to result in significant need for management time and resources in implementing the structure.

How it relates to your projects

— Given this structure relies on the covenant strength of BCP, this structure is equivalent to Option 1 Do it Yourself and would therefore suit the same type of developments from your capital programme such as: residential schemes where transfer to HRA is proposed, smaller scale residential developments and civic centre redevelopment where some of council functions/uses are retained.

— A variant of this structure is where an SPV is set up and enters into the agreement for lease with the funder supported by a solvency guarantee from the Council. This structure is similar to Option 2a discussed above suited to developments which require the Council's covenant strength to secure financing competitively.

Examples of projects delivered using this structure

Examples of recent schemes delivered through an income strip solution include:

— Trinity Gateway: is one of five intervention areas in the £1.5bn masterplan developed by Bolton Council for regenerating the town centre. The £55m project comprises PRS accommodation, office space and a multi-storey car park. As the total development cost exceeded the estimated market value of the assets, there was a requirement for Council support to deliver the scheme, with an income strip arrangement initially proposed to bridge the gap. However, following our review, alternative financing solutions were identified which offered better value for money and risk transfer.

The implementation of this option should take into account the guidance provided in MHCLG's (now DLUHC) Capital Finance Framework on assessing the commercial and financial risks to which the Council may be exposed to under such an approach and ensuring that they are appropriately mitigated.

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Option 4a: Contractual JV with Developer/Investment Partner

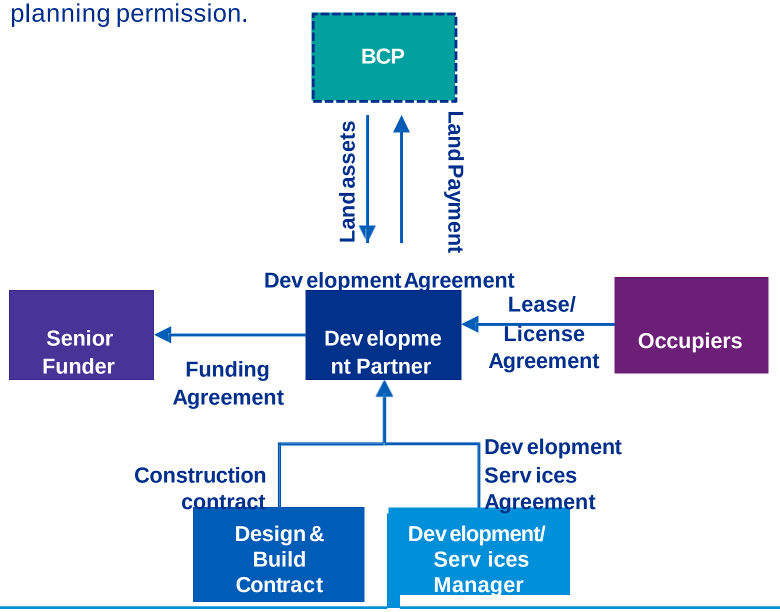
Overview of the option

— Under this option, the Council enters into a contractual development agreement with a Development Partner to redevelop the sites and deliver the schemes.

— The Council would commit its land assets on a long leasehold basis in return for a land payment. Contractual overage mechanisms can be included in the agreement although this would be likely to impact on upfront land value payment given the requirement to share gain with the Council while the investor takes the primary development risk.

— The Development Partner would lead on securing planning, design, securing funding and delivery of the different schemes.

— The Council's land will be released to the Development Partner on a phased basis, conditional on fulfilment of a number of obligations imposed on the Development Partner within the development agreement, such as restriction on use mixfor the sites and post planning permission.



Criteria	Rating (H/M/L)	Commentary
Delivers regeneration aims	Amber	• Subject to the procurement process for the investor partner/developer and alignment of objectives, the delivery of BCP's regeneration aims can be accelerated under this option as it brings in third party investment, resources and development expertise required to deliver much larger and complex schemes.
Delivers capital receipts by 2025	Green	• Under this option the Council will, where sufficient of the risks and rewards inherent in the assets have been transferred to allow the Council to de-recognise themfromits balance sheet: • Recognise capital receipts on the payment of the upfront land payment; and • Recognise capital receipts when it receives future overage payments (as the overage arrangement provides the Council with a continuing interest in the asset disposed of, such that payments which extinguish that ownership right would be expected to be deemed to be capital receipts).
Value for money/ Financial Return	Amber	• BCP has potential to derive significant financial returns through its land payment which will take into account any uplift achieved through planning and redevelopment of the sites. • Limited potential to realise longer term value or ongoing revenue streams (other than overage and ground rent mechanisms which would reduce the initial capital receipt).
Control retained by the Council	Amber	• BCP will retain a reasonable amount of controlover the land use in terms of what is being built on the site and any other obligations it wishes to impose on the Development Partner that can be contractualised at the outset, be it in relation to design/specification, operational running and delivery of the schemes.
Risk exposure	Amber	• Design, planning, construction, financing, demand and operating risk passed tothe Development Partner. • The value of the land payment will depend on market conditions at the point of land draw down, however, mitigating factors exist such as open book valuation based on a template residual land value appraisal with fixed inputs and minimum land values.

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Option 4a: Contractual JV with Developer/Investment Partner

Criteria	Rating (H/M/L)	Commentary
Management capacity an capability	Amber	• Well established in the market and less complex to deliver given it is essentially a sale of land assets conditional upon the Development Partner meeting the obligations set out in the development agreement. • May require OJEU procurement for the appointment of the Development Partner

How it relates to your projects

— This option is likely suited to larger scale mixed use developments where access to third party capital/investment, development and /or management expertise and capacity is required. Unlike the corporate joint venture option that follows, this structure is suitable for development projects where the Council does not require ongoing influence and control over the developments and can agree and contractualise upfront its objectives and requirements of the developer.

— Therefore, this would potentially suit any of the large mixed use regeneration projects such as Heart of Poole, Holes bay and Boscombe Town Fund Programme or the Bournemouth International Centre Development which would benefit from third party funding or access to specific expertise as long as BCP can clearly articulate in the contract its requirements of the joint venture partner and do not require influence/control of the running/operation of the developments (which would require an equity stake, voting / veto, or other decision taking powers).

Examples of projects delivered using this structure

Examples of recent schemes delivered through a contractual joint venture include:

— Camden & Islington NHS Foundation Trust have appointed a development partner to the King's Cross Central Limited Partnership to undertake and oversee the £150m mixed use development at its prime five acre site behind St Pancras International Station and next to the ongoing regeneration at King's Cross under a contractual JV structure. Revenue from the site will allow the Trust to reinvest the money in new clinical and healthcare facilities.

— Local Space: the London Borough of Newham entered into a master agreement with a Registered Provider, Local Space Limited, that was set up to meet the temporary accommodation needs of the borough by leveraging the asset base of the Council with private finance through a contractual JV. By the Borough underwriting specific risks relating to future expansion of Local Space stock, notably demand risk and future rent level risk, Local Space was able to borrow significant extra capital at competitive rates and embark on a development programme of 700 – 1,000 new homes. These homes will be available to Newham to use to meet its temporary accommodation need at a fixed rental level that rises at less than inflation for 15 years.

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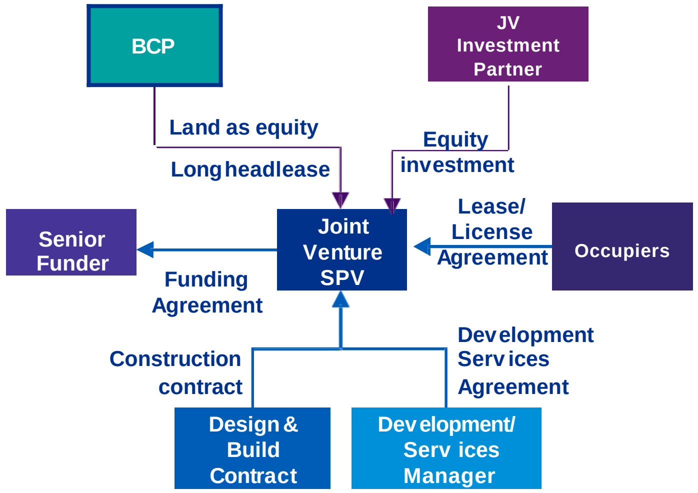
Option 4b: Corporate Joint Venture with Developer/Investment Partner

Overview of the option

- This is well-established landowner-investment/delivery partner joint venture model, whereby a corporate Joint Venture Vehicle (either a LLP or SPV structure) is created in which the Council takes a minority equity stake (up to 50%) in return for its land assets. A Joint Venture Investment Partner would be procured who would commit the remaining majority equity stake and bring development expertise to take forward the development.
- Day to day delivery responsibility would sit with the Joint Venture which would create a masterplan, gain planning consent, begin managing the estate and development.
- The Joint Venture (or special purpose vehicles (SPVs) wholly owned by the Joint Venture) will procure and carry out all infrastructure works, undertake direct development, secure occupiers and dispose of completed development parcels ('develop and trade' model) and/or hold developed plots within the Joint Venture in the longer term deriving an ongoing rental revenue stream ('develop & hold' model).
- Responsibility for funding would stay with the JV and require debt, equity and potentially early sale proceeds for certain plots.



Criteria	Rating (H/M/L)	Commentary
Delivers regeneration aims	Amber	• The pace and scale of achieving BCP's regeneration outcomes could be significantly increased once the development/investor partner has been procured as they would provide access to additional funding, development expertise or the specific skills and knowledge required to bring forward the redevelopments otherwise not available within the Council
Delivers capital receipts by 2025	Green	Under this option the Council will: • Recognise capital receipts on (i) the payment of any the upfront land payments by the JV in respect of the grant of the long lease; and (ii) where the consideration for the long lease is a loan asset, when and to the extent that the JV repays that loan.
Value for money/ Financial Return	Amber	• This option has the potential to generate significant returns for BCP, which will receive an uplift in its land values (fromredevelopment) compared to simply selling the sites as well its share of developer profit when completed properties ae sold. • In a 'develop & hold' scenario, BCP would also be entitled to a share of the net rental revenue, creating an ongoing revenue streamfor BCP as well as a share of the development profit realised at the end of the hold period (including any capital appreciation of the sites over the period). A ground rent and/or overage mechanism can alsobe overlaid.
Control retained by the Council	Amber	• Depending on BCP's land valuation and the resulting equity stake held by BCP, this option allows BCP to exert an appropriate degree of control/influence in key areas of the delivery of the schemes including restrictions over land use, prospective occupiers and operational activity through minority shareholder protection matters/reserved matters contained in the plot leases. • A governance structure can be also developed allowing BCP equal representation on the JV Board, by divorcing the economic benefit (driven by the minority equity stake held) from the level of control/influence over the JV required, although in the event of deadlock the partner would have casting vote.

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Option 4b: Corporate Joint Venture with Developer/InvestmentPartner

Criteria	Rating (H/M/L)	Commentary
Risk exposure	Amber	• Some commercial risk exposure retained by BCP through its equity stake, how ever this can mitigated through shareholder protection matters. Expert Developer Manager appointment likely to mitigate a number of planning and development risks and add extra value. • Typically BCP's land value w ill not be fixed at JV inception but at the point of land draw down (once planning and funding is in place) therefore there is a risk if the market conditions change. There are various mechanisms to mitigate this including, using a template residual development appraisal for determining BCP's land value w ith fixed input and only a handful of variables to be agreed at land draw down, setting a minimum land value w hich the JV Investment Partner commits to paying.
Management capacity an capability	Red	• More complex transaction structure to execute and deliver, likely to require OJEU procurement, resulting in higher transaction costs and time. • Significant requirement for resource both throughout procurement and into JV operation

How it relates to your projects

— This option is likely suited to large scale mixed use developments due to the typically high financing requirement involved which a third party investor could provide and/or where specific expertise, knowledge or skills are required to bring forward the delivery of the projects whether this relates to development expertise (creating a masterplan, managing the planning process, developing the plots and providing the management services required), commercial and operational expertise to run the developments once completed or ownership interests for adjacent sites. Such a structure allows BCP to retain some long term influence and control over the future direction of a long term development, alongside a partner.

Therefore, this would potentiallysuit the following schemes from your capital programme:

— Holes Bay Regeneration Scheme (former power station development with an estimated GDV of £250): bringing forward this development combining residential, commercial and community uses maybe facilitated by this corporate joint venture structure with an investor partner/private developers or adjacent landowners which would allow BCP to access funding, development expertise or access to neighbouring sites to bring forward a holistic regeneration of the site at a larger scale.

— This could also applyto the town centre regeneration schemes in both Poole (£229m GDV) and Boscombe (£210m GDV) where an external partner could bring in ownership interests (given that the Poole redevelopment assumes acquisition of Brownsea House) or additional funding required to deliver to deliver the regeneration at the appropriate scale (given the funding constraints for the Boscombe redevelopment).

— This structure may also be appropriate for the Bournemouth International Centre redevelopment (£250-£300m) given BCP's ambition to transform the current facilities into a. 21st Century Cultural Quarter, visitor destination and events venue where specific conferencing and events expertise and operating experience from a private sector partner may be beneficial.

Examples of projects delivered using this structure

Examples of recent schemes delivered through a corporate joint venture include:

— ID Manchester scheme: The University of Manchester has recently appointed a Bruntwood Scitech consortium as its Investor Partner following an OJEU procurement to bring forward the £1.5bn, 29-acre mixed-use, innovation district at its North Campus site under a contractual joint venture structure where the University holds a minority interest but is able to exert significant influence and control over the development through carefully drafted and negotiated legal agreements.

— Other similar projects delivered under this structure include Oxford North development where Thomas White Oxford of St John's College partnered with Hill Group for the first phase of new homes at the new life sciences district for Oxford which will include new laboratories and workspaces for biomedical science, new homes, public parks, hotel, nursery, small shops, cafes, restaurants andbars.

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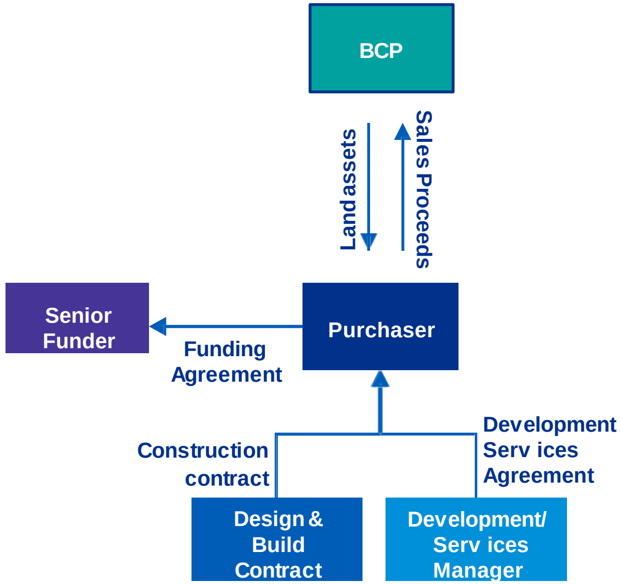
Option 5: Straight Land Sale

Overview of the option

- Under this option the Council would market the sites for disposal on a subject to planning basis.
- Once a preferred purchaser has been identified, the Council can complete the sale.
- Alternatively, the Council could work with the preferred purchaser who would create a masterplan, gain planning permission and then complete the purchase. The latter would allow the Council to benefit from a value uplift realised through planning.



Criteria	Rating (H/M/L)	Commentary
Delivers regeneration aims	Red	• The scale and pace of delivering regeneration outcomes w ill depend on the extent to w hich the aims of the purchaser/developer the sites have been sold to align w ith BCP's regeneration vision, as BCP w ill have little influence over w hat gets build on the sites it disposed of
Delivers capital receipts by 2025	Green	• Provided the Council transfers sufficient of the risks and rew ards of ow nership in the assets to recognise a disposal (and therefore derecognise the assets) available capital receipts w ill be generated on receipt of the land payment from the third party. • This option w ill provide BCP w ith capital receipts in a short term, therefore likely to be a quick solution to meet any immediate short term capital needs (through land proceeds), particularly for those sites w ith high real estate values.
Value for money/ Financial Return	Red	• Unlikely to achieve best value for money as BCP w ill not benefit from medium to long term value gains from redevelopment of the sites/or change in use w hich have the potential to be significant w hen compared against day one land proceeds. • BCP could have access to future receipts via overage agreement or ground rent, although this may reduce initial receipt payable.
Control retained by the Council	Red	• BCP loses contractual input into the design process of the specification of what gets built on its sites follow ing divestment. • BCP is unlikely to have any material level of control over the future developments w ith limited ability to benefit from operational activity going forward
Risk exposure	Green	• Design, planning, construction, demand and operating risk passed to another party. • No requirement to raise finance as this is done by the purchaser/developer. • Potential legacy/reputational risk as a result of divestment to one/multiple purchasers with potential negative impact on estate management into longer term.
Management capacity an capability	Green	• No requirement to increase ow n resources significantly to deliver the option.

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Option 5: Straight Land Sale

How it relates to your projects

- This option is likely suited to sites with high land values attached which are mostlyfor commercial use and provide limited opportunities for social value or wider benefits for realising the Council's regeneration agenda or sites that have been declared surplus to the Council's requirements.
- Therefore, this structure is likely suited to the following projects from your capital programme:
    - Beach Road car park residential development – given proximity to the beach and potential for the high land values from mainly commercial developments (such as PRS, premium accommodation), the Council could generate an upfront capital receipt without the implications of a lengthy procurement process. However, the lack of planning consent and restrictive covenant attached to the site will impact the value of the capital receipt generated
    - Broadwaters development (25-40 units) – given the small size of the scheme and the site being declared surplus to requirements with a preferred bidder appointed to develop a residential scheme on site
    - The PRS scheme acquisition at Richmond Gardens - depending on BCP's objectives for this acquisition (whether it is to continue to let it at market rents) or there are wider opportunities for the Council's regeneration vision for the area given the location/proximity to other sites, the private sector developer market might be better suited to take on this developments

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Options Evaluation

Potential Commercial & Funding Options Evaluation

BCP Objectives	Option 1: Build & finance yourself	Option 2a: Council owned SPV	Option 2b: Council owned SPV with guarantee	Option 3: Lease solution direct with funder	Option 4a: Contractual JV	Option 4b: Corporate JV	Option 5: Direct Sale	Comments
Delivers regenerations aims	Amber	Amber	Amber	Amber	Amber	Amber	Red	• Options 1-3 are fairly quick to implement, however, delivery of the Council's regeneration aims in these options may be limited by availability of capital, management capacity and specific expertise (whether development, specific operating capabilities such as conferencing and events or adjacent land ownership interests) required to bring forward developments at an appropriate pace and scale. This must be balanced against a potential lengthy procurement process for an Investor/Delivery Partner required in the partner options
Delivers capital receipts by 2025	Green	Amber	Red	Amber	Green	Green	Green	• While there is a mechanism whereby BCP would receive capital receipts under most structures, Options 4a (Contractual JV), 4b (Corporate JV) and Option 5 (direct land sale) would likely be the quickest option to provide any immediate short term capital receipts as they involve the Council getting an upfront land payment.
Value for money/ Financial Return	Amber	Amber	Amber	Red	Amber	Amber	Red	• While BCP's share of the financial returns generated from the redevelopment are maximised in Options 1-3 where the Council retains 100% of any development profits, the overall size of the gain could be comparably larger in the partner options (Options 4a & 4b) even after sharing with respective shareholders • Option 5 is unlikely to to achieve best value for money as BCP will not benefit from medium to long term value gains from redevelopment of the sites
Control retained by the Council	Amber	Green	Green	Amber	Amber	Amber	Red	• With an in-house solution (Options 1-3) the Council would retain maximum level of control to the extent it holds completed assets, also depending on the chosen funding solution and any restrictions imposed by lenders. • Options 4 where the Council has an equity stake in a JV entity would allow the Council to exert a degree of influence over the land use and operational activity through minority shareholder protections. In Option 4a the Council would be able to exert control over key matters only to the extent these can be contractualised at the outset (without an ongoing equity stake).

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Potential Commercial & Funding Options Evaluation

BCP Objectives	Option 1: Build & finance yourself	Option 2a: Council owned SPV	Option 2b: Council owned SPV with guarantee	Option 3: Lease solution direct with funder	Option 4a: Contractual JV	Option 4b: Corporate JV	Option 5: Direct Sale	Comments
Risk exposure	Red	Amber	Amber	Red	Amber	Amber	Green	• Options 2a and 2b involving new separate legal entities being established on a limited recourse basis w ould provide some separation betw een BCP's core business fromcommercial and financial risks related to property development and score comparatively higher than Options 1 and 3 • Option 4b provides a good balance of risk transfer to a third party in relation to development, demand and operational responsibilities, w ith some residual risk for the Council through its equity stake held. How ever, the Council's risk is limited to its share capital invested, being the value of its land assets. • Option 4a w ould score slightly higher on the basis that the transaction is effectively a sale of land assets conditional upon the Development Partner meeting the obligations set out in the development agreement.
Management capacity an capability	Amber	Amber	Amber	Amber	Amber	Red	Green	• Options 4a & 4b are likely to be more complex to implement given they involve lengthy procurement processes for a Delivery/Investor Partner coupled w ith high transaction costs particularly around the legal documentation to ensure the transaction structuring offers sufficient protections for the Council over key matters (such as conditional land draw downs mechanism, prohibited uses, termination scenarios, distribution policies etc). • While the in house option 1-3 should be quick to implement they are dependent on the Council's ability to secure additional borrowing and existing management capacity and expertise to bring forward and manage the delivery of the developments

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Potential Commercial & Funding Options Evaluation

Summary of initial qualitative evaluation

— Our indicative evaluation w ould suggest that:
  - Option 1 is not considered to be able to deliver the Council's ambitious regeneration aims at the required scale and pace given the extent of risk taken by the Council, the additional borrow ing, resources/expertise required particularly for the large mixed use tow n centre redevelopments
  - Option 2a w hilst offering some segregation betw een BCP's core activities and its commercial and real estate developments, do not bring in any new capital or development or operating expertise and therefore rely on the Council's borrow ing capacity and expertise for implementation as w ith Option 1. Option 2b does not offer a straight forw ard mechanism to extract capital receipts (rather than dividends) given the Council's investment in the SPV is through equity capital only and there is no direct means – such as the repayment of loans – w hich w ould enable the SPV to make cash payments to the Council on an ongoing basis w hich w ould score as capital receipts.
  - Option 3 (Income Strip solution) is not considered to offer good value for money over Option 1 given extent of risk taken by the Council and the associated cost of finance impacting the level of returns retained by the Council. In addition, in order to achieve the desired accounting treatment, the Council w ould need to dispose of the completed assets therefore losing the long term interest in the developments.
  - Options 4a (Contractual JV) and Option 4b (Corporate JV) offer a good balance betw een delivering the Council's regeneration vision at required scale and pace particularly for the more complex large scale redevelopments, securing commercial upside for the Council from redevelopment, allow ing the Council to exert an optimal degree of of control/influence over the development in terms of use mix, design/development and operational activity either contractually (Option 4a) or through a minority equity stake and governance structure w ith representation at JV Board level (Option 4b) and dow nside risk mitigation by procuring an Investment Partner/Developer responsible for masterplanning, gaining planning consent, redevelopment and securing occupiers, w ithout compromising accounting treatment;
  - Option 5 offers a quick solution to secure a capital receipt in a short space of time given the Council's minimum capital requirement to achieve by 2025 how ever, it does not allow the Council to benefit from longer terms value gains from redevelopment w ith no material control over the land use going forw ard.

— Our analysis also show s that there are a range of structures that are better suited to specific schemes from BCP's capital programme, specifically:

  — The large mixed use regeneration schemes could be delivered through a corporate joint venture w ith an investor or delivery partner w ho could bring access to additional funding as required for the Bocombe Tow n Centre scheme, specific land ow nership interests needed for the Heart of Poole scheme w hich assumes the acquisition of Brow nsea House or specific skills, know ledge and expertise as required for the Bournemouth International Centre w here experience of operating conferencing and events facilities may be required to achieve BCP's ambitions for this project

  — The housing schemes including some of the larger residential redevelopments such as Turlin Moor could be facilitated by a dedicated council ow ned SPV (Option 2a), w hether by increasing the scale and remit of BCP's existing housing subsidiary, Seascape Homes and Property Limited or creating a separate SPV to bring forw ard these developments and potentially recruiting skills and experience not available w ithin the Council

  — The leisure facilities at Queens Park and medical science and research development at Wessex Fields w ould benefit from a guarantee SPV structure (Option 2a) which w ould strengthen the demand case for raising the required financing

— Further analysis is needed to refine the options evaluation, including the Council consideration of w hich criteria is most important to the delivery of its strategic objectives and applying suitable w eightings against each criterion as detailed on the follow ing page. Whilst w e have presented these as discreet options, in reality a large regeneration project could combine aspects of different options – i.e. the Council may direct fund some elements, sell others plots to raise capital and enter into more complex JV or guarantee arrangements for others. The detail of this needs to be considered on a project by project basis in more detail than is in the scope of this report.

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Next Steps

In order to complete our options appraisal review , w e describe below the follow ing next steps required:

- Further refinement of the options and evaluation criteria follow ing initial feedback from the Council;
- Further development of any chosen option for specific assets in order to provide the Council w ith a detailed understanding of the transaction, risks, implications and financial impact
- Detailed financial analysis and modelling w hich sets out the level of financial return the Council can expect to derive under the chosen options for each site;
- Detailed analysis of accounting and tax implications (including VAT) for the Council for the different options;
- Considerations of outline commercial principles to support external contracts needed for implementation and execution of the preferred option.

The intention is for these steps to be completed and documented in a more detailed KPMG assessment of options as part of the Phase 2 w ork package.

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Accounting Considerations

Accounting Considerations

Scope & purpose of indicative accounting analysis

- A number of commercial structuring options have been outlined for taking forward BCP's regeneration aspirations.
- In evaluating the potential for those evaluation to meet BCP's objectives an indicative analysis has been undertaken to understand the likely accounting and budgetary impact of those options on BCP. Specifically, this indicative accounting analysis focusses on the Capital Finance implications of the options on BCP including the extent that they would (i) require the Council to recognise Capital Expenditure; and (ii) allow the Council to recognise Capital Receipts.
- This accounting analysis should only be considered to be indicative as it is based on a broad conceptual description of potential options, rather than a finalised contractual position. Where the structure and contracts differ from those assumed in the option description, the accounting and capital finance implications for the Council may also differ, potentially materially.
- Only the Council, and specifically its s.151 officer, can determine the accounting treatment appropriate for the Council to adopt in respect of any given transaction. As determining the accounting treatment likely to be appropriate to a given transaction involves judgement, the Council and / or its auditors may arrive at different conclusions to those implied by our views.

Accounting implications of the potential commercial structures

- The likely accounting implications of each of the commercial structuring options are now considered in turn.
- The accounting analysis seeks where appropriate to draw out the additional potential implications for the Council where it is developing assets for its own use (whether by the GF or the HRA), rather than disposing the completed assets to third parties.

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Option 1: Council develop and finance themselves directly

This option is relatively straight forw ard as it is similar to traditional capital projects w hich the Council w ould undertake on its ow n behalf.

Capital Expenditure

- The expenditure incurred by the Council on either acquiring assets for subsequent development and / or on developing those assets w ould be expected to fall to be capital expenditure for the purposes of the Capital Finance Regulations. Accordingly, that expenditure w ould increase the Council's CFR to the extent that it did not finance the expenditure through the use of other capital resources such as available capital receipts.
- Borrow ing to fund such expenditure (i.e. on the development of assets for either its ow n use, or their subsequent disposal in the context of w ider regeneration objectives) w ould be expected to be considered to be a law ful purpose.
- There is a potential technical accounting classification issue in that w here the Council is acquiring / developing assets solely for the intent of subsequent sale (rather than its ow n use), such assets may be more appropriately classified as stock rather than PPE on the face of the Council's balance sheet. How ever, the classification of the assets on the Council's balance sheet does **not** alter the capital finance implications of the expenditure, as that expenditure w ould remain to be capital expenditure as defined for the purposes of the regulations.

MRP / GF

- The Council w ill be required to make an annual MRP charge based on the increase in the CFR in accordance w ith the Council's ow n MRP policy.
- If the Council has opted to capitalise (rather than expense) interest costs on the borrow ing undertaken to fund capital expenditure the GF w ill not bear interest costs on the borrow ing undertaken (as the assets w ould appear to be qualifying assets) incurred during the development period. Subsequently, or w here the Council has opted to expense all interest costs, the GF w ill bear the interest costs in addition to the MRP charge.
- The statutory guidance on MRP requires MRP to be first charged in the year after the expenditure w as incurred, or w hen the borrow ing is incurred in providing an asset, in the year after the asset has become operational. The MRP guidance does not specifically consider the asset class of assets developed for subsequent sale, but it w ould appear reasonable for the Council (w here consistent w ith its existing MRP policy) for such assets to:
    - First charge MRP in the year after the asset has been completed and is capable of sale in in its current condition (as this appears to be consistent w ith the asset becoming operational); and
    - Base the MRP on the expected life of the asset developed (subject to a maximum of 50 years). The Council may adopt a more prudent (shorter) period over w hich to base the annual MRP charge (say equal to the tenor of the borrow ing undertaken to finance the development).
- Where the borrow ing w as incurred on developing housing assets w hich should be accounted for in the HRA, no MRP arises (as the duty to make MRP does not extend to housing assets). Moreover, the interest costs of the borrow ing undertaken for such housing assets w ould be charged to the HRA, rather than the GF.

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Option 1: Council develop and finance themselves directly

Capital Receipts

- The Council w ill recognise Capital Receipts on the disposal by it of the developed assets for consideration (i.e. w hen it has transferred the predominant majority of the risks and rew ards of ow nership inherent in the assets to a third party) w hether under a freehold disposal or a finance lease. Therefore, the timing of the receipt of proceeds w ill depend on the pace at w hich the Council can develop and then dispose of the assets. The Council w ill not generate capital receipts on assets it retains for its ow n operational use, or in respect of w hich it only grants an operating lease (as defined under IAS 17 & IFRS 16).
- The Council w ill only be able to recognise available Capital Receipts to the extent that it receives consideration for the assets. For example, w here the disposal is under a finance lease, available Capital Receipts w ill be restricted to the amount of the capital (or loan) element of the finance lease paid by the acquirer.

Summary

- Under this option the Council w ill:
  - Incur capital expenditure, w hich in turn w ill require it to charge the GF on an ongoing basis w ith both the interest costs of any borrow ing undertaken as w ell as an annual MRP charge (w hich w ill be incurred from the year after the assets become operational)
  - Recognise available Capital Receipts on the disposal of the assets (i.e. w here the assets w ould be required to be de-recognised from the Council's balance sheet in accordance w ith proper practices). Capital receipts w ill only be recognised w hen and to the extent that consideration is received.
- Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. The Council may choose to use capital receipts in this w ay, at least to the extent that the borrow ing associated w ith the disposed assets has not been previously provided f or (through MRP or otherw ise), as the assets w ill not be providing continuing economic benefits to the Council.

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Option 2a: Council uses a wholly owned SPV to acquire and develop and subsequently dispose of the assets

Under this option the Council borrow s to on-lend (in the form of equity or shareholder loans) to the SPV, w hich then uses that funding to acquire & develop assets for subsequent sale. Where the Council disposes, at their fair value, of assets it ow ns to the SPV, it w ill **not** receive cash consideration. Instead the Council w ill be granted an equity interest in the SPV, or otherw ise recognise the consideration due to it from the SPV as a form of loan / financial receivable for those existing assets sold to the SPV. No funding is provided by 3rd parties.

Capital Expenditure

- The amounts borrow ed by the Council to invest in the SPV (as either equity or shareholder loans) w ill be capital expenditure for the purposes of the capital finance regulations (under Regulations 25(1)(b) to (d)). It is assumed that the Council w ill **not** structure its financial support to the SPV in the form of loan capital to benefit from the specific exemption under Reg. 7(a) of the 2012 amendments for such investments to not fall to be capital expenditure (as such an approach w ould be inconsistent w ith the objective of the Council generating capital receipts).
- Borrow ing solely to enable the development of assets for either the Council's ow n use, or their subsequent disposal in the context of w ider regeneration objectives, by its w holly ow ned SPV w ould be expected to be considered to be a law ful purpose.
- Subsequent expenditure by the SPV on acquiring or developing assets (and any additional borrow ing its undertakes to do so) w ill **not** fall to be capital expenditure by the Council as under the prudential regime the Council needs to take into account only that borrow ing and expenditure w hich is reflected in its single entity (rather than group) accounts.

MRP / GF

- The Council w ill be required to make an annual MRP charge based on the increase in the CFR arising on its investment in the SPV in accordance w ith the Council's ow n MRP policy.
- This MRP w ould be in addition to the charge borne by the GF for the interest costs on any borrow ing undertaken. This reflects that shareholder loans / share capital are not qualifying assets w hich w ould permit the Council to capitalise the interest costs associated w ith the borrow ing needed to acquire them.
- The statutory guidance on MRP requires MRP to be first charged in the year after the expenditure w as incurred (i.e. the year after the investments have been made). The period over w hich the MRP should be calculated w ill reflect the nature of the investment. Where it is in the form of equity / share capital, it w ill need to be based on a maximum of 20 years; w here in the form of shareholder loans it w ill be based on a maximum period of 25 years. The Council may adopt a more prudent (shorter) period over w hich to base the annual MRP charge.
- The GF w ould also benefit from the actual interest receivable from the SPV in respect of the shareholder loans. Where the interest rate on the shareholder loans w as less than a commercial rate (i.e. the loans w ere classified as 'soft loans') the interest credited to the GF w ill be the actual interest receivable (rather than the imputed effective interest rate required under IFRS 9).

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Option 2a: Council uses a wholly owned SPV to acquire and develop and subsequently dispose of the assets

Capital Receipts

- The disposal by the SPV of developed assets w ill not give rise to capital receipts for the Council. The Council w ill only be able to recognise Capital Receipts to the extent that, and w hen, the SPV repays in cash the principal on the shareholder loans or redeems / buys-back the share capital held by the Council.
- This means that w hen the Council can recognise capital receipts w ill reflect w hen the SPV can generate sufficient cash to repay loans / buy-back share capital. This in turn w ill depend on w hen the SPV can either dispose of the assets for consideration, or otherw ise generate cash (for example through rentals, or by borrow ing against the assets from a third party funder) w ith w hich to repay the Council.
- The disposal by the Council of assets to the SPV in return for another capital asset (w hether in the form of share capital of loans) w ill not create capital receipts for the Council (in effect it has simply sw apped one capital asset for another). Only w hen the SPV repays those loans / redeems the share capital w ill the Council be able to recognise capital receipts.
- Where the Council disposes of assets to the SPV in return for cash consideration - w hich is <u>not</u> assumed to be the case under this option – the Council w ould be *technically* required to recognise capital receipts since:
  - The prudential regime applies only to the Council's single entity accounts and therefore consideration arising on asset disposals, even to a w holly ow ned subsidiary, w ould score as capital receipts (as the acquisition by the Council of those assets w ould score as capital expenditure); and
  - s21(3) of the Local Government Act 2003 makes clear that, in the event of conflict betw een statutory provisions and proper practices, that the statutory provisions w ill prevail (i.e. substance is overridden in favour of the legal form of a transaction).
- How ever, w here the SPV is only able to pay cash to the Council for those assets because the Council has initially lent it the funds to do so (such lending scoring as capital expenditure by the Council), *it is probable* that the original borrow ing undertaken by the Council (to fund its on-lending to the SPV solely to enable to buy assets from the Council) w ould be deemed to be for an improper purpose (namely to artificially create capital receipts) unless the Council could clearly demonstrate that there w as a substantive purpose / rationale for it to receive cash for the assets and that it had to lend to the SPV to enable that outcome to be achieved.
- Moreover, though the Council's single entity accounts w ill show useable capital receipts under such an approach, these w ill not be show n on the group balance sheet. In the group accounts all transactions betw een the Council and its w holly ow ned SPV w ill typically be eliminated (unless s21(3) of the 2003 Act is taken to preclude this imposition of proper accounting practice). Where, the group accounts did eliminate transactions relating to the on-lending to and subsequent acquisition for cash by the SPV of Council ow ned assets, it w ould leave the group accounts show ing on its balance sheet:
  - The assets, together w ith the value of any w orks undertaken on them by the SPV:
  - The combined cash balance of the SPV and the Council: and
  - The Council's ow n external borrow ing to fund its on-lending to the SPV.
- Whilst this w ould not effect the Council's group general fund balances (as the capital transactions are neutralised in the GF in the single entity accounts), the balances show n for both the CAA and available capital receipts in the group accounts w ill be reduced by the value of the capital receipts recognised in the Council's single entity accounts on the disposal of assets to the SPV. Therefore, unless the s21(3) override of proper practices is also applied at the level of the group accounts, the Council could have the anomalous position that w here all the available capital receipts (as measured at the single entity level) w ere utilised – as flexible capital receipts or otherw ise – it w ould be required to show a negative available capital receipts reserve in its group accounts. In all cases it w ould show low er available capital receipts in its group accounts compared to its single entity accounts.

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Option 2a: Council uses a wholly owned SPV to acquire and develop and subsequently dispose of the assets

Summary

- Under this option the Council w ill:
    - Incur capital expenditure on that provision of share capital / shareholder loans to the SPV, funded by borrow ing.
    - Be required to charge the GF on an ongoing basis w ith both the interest costs of any borrow ing undertaken as w ell as an annual MRP charge.
    - Incur no fresh capital expenditure on the disposal of assets by the Council to the SPV in return for share capital / loans, or in respect of that capital expenditure undertaken by the SPV directly
    - Recognise available Capital Receipts only w hen the SPV repays those loans and / or redeems share capital
- Where the SPV acquires assets for consideration from the Council, using funds lent to it by the Council, it is probable that the original borrow ing by the Council w ould be deemed to be for an improper purpose **and** potentially give rise to anomalous accounting entries at the level of the Council's group accounts
- Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. The Council may choose to use capital receipts in this w ay, at least to the extent that the borrow ing associated w ith the disposed assets has not been previously provided f or (through MRP or otherw ise), as the assets w ill not be providing continuing economic benefits to the Council.

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Option 2b: Council uses a wholly owned SPV to acquire and develop and subsequently dispose of the assets - SPV borrowing.

This option is similar to Option 2a, except rather than the Council borrow ing to fund the SPV, the SPV itself borrow s directly from a third party supported by a guarantee from the Council.

Capital Expenditure

- No capital expenditure (or borrow ing) is incurred by the Council under this option.
- Subsequent expenditure by the SPV on acquiring or developing assets, and the borrow ing its undertakes to do so, w ill **not** fall to be capital expenditure by the Council as the Council needs to take into account only that borrow ing and expenditure w hich is reflected in its single entity (rather than group) accounts.

MRP / GF

•The Council w ill **not** be required to make an annual MRP charge, nor w ill it incur interest costs on borrow ing.

Provision of the Guarantee

- The guarantee is likely to fall to be a financial guarantee (as defined by IFRS 9) as its is assumed it w ill require the Council to reimburse the lender specified amounts if the SPV fails to meet its obligations under a debt instrument.
- The Council w ould be required to calculate a loss allow ance for the guarantee w hich w ill be a charge to the GF, net of any premium income earned by the Council from providing the guarantee (it is assumed that the Council w ould charge the SPV a ‘market’ premium for the guarantee).
- The loss allow ance w ill reflect the Council’s risk w eighted assessment of the likelihood of it being required to make payments under the guarantee to the lender.

Capital Receipts

- This model does not contain a straight forw ard mechanism by w hich the Council can extract capital receipts, rather than revenue (i.e. GF) dividends from the SPV.
- This reflects that as the Council has not invested in the SPV other than by w ay of initial pinpoint equity capital there is no direct means – such as the repayment of loans – w hich w ould enable the SPV to make cash payments to the Council, w hich w ould score as capital receipts, on an ongoing basis.
- The Council could receive capital receipts either (i) w here the SPV redeemed the shares at their market value; or (ii) by selling some or all its interest in the SPV to a third party. These, and similar approaches, w ould be expected to be subject to approval / agreement w ith the 3rd party lender and w ould be expected to be most likely late in the development life cycle of the projects being undertaken by the SPV.
- It w ould therefore be reasonable to assume that the generation of capital receipts w ould be later than under Option 2a.

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Option 2b: Council uses a wholly owned SPV to acquire and develop and subsequently dispose of the assets - SPV borrowing.

Capital Receipts (Cnt'd)

- Where the Council disposes of assets to the SPV in return for cash consideration under this option, the Council w ould again be technically required to recognise capital receipts as:
  - The prudential regime applies only to the Council's single entity accounts and therefore consideration arising on asset disposals, even to a w holly ow ned subsidiary, w ould score as capital receipts (as the acquisition by the Council of those assets w ould score as capital expenditure); and
  - s21(3) of the Local Government Act 2003 makes clear that, in the event of conflict betw een statutory provisions and proper practices, that the statutory provisions w ill prevail (i.e. substance is overridden in favour of the legal form of a transaction).
- How ever, even though the SPV's ability to pay cash to the Counc il now reflects that it has secured third party funding, there remains a reasonable r isk that the provision of a guarantee by the Council (to enable the SPV to borrow) would be deemed to be for an improper purpose (namely to artificially create capital receipts) unless either (i) the premium for the guarantee w as at a market rate as this w ould imply that the overall arrangement w as commercial / at arms ' length; and / or (ii) the Counc il could clearly demonstrate that there w as a substantive purpose / rationale for it to receive cash for the assets **and** that it had to provide the SPV lender w ith a guarantee to enable that outcome to be achieved.
- Moreover, though the Counc il's single entity accounts w ill show useable capital receipts on the sale of these assets to the SPV , the group accounts – as discussed above under Option 2a – w ould show a low er (and potentially even negative) available capital receipts reserve as transactions betw een the Council and its w holly ow ned SPV w ould be eliminated on consolidation.

Summary

- The Council w ill not incur capital expenditure, nor w ill it w ill be required to bear an annual MRP charge or the interest costs of borrow ing
- The Council w ill be required to charge the GF w ith the net cost / income (being the difference betw een the premium income and the estimated loss allow ance) associated with the provision of the guarantee
- The Council w ill only be able to generate capital receipts w here the SPV redeems equity at market value or the Council disposes of some or all of its equity interest in the SPV to a third party.
- Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. The Council may choose to use capital receipts in this w ay, at least to the extent that the borrow ing associated w ith the disposed assets has not been previously provided for (through MRP or otherw ise), as the assets w ill not be providing continuing economic benefits to the Council.

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Option 3: Income Strips/Lease Solution direct with funder

This option is similar to Option 1, except rather than the Council borrow ing directly from the PWLB it now borrow s from an investor under a lease structure. They key steps, from an accounting perspective, of this Option are:

1. The Council grants a long lease (125 years) on a peppercorn to the Investor of the sites (land and buildings) to be developed. Though structured as a long lease, the lease collapses once the third party is repaid (w hich w ould be reasonably expected to be w ithin 40 to 50 years). Therefore, though it provides security to the investor, in substance the headlease is one of 40 to 50 years length;
2. The Council simultaneously enters into an Agreement for Lease (AfL) w ith the Investor, under w hich it agrees to lease back (on a 40 to 50 year term) developed assets as they are completed and made available. The rent payable under the future lease w ill reflect the cost of developing the new assets (i.e. it is not expected that the Investor takes substantive construction risk on the new assets – the future rent w ill reflect their actual cost, rather than necessarily being a fixed price agreed in advance). At the end of this lease term the assets revert to the Council for £nil (through the collapse of the headlease). Once made available to it, the Council can deploy the new assets as it sees fit.
3. The Investor (typically in consultation w ith the Council) appoints a developer to take forw ard the projects, and the Investor makes funds available to the developer as required to undertake w orks, acquire new sites etc.

Capital Expenditure

- When the Council w ill be required to recognise capital expenditure w ill depend on the extent to w hich it is deemed to control the assets covered by the AfL before they are completed and formally (legally) transferred to the Council.
- As the Investor / Developer w ill be taking forw ard projects w hich have been designed and specified by the Council (rather than speculative developments) and – as discussed further below in the context of capital receipts – the assets covered by the headlease are unlikely to be de-recognised from the Council's balance sheet, it w ould be prudent for the Council to assume that it controls the assets during the development phase of activity.
- Therefore (similar to PFI contracts accounted for under IFRIC 12 and consistent w ith the requirements of IFRS 16 to recognise lease c ommencement w hen the lessee controls the underly ing assets) the Council w ould recognise both assets under construction and an associated financial liability to pay for those assets during the development phase of activity. The financial liability w ould be subsequently re-classified as a lease liability w hen the completed assets are then made available for use by the Council under a lease.
- The Council w ill therefore recognise capital expenditure and associated borrow ing (w hich will increase the CFR) <u>during the development phase</u>. No further capital expenditure / borrow ing w ould need to be recognised w hen the assets are formally made available for use (provided the lease liability required under IFRS 16 is not assessed as being greater than the financial liability already recognised).

MRP / GF

- The Council w ill be required to charge MRP on the increase in the CFR. As the Council w ill be repaying the borrow ing under a lease, the annual MRP charge can – if the Council opts to do so – be based on the element of the rental payment w hich represents debt repayment (in effect charge MRP on a sinking fund basis).
- As the assets are not operational until they are transferred to the Council under a lease, <u>no MRP w ill be incurred during the development phase of projects</u>.
- The Council w ill also incur annual interest costs, based on the effective interest rate of the lease.

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Option 3: Income Strips/Lease Solution direct with funder

Capital Receipts

- No capital receipts w ill arise on the grant of the long headlease to the Investor. As the 'in substance' term of the lease is 40 / 50 years, and the underlying assets are expected to be land & buildings it is considered unlikely that the Council (as lessor) w ould conclude that it had transferred substantially all the risks and rew ards associated w ith the assets to the Investor under the headlease. As such no sale w ill occur, and the Council w ill not derecognise the assets from its balance sheet.
- Therefore, even if the headlease w as not at a peppercorn (i.e. the Investor paid a premium to the Council) no capital receipt w ould arise and any cash receipt w ould instead be treated as borrow ing.
- As the assets covered by the AfL w ill be recognised on the Council's balance sheet, the Council w ill be able to generate capital receipts on their disposal for consideration (i.e. w here it has transferred substantially all the risks and rew ards of ow nership inherent in the assets to a third party). Where interests in leases are disposed of (i.e. a sub-lease is granted to another party), IFRS 16 requires that the assessment of the transfer of risks and rew ards is based on the term of the underlying lease (i.e. on the Right of Use asset), rather than on the useful economic life of the underlying assets.
- How ever, as the assets w ill revert to the Council for £Nil, the useful economic life the Council w ill adopt in depreciating the assets w ill be based on that of the underlying assets, rather than on that of the Right of Use asset. It may therefore be prudent for the Council to currently assume, pending refinement of the mechanism by w hich it w ill dispose of asset it holds on a leasehold from the Investor, that it w ill assess the extent to w hich it has transferred the risks and rew ards of ow nership by reference to the useful economic life of the underlying assets, rather than to the 40 / 50 year term of the lease.
- This issue w ill require further consideration should it be the case that the Council is constrained by its lease w ith the Investor to only granting leases of not more than 40 / 50 years to third parties in respect of those assets.

Summary

- Under this option the Council w ill:
  - Incur capital expenditure, w hich in turn w ill require it to charge the GF on an ongoing basis w ith both the interest costs of any borrow ing undertaken as w ell as an annual MRP charge (w hich w ill be incurred from the year after the assets become operational). The annual MRP charge may be based on the debt repayment element of the annual rental payable to the Investor.
  - Recognise available Capital Receipts on the disposal of the assets (i.e. w here the assets w ould be required to be de-recognised from the Council's balance sheet in accordance w ith proper practices). Capital receipts w ill only be recognised w hen and to the extent that consideration is received.
  - Depending on w hether and how the Council can dispose of assets held under a lease, further consideration may be required of the basis on w hich the Council w ould determine if it has transferred all the risks and rew ards to a third party.
- Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. The Council may choose to use capital receipts in this w ay, at least to the extent that the borrow ing associated w ith the disposed assets has not been previously provided f or (through MRP or otherw ise), as the assets w ill not be providing continuing economic benefits to the Council.

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Option 4a: Contractual JV with Developer/Investment Partner

Under this option the Council w ill:

1. Transfers sites / assets it already ow ns to a Developer, potentially on a rolling or phased basis, on a long leasehold for a land payment
2. The land payment w ill be made up of a initial lump sum, potentially supplemented by future overage payments
3. The Developer builds out the sites at its ow n risk and takes the benefit of any sale or other proceeds
4. The assets / sites revert to the Council only at the end of the long lease and there is **no** automatic provisions / options to collapse the lease before that time

No separate entity, or contractual risk and decision sharing mechanism, is established that w ould need to be assessed under IFRS 10 / 11.

Capital Expenditure

- No capital expenditure or borrow ing w ill be recognised by the Council. Construction costs are borne solely by the Developer, an entity independent of the Council, and the Council does not underw rite / underpin the Developer.

MRP / GF

- The Council w ill not be required to recognise MRP, or interest costs on borrow ing.

Capital Receipts

- Provided the long lease is of sufficient length (125+ years) it w ould be reasonably expected that the Council w ould conclude (under IAS 17 / IFRS 16) that it had transferred sufficient of the risks and rew ards inherent to the assets to enable the assets to be derecognised from its balance sheet. As such the grant of the long lease w ould constitute a disposal.
- The available capital receipts arising on the disposal w ill equal the lump sum land payment from the Developer.
- Where the Council also has an overage arrangement, it w ould recognise the fair value of the amounts expected to be paid under the arrangement as a financial asset w ith a corresponding credit to deferred capital receipts (reflecting that the overage arrangement provides the Council w ith a continuing interest in the assets). Only w hen the Council actually receives overage payments w ill it be able to reclassify (a proportion of) the deferred capital receipts as available capital receipts.

Summary

- Under this option the Council w ill:
    - Not Incur capital expenditure, or need to recognise borrow ing. Accordingly, it w ill not need to charge MRP or interest costs to the GF.
    - Recognise capital receipts on the payment of (i) the upfront land payment; and (ii) if / w hen it receives future overage payments.
- Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. The Council may choose to use capital receipts in this w ay, at least to the extent that the borrow ing associated w ith the disposed assets has not been previously provided for (through MRP or otherw ise), as the assets w ill not be providing continuing economic benefits to the Council.

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Option 4b: Corporate Joint Venture with Developer/Investment Partner

Under this option the Council w ill:

1. Form a JV entity w ith a Developer in w hich it does not, or have the right to, exercise control.
2. It then transfers sites / assets it already ow ns to the JV, potentially on a rolling or phased basis, on a long leasehold in return for a mix of land payment and loan assets
3. The JV builds out the sites at its ow n risk using future sale proceeds and other income to (i) repay debt including to the Council; and (ii) distribute profits
4. The assets / sites revert to the Council only at the end of the long lease and there is **no** automatic provisions / options to collapse the lease before that time

Capital Expenditure

- it is assumed that the JV w ill be deliberately structured to avoid it being deemed to be controlled by the Council (e.g. the Council w ill have a minority of the equity voting rights, appoint a minority of the directors, not have veto rights etc.). Moreover, it is further assumed that the JV w ill not be established on the basis that the Council and the Developer share control of the JV entity. The JV is therefore likely to be accounted for by the Council as an Associate, rather than as a Subsidiary (under IFRS 10) or as a JV (though the manner in w hich Associates and JV are reflected in the group accounts is materially the same).
- No capital expenditure or borrow ing w ill be recognised by the Council. Construction costs (and borrow ing) are borne solely by the JV, an entity separate from the Council, acting in its ow n interests (rather than as an Agent of the Council). Therefore, the Council w ill **not** be required to record the activities undertaken by the JV in its single entity accounts.

MRP / GF

- The Council w ill not be required to recognise MRP, or interest costs on borrow ing.
- Dividends from the JV w ill be credited as income in the Council's single entity accounts.

Capital Receipts

- Provided the long lease is of sufficient length (125+ years) it w ould be reasonably expected that the Council w ould conclude (under IAS 17 / IFRS 16) that it had transferred sufficient of the risks and rew ards inherent to the assets to the JV to enable the assets to be derecognised from the Council's balance sheet. As such the grant of the long lease w ould constitute a disposal.
- The available capital receipts arising on the disposal w ill equal the cash sum (if any) paid by the JV on the grant of the long lease. Where the JV instead accepts a loan obligation in consideration for the grant of the long lease, the Council w ill only be able to recognise capital receipts w hen the JV repays the principal of the loan.
- Surpluses generated by the JV w hich are distributed as profits (dividends) w ill **not** score as capital receipts (instead being credited to the GF as revenue income).
- As the Council w ill treat the JV as an associate, rather than a subsidiary, capital receipts recognised in its single entity accounts on the grant of the long leasehold w ill be recognised, at least in part, in the group accounts. The JV w ill be accounted for on the equity method, w hich does not require the elimination of the transactions betw een the Council and the JV in full. It only requires that profits / losses on transactions betw een the Council and the JV are eliminated. Therefore, to the extent that the capital receipt equals the book value of the asset as originally recognised by the Council, it w ill continue to be recognised in the group accounts.

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Option 4b: Corporate Joint Venture with Developer/Investment Partner

Summary

- Under this option the Council w ill:
    - Not Incur capital expenditure, or need to recognise borrow ing. Accordingly, it w ill not need to charge MRP or interest costs to the GF.
    - Recognise capital receipts on (i) the payment of any the upfront land payments by the JV in respect of the grant of the long lease; and (ii) w here the consideration for the long lease is a loan asset, w hen and to the extent that the JV repays that loan.
- Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. The Council may choose to use capital receipts in this w ay, at least to the extent that the borrow ing associated w ith the disposed assets has not been previously provided for (through MRP or otherw ise), as the assets w ill not be providing continuing economic benefits to the Council.

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Option 5: Straight Land Sale

Capital Expenditure

- No capital expenditure or borrow ing arises under this option.

MRP / GF

- The Council w ill not be required to recognise MRP, or interest costs on borrow ing, as no capital expenditure / borrow ing occurs.

Capital Receipts

- Provided the Council transfers sufficient of the risks and rew ards of ow nership in the assets to recognise a disposal (and therefore derecognise the assets) available capital receipts w ill be generated on receipt of the land payment from the third party.

Summary

- Under this option the Council w ill:
    - Not Incur capital expenditure, or need to recognise borrow ing. Accordingly, it w ill not need to charge MRP or interest costs to the GF.
    - Recognise capital receipts on the receipt of cash consideration from the 3rd party.
- Should the Council choose to use some (or all) of the capital receipts subsequently generated by disposals to reduce the CFR (and thereby reduce the MRP charge w hich w ould otherw ise arise) they w ill not be available for use under the flexible capital receipts exemption to fund service reform. The Council may choose to use capital receipts in this w ay, at least to the extent that the borrow ing associated w ith the disposed assets has not been previously provided for (through MRP or otherw ise), as the assets w ill not be providing continuing economic benefits to the Council.

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Appendix 1: Overview of BCOP's capital plans

Appendix 1

Overview of BCP's major capital projects

- Alongside BCP's Big Plan, reflecting the scale of BCP's ambition, is a large and diverse capital programme, comprising approx. at least 18 investments with an estimated gross development value of Council-owned sites alone nearing £1bn over the next 5 years. Each investment within the programme varies considerably in terms of scale, complexity and the level of business planning that has been undertaken to date. These range from small, discrete schemes (approx. £2m), redevelopment opportunities in town centres to large mixed use regeneration projects on significant sites of regional interest such as the former power station at Holes Bay seeking to deliver 800+ new homes in new communities (approx. £250m).
- BCP's major capital projects are summarised below:

Name	Description	Location	Mix of uses	GDV	Area	Key Risks
Large scale mixed use regeneration projects						
Heart of Poole	Town Centre North regeneration including new leisure centre, residential units, commercial, hotel, and de-trafficking of Kingland Road, surface car parks (Dolphin Swimming Poole and Seldown Coach Park)	Poole Town Ward	— Residential: 500 units, including affordable provision 200-277 units — Dolphin Swimming Poole surface car park and leisure centre £60- 70m — Seldown surface Coach Park £38m (150 residential)	£229m	TBC	— Significant works needed to existing assets on site (c.£34m) — assumes acquisition of Brownsea House and relocation of bus depot with Go South Coast — Licence to use Seldown surface car park by National Express as a coach park
Holes Bay	Former Power station site aims to deliver a new housing including affordable provision and Community/Commercial space.	Hamworthy Ward	— Residential: minimum of 830 homes (inc. at least 10% affordable housing) — 1,000sqm Community / Commercial use	£250m	16 (ha gross) 12.79 (developable ha)	— Significant potential remediation.
Boscombe Towns Fund Programme	Mixed use town centre project incorporating residential, leisure and retail.	Boscombe West (Boscombe Sovereign Centre and surroundings)	— 560 new homes — 6,700sqm of retail and leisure floor space — 4,800 sqm of commercial, community and health floor space (1)	£210 (2)		— Funding constraints (£22m of funding secured from Towns Fund Programme)

Source: (1) https://www.bournemouthecho.co.uk/news/18658400.future-boscombe-plans-unveiled/
(2): https://democracy.bcpcouncil.gov.uk/documents/s24037/The%20Future%20of%20Regeneration%20in%20Bournemouth%20Christchurch%20and%20Poole.pdf

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Name	Description	Location	Mix of uses	GDV	Area	Key Risks
Large scale mixed use regeneration projects						
Wessex Fields	Mixed use development focused on the Meditech sector, capitalising on the close proximity to the hospital and creating a community driven place w hile enabling high quality jobs & key w orker housing.	Littledow n & Iford Ward	— Key w orker accommodation: 500 units — Medical, science and research space	£120m (hospital) £50 m Wessex Fields development	3.56 (ha) BCP land; 2.29ha (UHD land)	— Ageas road access dispute — Agreement on master planning/through road access to Deansleigh Road. Subject to planning.
Cotlands Road Car Park	An employment led mixed use scheme comprising commercial, office, retail, car parking and residential uses in order to attract investment into Lansdow ne (BDC scheme)	Bournemouth Central	— Five blocks, including tw o office buildings of around 8,400sqm and 4,000sqm. Other blocks w ould contain residential accommodation and all would feature retail and café space on the ground floor. A new multi-storey car park w ith 420 spaces is proposed on the site of the York Road surface car parks	£208	TBC	— Subject to scheme viability assessments and planning
Winter Gardens	A mixed use residential, commercial and leisure regeneration scheme in Bournemouth Tow n Centre aimed to rejuvenate an underutilised tow n centre since since the demolition of an existing concern hall (BDC Scheme)	Bournemouth Central	— Residential: 378/379 high quality homes consisting of one, tw o and three-bed apartments as w ell as luxury penthouses; — Car Park: 308 public spaces — Leisure units: 4,000 square meters of dedicated leisure space — Convenience store: 1000sqm — 1500sqm of restaurants	£150	1.98 ha	— Scheme viability w ith increasing construction costs. — Planning deadline and scheme amendments. — Market Assessments/S123 Valuations required — Completion of Legals and seeking of Cabinet/Council approvals

Source: (1) https://www.bournemouthecho.co. uk/news/18658400.future-boscombe-plans-unveiled/
https://democracy.bcpcouncil.gov.uk/documents/s24037/T he%20F uture%20of%20Regenerati on%20in%20Bournem outh%20Christchurch%20and% 20Pool e.pdf
https://www.brightspacearchitects.com/ all-architecture-proj ects/case-study-winter-gardens/

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Appendix 1

Overview of BCP's major capital projects

Name	Description	Location	Mix of uses	GDV	Area	Key Risks
Housing led developments						
Turlin Moor Housing Development	Infrastructure 'enabled' greenfield site, purely residential development not regeneration scheme. Units are required by HRA to form part of HE Strategic Partnership Status	Hamworthy Ward	— Residential: 350-400 units	£100m (average value of £250k/ unit	7.8 (ha)	— No planning consent, pre app lodged but cannot proceed as all essential surveys incomplete. Significant sensitivity around local engagement methods — Loss of public open space, mitigated by creation of new open space and proximity to Upton Country Park — Home England grant £3.8m has been cancelled.
Civic Centre Poole	Residential mixed tenure development on existing civic campus.	Poole Town Ward	— Residential 300- 326 units	£70m-80m	2 ha	— Main civic centre is Grade 2 listed, annexe is locally listed. — Part of Poole Park Conservation Area. Mature trees on periphery. — Utilities -legal status — Flooding risk to be confirmed.
Civic Centre Christchurch	Residential development on existing civic campus. Adjacent Gas works site now exchanged, subject to imminent completion - Churchill Retirement Living. Part of the Civic Centre likely to be retained for Coroners service and Mayoral purposes	Christchurch Town Ward	— Residential: [tbc] — Office: [tbc] — Leisure — Commercial	£30	0.45 ha including front/rear car parks	— Flood issues. — Public footpaths/cycle path alongside Civic Centre. — Rights of Way to public slipway, loss of public car parking.
Constitution Hill	Residential development on site formerly occupied by Bournemouth & Poole, College. Transfer to HRA proposed, development and feasibility studies being undertaken, units form part of HE Strategic Partnership Status.	Parkstone Ward	— 80-100 — Residential units	£29m	2.1 ha	— Lady Russell Cotes House is locally listed — Some topographical challenges but reasonable degree of built form already — Area TPO covers the site which will have to be considered.

Source: (1) https://www.bournemouthecho.co.uk/news/18658400.future-boscombe-plans-unveiled/
https://democracy.bcpcouncil.gov.uk/documents/s24037/The%20Future%20of%20Regeneration%20in%20Bournemouth%20Christchurch%20and%20Poole.pdf
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Overview of BCP's major capital projects

Name	Description	Location	Mix of uses	GDV	Area	Key Risks
Smaller scale housing schemes						
Oakdale redevelopment	Relocation of Adults Skills and Learning Centre from Oakdale to Dolphin Shopping Centre resulting in site being available for residential development.	Oakdal e Ward	— 60(site 1)-20 (site 2) residential units	£15m	0.78(ha)	— Road junctions
Chapel Lane	Residential scheme on current surface car park (BDC produced concept and site development plan and feasibility appraisal)	Poole Tow n Ward	— 70 residential units	£18m	0.16 (ha)	— Loss of public surface car park.
Broadw aters	Disposal of the site at Boradw aters, a former vacant care home, declared surplus and w as marketed for sale in Spring 2019. A preferred bidder w ith a residential offer w as selected, undertaking due diligence and flood assessment but not in contract yet	East Southbourne & Tuckton	— 25-40 residential units.		0.46 ha	— No planning consent — Bounded by Listed Wick Farm on eastern boundary, listed 2 storey cottage on opposite side of Wick Lane. — Conservation Area, Flood zone level 3
Beach Road	Surface car park. Potential disposal pending review by URC.	Canford Cliffs Ward	— 50-70 residential units		1.27 (ha)	— No planning consent. — Restrictive Covenant

Source: (1) https://www.bournemouthecho.co. uk/news/18658400.future-boscombe-plans-unveiled/
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Name	Description	Location	Mix of uses	GDV	Area	Key Risks
Leisure/events facilities						
Bournemouth International Centre	An inter-connected series of projects to transform the mixed-use leisure and conference/events facility at the heart of Bournemouth's Destination offer aiming to create a 21st Century Cultural Quarter, visitor destination and events venue.	Bournemouth Central Ward	— Refurbished & redeveloped convention and exhibition centre.	£250-£300m		
Queens Park Acquisition	Potential acquisition of the freehold of Queens Park Leisure Centre. of Leisure Centre to support Leisure service provision across BCP.	Queens Park	— Leisure centre facilities	£2m (land only) £3m (going concern)		— Acquisition is subject to surveys and valuations — Negotiations w ith current ow ners and tenants BH Live
Other Housing Projects						
Carters Quay PRS	Residential acquisition opportunity of turnkey PRS scheme from a private sector developer (Inland Homes)	Hamw orthy	— 161 private market rent homes	TBC	TBC	— Subject to price and viability
Richmond Gardens PRS	Residential acquisition opportunity of turnkey PRS scheme from a private sector developer (Summix Developments Ltd)	Bournemouth Central	— 211 private market rent homes	TBC	TBC	— N/A

Source: (1) https://www.bournemouthecho.co. uk/news/18658400.future-boscombe-plans-unveiled/
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