

CABINET



Report subject	BCP FuturePlaces Ltd - Revised business plan and funding mechanism
Meeting date	22 June 2022
Status	Public Report with Confidential Appendix 1
Executive summary	In May 2021 the Council approved the formation of BCP FuturePlaces Ltd, ("FuturePlaces") a wholly owned Urban Regeneration Company (URC). The fundamental purpose and principles of FuturePlaces is to drive "Place Making", regeneration and property market transformation both across key sites owned by the Council and the wider area to support the aspirations set out in the Council's Big Plan. This report seeks approval for funding changes to the business model due to a revised approach as proposed in the Councils 2022/23 Budget as to how the company will be funded. It also seeks approval for the revised company business plan as Council approval as sole shareholder as such a change is a reserved matter under the Shareholders' Agreement. It also seeks approval to streamline the Gateway Approval process outlined in the Commissioning Plan. The changes seek to remove duplication and ensure that each new stage builds on, and complements, its predecessor. There will not be a reduction in the work required to investigate options for delivery of each project and it is still based on HM Treasury Green Book guidance.
Recommendations	It is RECOMMENDED that Cabinet: (a) Recommend that Council approve an increase in the working capital loan facility to £8m (from £400k) to support BCP FuturePlaces Ltd from July 2022. (b) Delegate authority to the Chief Finance Officer (s151) to agree and finalise the terms of the working capital loan. (c) Recommend that Council approve the revised BCP FuturePlaces Ltd Business Plan attached and confidential Appendix 1. (d) Delegate authority to the Chief Executive to amend and finalise the Commissioning Contract to reflect the new gateway process and business plan.

Reason for recommendations	To contribute to the Council's Corporate vision, specifically helping to create dynamic places, investing in the homes our communities need, revitalising and re-inventing our high streets and local centres in line with the vision set out in the Big Plan. FuturePlaces was formed to ensure BCP Council has the capacity, expertise, and resources to drive investment in regeneration and unlock value from major Council owned sites; it will also enable BCP Council to ensure that we deliver new homes and create well designed, local neighbourhoods. The new funding model accords with the proposal contained in the 2022/23 Budget approved by Council.
Portfolio Holder(s):	Councillor Drew Mellor, Leader of the Council and Portfolio Holder for Finance and Transformation Councillor Philip Broadhead, Deputy Leader of the Council and Portfolio Holder for Regeneration, Economy and Strategic Planning
Corporate Director	Graham Farrant, Chief Executive
Report Authors	Sarah Longthorpe, Director of Delivery - Regeneration
Wards	Council-wide
Classification	For Decision

Background

1. BCP Council's *Big Plan* sets the ambition for the BCP area to be world class – one of the best coastal places in the world in which to live, work, invest and play. The Big Plan sets out five key aims that, if achieved, would deliver changes across the whole area supporting the creation of over 13,000 jobs across the local economy, the growth of businesses and prosperity of local communities.
2. One of the aims of the Big Plan is to **act at scale** and deliver more than 15,000 new homes for people of all incomes. This target can only be achieved through a mixture of direct investment by the Council and enabling third parties within the market to build a sustainable mix of housing from affordable homes to high-end apartments and houses.
3. BCP Council is the UK's 10th largest urban authority. The Council's Big Plan sets out the need to 'act at scale' by intensifying development in town centres and unlocking land on redundant brownfield sites, such as Holes Bay. In theory, the Council is in a strong position to drive investment in regeneration. In practice, it lacks the capacity to deliver at the necessary scale and pace to meet the challenges of growth and has insufficient in-house expertise in urban development and place making.

4. The Council has a duty to obtain best value from the disposal and redevelopment of its assets, and an obligation to its communities to deliver successful regeneration. Strategically important sites - such as Holes Bay - have the potential to attract investment and jobs, sustaining local prosperity and quality of life. The evidence from sites such as Holes Bay, suggests that public sector intervention will be necessary to address market failure and unlock their development potential. This can be achieved by creating the development management capability and expertise needed to prepare masterplans, develop business cases, and formulate investment proposals for such sites and appraising the best options for their delivery e.g., direct development; joint venture; disposal; community asset transfer. These sites will require dedicated development management support to enable feasibility masterplan studies to be carried out.
5. In April 2021, Inner Circle Consulting (ICC) were appointed by the Council to look at alternative approaches to managing investment and regeneration. ICC carried out a detailed review of potential models and concluded that an Urban Regeneration Company (URC) was the most viable and attractive option.
6. At its meeting on 26 May 2021, Cabinet supported the establishment of a URC and FuturePlaces Ltd was incorporated on 18 June 2021 with the aim of achieving a step change in the scale, pace, and ambition of regeneration across the BCP area. The Council now has the potential to deploy the resources and expertise needed to deliver regeneration at scale, in a way that was more difficult for its predecessor authorities.
7. On 29 September 2021 Cabinet further approved the formation and funding of FuturePlaces to provide the Council with the development management expertise and capacity required to progress the key sites. It also agreed the creation of a commissioning plan and delivery team to provide oversight of all the regeneration and development activity undertaken by the URC, Bournemouth Development Company LLP (BDC) and the Bournemouth Towns Fund for Boscombe.
8. On 27 October 2021 Cabinet received an updated report and approved a commissioning approach to regeneration and development along with FuturePlaces Business Plan.
9. The approved FuturePlaces business plan sets out the Stewardship proposition and strategic objectives of the company alongside its delivery plan, ways of working, governance, and funding structures.
10. The 2021/22 budget previously assumed FuturePlaces would provide development advice funded via an ongoing contractual agreement, with regular revenue payments to them to fund feasibility costs.
11. Following a review of similar practice applied in another regeneration based Local Authority Trading Company, Be First, owned by the London Borough of Barking and Dagenham (LBBD), an alternative mechanism is being proposed whereby payment is based on the successful outcomes of the development advice received. Be First acts as a developer for LBBD, utilising their Council and commercial investment resources to acquire sites, get planning consent and build out new residential and commercial developments.
12. This new approach from 1 July 2022, means FuturePlaces require a larger working capital loan from the Council to cashflow their feasibility activity prior to presenting individual business cases to Cabinet, and potentially Council, for

approval. The working capital loan will be required to cover all company expenditure including salaries, overheads and project costs.

13. Upon successful approval of these business cases by the Council in line with the prevailing financial regulations, FuturePlaces will be entitled to invoice the Council for their professional development advice and consequently receive payment. This income flow will enable FuturePlaces to repay its debt if appropriate.
14. This approach enables the Council to acquire professional advice directly linked to a specific scheme or asset and capitalise the cost.
15. Due to the change in the proposed funding of the company, it is necessary for FuturePlaces to revise the company business plan and seek Council approval as sole shareholder as such a change is a reserved matter under the Shareholders' Agreement. The Council will require that the company has a strong and credible business plan that demonstrates how the company will generate sufficient funds to repay the working capital loan and ensure the company remains a going concern.
16. In respect of the proposed charging mechanism, value for money will need to be demonstrated and evidenced.
17. A copy of the new business plan is attached in Appendix A along with the confidential financial Appendix 1.

Proposed Charging Mechanism

18. The proposed charging mechanism applies to the services the company is contracted to provide to the Council via the commissioning agreement. This forms the basis on which FuturePlaces will be entitled to invoice the Council for their professional development advice and consequently receive payment for their services. The commissioning agreement will be updated to reflect these changes.
19. The company is proposing to adopt a cost-plus charging model as used by many other professional service businesses applying the "rule of thirds" approach.
20. Under this model, of the total invoice amount, one third is approximately staff cost, one third is a contribution to other costs and overheads (including external expenses and third-party fees) and one third is contribution to profit and reserves.
21. FuturePlaces will have the discretion to apply a lower cost rate for smaller schemes where appropriate to ensure viability and deliverability.
22. In order for this charging mechanism to be benchmarked it has been translated into a range of day rates for a range of job roles based on staffing costs, an allocation to overheads and a margin. These rates are outlined in the business plan and detailed in table 1 below.
23. FuturePlaces day rates have been benchmarked against numerous other third-party consultancy rates who have recently provided the Council with similar services. These include but are not limited to, TRA Architects, Chilmark Consulting, Forty Group, Knight Frank, WSP, AECOM, and Inner Circle Consulting. The rates have also been benchmarked against the published government framework prices for consultancy services with the average day rate of £1,146.

24. The table below summarises this day rate benchmarking activity and the range of fees applied.

Job Title	Third Party Rates range	Average Third Party Rate	FuturePlaces Proposed Rates range
Managing Director/Associate Director/Principle	£1,100-£2,250	£1,381	£1,090-£1,210
Director/Senior Consultant/Associate	£588-£1,252	£905	£477-£1090
Project Manager	£587-£1,500	£657	£477-£808
Project Support	£408-£656	£421	£233-£477

Table 1 – Day Rates

25. Under this proposed charging model, as long as at least two thirds of the projects by value are approved by the Council at the point of their capitalisation, in theory FuturePlaces would secure enough funding to pay for any remaining projects that were aborted.
26. It should be noted that projects may be aborted, or not accepted, for a range of reasons. The critical point is that the decision to proceed with a project is a decision solely for the Council. Therefore, FuturePlaces will need to fund the cost of any work on these projects from the contribution to its reserves generated from the successful projects for which fees are received.

Success Fees

27. In some project circumstances a success fee could be applied, rather than the cost-plus charging model. Where a success fee is proposed this will be clearly stated and the necessary approvals sought within the project business case.
28. The principle of a success fee is common in the property sector and is applied as a pre-agreed percentage whether on an acquisition or disposal or introduction of funding. Be First charge 0.8% for this activity and agents' industry rates vary dependant on market conditions and currently range from 0.8% -1.5%. BCP Council is regularly presented with property opportunities from third party agents including their fee proposals to enable us to benchmark and verify this range.
29. It is proposed that a fee is applied to FuturePlaces projects that include land acquisitions and disposals at the Full Business Case stage. It is proposed that FuturePlaces operate within a fee range of 0.8-1.25%. This will be negotiated dependant on the scale and complexity of the project and it is intended that FuturePlaces would operate at the lower end of the range presented in paragraph 28 to ensure that value for money can be clearly demonstrated.
30. In addition, where FuturePlaces have negotiated with third party developers to acquire a turnkey solution and will subsequently be undertaking a development management function a development management fee could be applied. This

would be expected to cover the company costs incurred in relation to the negotiation, acquisition, and development management services for the delivery of the scheme through to completion. As a comparable, Be First charge 2.5% of the Gross Development Value (GDV) for this activity however this includes obtaining a planning consent. Any proposed development management fee for FuturePlaces should be commensurate with the level of services provided and the agreed basis of application determined for each individual project. This is expected to be within a range of 1-5-2.5% and will be negotiated dependant on the scale and complexity of the project.

31. The Bournemouth Development Company LLP (BDC) apply a 5% development management scheme to their schemes based on the total development value less land value and any finance costs. The development management services provided include obtaining a planning consent, contractor procurement, and build out of new residential and commercial developments.
32. The proposed fee percentages detailed in the business plan are within the industry range and comparable with Be First and are therefore deemed to be reasonable.

Value for money

33. It is important to note that the proposed day rates and success fee percentages in the business plan are less than or within the range of other third-party market comparables, demonstrating that FuturePlaces is providing value for money.
34. It is recommended that the charging mechanism is reviewed after a 12-month period and annually thereafter to ensure it is robust for both parties and is demonstrating best value.

Simplification of the Gateway Process

35. In support of the new company funding mechanism, work has been carried out jointly between BCP Council and FuturePlaces to test the appropriateness of the project gateway process originally designed by Inner Circle Consultants. Both parties agreed that the process required streamlining to ensure project momentum whilst protecting the public interest and providing a clear and evidenced audit trail behind key decisions.
36. In March 2022 an Audit and Governance committee reviewed the Governance of FuturePlaces and also questioned the number of gateway stages.
37. The new proposal seeks to simplify the project gateways by removing duplication from documents and ensuring that each new document builds on, and complements, its predecessor. There will not be a reduction in the work required to thoroughly investigate options for delivery of each project, nor in the quality of the information provided, but in the number of documents produced.
38. The proposed process remains based on HM Treasury Green Book guidance but sees Gateway 0 removed and the Project Inception Document (PID) and the Strategic Outline Case (SOC) consolidated into a Project Outline as Gateway 1. As a result, the stages have reduced from 7 to 6.
39. The revised gateway process is detailed in Appendix B.

Summary of financial implications

40. As outlined in the Cabinet report dated 29 September 2021 the financial implications for the Council stepping up its regeneration efforts in this way are significant. It approved a 2021/22 budget of £3.024m to support the setting up of the company's operations and the costs of the Commissioning function and the necessary technical and market studies such as ground investigations; ecological surveys and transport assessments and noted the 2022/23 additional resource requirement of £3.47m.
41. Prior to the 2022/23 budget it had been assumed that FuturePlaces would provide development advice funded via an ongoing contractual agreement, with regular revenue payments to them.
42. Following a review of similar practice elsewhere, the 2022/23 budget of the Council was drawn based on a revised approach to the financing of FuturePlaces.
43. The new approach to funding the company from 1 July 2022 will mean that FuturePlaces will require a working capital loan facility to cashflow its professional services activity prior to presenting schemes to Cabinet and Council for approval. Each scheme will require a supporting business case, setting out the anticipated outcome, the funding strategy and details of any pertinent risks. FuturePlaces will invoice the Council for its professional advice. This income flow will enable the company to repay its working capital loan debt.
44. Following approval of a business case and payment of advice to FuturePlaces the risk transfers to the Council. Should the Council subsequently decide to cancel a scheme, then the abortive costs will be charged to the Council's revenue account.
45. It is proposed that a working capital loan facility of up to a maximum of £8m is made available to the company to be drawn down as detailed in the terms of the working capital loan agreement. This maximum amount has been calculated based on the total amount required to progress each project to a capitalisation point.
46. The Council is required to charge FuturePlaces an interest rate on the loan in line with Subsidy rules. A rate of 0.5% above base rate will be applied which reflects the opportunity cost lost to the Council if it were to be invested via its Treasury function.
47. This is the same rate and approach that is applied to the Councils other TECKAL company Bournemouth Building and Maintenance Limited.
48. The business plan from FuturePlaces as attached indicates that the £8m working capital loan facility can be repaid to the council. The current cashflow indicates the debt will peak as £5.3m in Q1 23/34 reducing to £0 by the end of the 2026/27 financial year.
49. In line with good accounting practice, the Council will be required to regularly review the performance of FuturePlaces to determine if there is any need for a provision for potential loss. No provision for potential loss is being made at this point.

Summary of legal implications

50. FuturePlaces is a wholly owned Council company operating under the TECKAL exemption. The governance arrangements between the Council and the company are managed through a suite of legal documents including a Shareholders' Agreement.
51. The Shareholders' Agreement entered into on the 25 January 2022 sets out the agreed form for the operational business plan to be prepared by the company and para 15 Schedule 3 states that adopting or amending the business plan is a reserved matter that requires the approval of Council, as recommended in this report.
52. In addition, the Council has a fiduciary duty to conduct the administration of the Council in a business-like manner, with reasonable care, skill and caution, and with due regard to the interest of the public and the proposed increase in the Working Capital Loan Agreement and changes to the charging mechanism will need to be considered within this overarching framework, having taken into account the advice of the S151 officer set out above.
53. The decision to change the charging mechanism will not alter the contractual relationship between BCP Council and FuturePlaces beyond the need to ensure that the revised mechanism is reflected in the Commissioning Agreement if the changes are approved.
54. The current working capital loan agreement allows for an increase in funds to be allocated, subject to the necessary Council approvals, so this document will not need to be revised other than for the value to accommodate this increase.
55. Any member who has a conflict of interest should not take part in the debate on this matter and may not vote.
56. The relevant regulations in this regard are Regulations 12 and 13 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. These concern general conflicts of interest. Their purpose is to ensure that decisions are taken only in the public interest and in the absence of actual or perceived personal interest. They provide that as soon as practicable after any meeting of a decision-making body at which an executive decision was made a written statement must be produced containing specified information including;
 - A record of any a record of any relevant conflict of interest either declared by any member of the body which made the decision or declared by any executive member consulted by the member or officer taking the decision which relates to that decision;
 - In respect of any such declared conflict of interest, a note of dispensation granted by the head of paid service.
57. The Regulation 14 of the same regulations further provides that in respect of executive decisions made a note of any dispensation granted should be made public. This necessarily requires that the reason for any dispensation should be clear, justified, reasonable and proportionate in all the circumstances.

Summary of human resources implications

58. FuturePlaces has its own employment terms and conditions and payroll arrangements. The Company Reserved Matters provide detail on the decisions that remain with the Council in relation to Director appointments. Care will be taken to minimise the prospect of TUPE transfer and Equal Pay considerations. Staff will be recruited into the company on the open market subject to identifying individuals with the requisite skills, qualifications, and experience.

Summary of sustainability impact

59. As a Council owned company, FuturePlaces will be required to provide its operational response to the Council's climate change emergency declaration.
60. FuturePlaces will contribute to the Council's Climate Emergency action plan by ensuring new development is resource efficient, adopts low carbon technology and leads to sustainable communities which are resilient to climate change and contribute to Biodiversity Net Gain either on site or through natural capital and landscape strategies.
61. FuturePlaces will be tasked, through the Commissioning Contract, with pursuing a low carbon approach to development: minimising the carbon impact of new developments, ensuring walkable neighbourhoods, and providing good access to public transport services.
62. FuturePlaces will play a key role in ensuring that opportunities are taken to reduce our city region's carbon footprint by providing sustainable transport choices and delivering low carbon, energy efficient buildings. They will aim to lead by example developing cleaner supply chains building local capacity to take forward the carbon reduction agenda. Cleaner supply chains and building the capacity to deliver carbon reduction locally.
63. Within the constraints of commercial viability and value for money, FuturePlaces will aim to deliver the best possible standards of low-carbon, energy efficient buildings taking account of the established BREEAM classifications.
64. A Decision Impact Assessment (DIA) was completed in relation to the creation of the URC and sustainability feedback from officers across the Council was used to inform the requirements set out in the approved Council commissioning plan. Projects and programmes delivered by FuturePlaces will be subject to further assessment as part of the business case development process to ensure that individual schemes meet the required standards.

Summary of public health implications

65. By accelerating regeneration and investment there will be a better prospect of sustaining jobs and prosperity across the BCP area, improving housing and high-quality open spaces, with well designed, walkable, inclusive neighbourhoods that help promote health and well-being.
66. FuturePlaces will aim to produce developments that place a premium on quality-of-life considerations including safe, walkable neighbourhoods with good local amenities and access to quality green and open space.

Summary of equality implications

67. An Equality Impact assessment has not been carried for this report as its primary purpose is to provide an update on the approach to funding regeneration activity to be delivered by FuturePlaces and agree an updated business plan, rather than change its overall strategy, the focus of which remains focussed upon tackling those areas within BCP that need regeneration and renewal.
68. However, as a company wholly owned by the Council operating under the Teckal exemption it will be bound by the same obligations in relation to equalities as the Council itself and full Equalities Impact Assessments will be undertaken as developments are progressed.

Summary of risk assessment

69. The key risks associated with the proposal to approve FuturePlaces updated business plan and proposed funding mechanism are as follows:
- a. **Operational risks** through failure to achieve delivery targets set out in the Commissioning Contract.
 - b. **Financial risks**
 - i) **2022/23 Budget.** The refinancing of FuturePlaces is a key financial planning assumption. As set out in the February 2022 Budget report to Cabinet and Council the 2022/23 budget of the Council will need to be redrawn if Council does not support the proposal to finance the company by way of a £8m working capital loan. The redrawing of the budget would involve reconsideration of the Councils commitment to these costs against the other priorities directly funded within the revenue budget.
 - ii) **Medium Term Financial Plan (MTFP) update and funding of schemes.** The business plan makes it clear that funding sources will include BCP Council, central government, co-investment partners, and commercial arrangements. In respect of any Council contributions several of the schemes will form part of the already approved capital and borrowing strategies of the Council. However, as it stands the Council has no unallocated debt headroom against its £855m approved debt ceiling. The Medium Term Financial Plan update report presented elsewhere on the 22 June Cabinet agenda makes a request to the Audit & Governance Committee and then Council to extend the debt limit further. Treasury Management is within the Audit & Governance Committee's terms of reference.
 - iii) **Aborted Business Case risks**
 - a. if the Council does not subsequently agree the business cases brought forward by the company. Initially this remains a FuturePlaces liability however ultimately this will be a risk borne by the Council as shareholder.
 - b. Should any business case be approved by BCP Council but then subsequently aborted at a later date, the previously capitalised costs would need to be written off to the revenue account.

- c. The Council will need to regularly review the financial position of the company and determine if any appropriate revenue provisions should be made.

iv) **Business Case Assumptions.**

- a. FuturePlaces business case is predicated on a number of key assumptions including estimates regarding resources deployed on each scheme, timing and value of transactions expensed, timing of capitalisation events and speed of associated invoicing and receipts of payment, plus an estimate of abortive works. Significant variations to these assumptions may create currently unforeseen financial challenges.
- b. The due diligence undertaken has relied in part on comparisons with other similar activity being undertaken by other local authorities.
- c. This is the first time BCP Council will have used the proposed funding methodology, consequently it shall be monitored and reviewed annually as we gain experience and an increased understanding of it.

- c. **Planning risks** through failure to achieve consent for proposed projects.
- d. **Market risks** through a downturn in the property market affecting local property values or engagement with an external investment partnership that could fail.
- e. **Reputational risks** through FuturePlaces creating difficulties for the Council e.g., developing a position contrary to planning policy.

70. These risks will be managed through the relationship between the client team and FuturePlaces guided by the terms of the Commissioning Contract and related agreements including the requirement for the company to develop and maintain a risk register for its key projects and activities.

Background papers

26 May 2021 Cabinet Report - Proposed Regeneration Vehicle Options Appraisal

<https://democracy.bcpccouncil.gov.uk/documents/g4683/Public%20reports%20pack%2026th-May-2021%2010.00%20Cabinet.pdf?T=10>

29 September 2021 Cabinet Report – Accelerating regeneration and investment in the BCP area

<https://democracy.bcpccouncil.gov.uk/documents/g4836/Public%20reports%20pack%2029th-Sep-2021%2010.00%20Cabinet.pdf?T=10>

27 October 2021 Cabinet Report - BCP Commissioning Plan for Regeneration and Development and Urban Regeneration Company Business Plan

<https://democracy.bcpccouncil.gov.uk/documents/g4837/Public%20reports%20pack%2027th-Oct-2021%2010.00%20Cabinet.pdf?T=10>

Appendices

Appendix A– BCP FuturePlaces Ltd Business Plan

Appendix 1 – CONFIDENTIAL - BCP FuturePlaces Business Plan Financials

Appendix B – Revised Gateway Process