

## **Appendix B - Ravelin (ALDC) - A potential solution to the Development Pipeline**

On the 9<sup>th</sup> June 2016, the Cabinet decision was taken to form an Arm's Length Development Company (ALDC) for amongst other purposes, the delivery of property and housing projects, using a subsidiary using subsidiary ALDC's for individual or groups of projects.

The benefits of an ALDC for Portsmouth City Council were explained in the Cabinet Decision. It was noted that an ALDC delivery structure would establish a basis for exploring a range of flexibilities around property development which could in turn support the wider corporate agendas of the Council, including:-

- 1) The generation of income for the Council both capital and revenue, potentially from the private rented sector;
- 2) The delivery of Affordable Housing that would otherwise be limited by the Housing Revenue Account borrowing restrictions;
- 3) A reduction in the potential loss of developed housing as a result of the right to buy;
- 4) Enabling a separate, more responsive and commercial operation.
- 5) Provide a means by which third-party investment could be quickly leveraged in.
- 6) More economically address the council's homelessness duty, other than by reliance on the B&B sector;

The Cabinet report noted that development companies are increasingly becoming a feature of local government property development, and property holding, and may be used as a platform for general operations and development and site specific projects, which may include the input of third-party investment.

### **Company Structure**

Based on the benefits noted in the paper and the legal advice received, the Council established two new ALDC companies in 2017, using the company structure proposed by the Councils external legal advisors Bevan Brittan (see figure 1 below). The two companies are:-

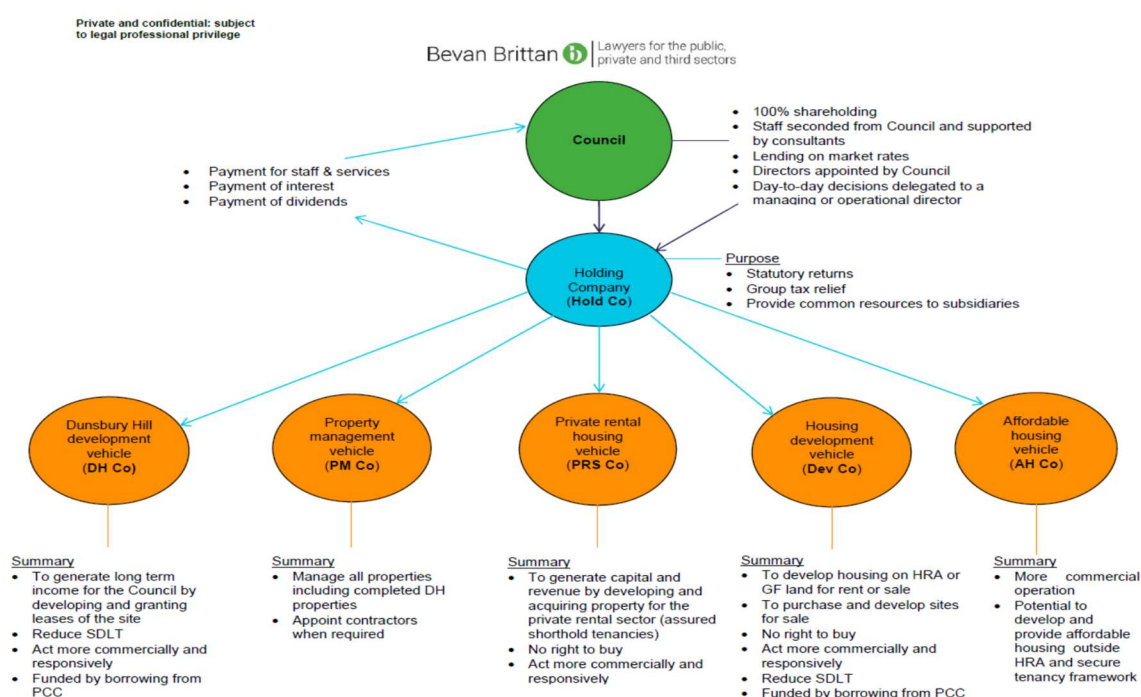
- Ravelin Group Limited, a Hold Co shown in blue on Figure 1 and
- Ravelin Property Limited, a Dev Co shown in orange as a housing development vehicle in Figure 1.

The range of subsidiaries companies will be driven by project specific issues, land holdings (including disposal consents), the tax efficiency of a given proposal, and the

role of the company as developer or land-holder (for the purposes of income receipt). All of these will be considered on a case by case basis as projects come forward.

The companies will be distinct entities to the Council, and will operate and deliver to their own objectives, narrower than the Council. The accountability of the companies and their directors will be by way of regular reporting of the ongoing business plan, and via the shareholder's agreement.

Figure 1 - Proposed Company Structure for Portsmouth City Council (extract from the Cabinet Decision 9<sup>th</sup> June 2016)



## Ravelin - Delivering the Councils Development Pipeline

As setup Ravelin Group and Ravelin Property Ltd will be operating on a commercial basis, in order to comply with the rules on state aid, in most instances its relationship with the Council will need to be commercial. Loans and service-support will not be at an under value and should be broadly commercial.

The companies have been established as both a holding company and development company, owned 100% by the Council. A set of Articles of Association and a shareholder's agreement have been established.

The Council may also provide services and support to the companies provided they are on broadly commercial terms and under the Cabinet Decision, the City Solicitor, the Director of Finance and S151 officer are authorised to enter into service and supply agreements with the companies as will be required by the company for its operation.

A clear strategy on land development and transfer will be required. The Council, when holding land directly, has a range of powerful legislative tools to deploy for the purpose of land regeneration and develop - these are not available to the ALDC. However, agreements in place with the Council generally, and in specific cases, should enable the outcomes to be reached.

Individual land transfers into the companies will be subject to the statutory duty under section 123 of the Local Government Act 1972, to achieve best-consideration in the circumstances (subject to any secretary of state consents), and in respect of housing land, further limitations will apply - again subject to there being disposal consents of relevance.

### **Next Steps for Ravelin**

The Shareholders agreements and Articles of Association for the Dev Co are being reviewed by the Councils external legal advisors in light of the requirements to develop the 5 sites through Ravelin included in this decision paper.

Officers are also reviewing the directorship for each company, considering the advice of the external legal team to minimise the risk of conflict with elected members and officers with a broader role by not including them as directors.

Officers are also considering the opportunity to widen the directorship to include external professional expertise and whether or not there should be a dedicated chairperson, to provide a balanced board with the right experience and market knowledge to ensure the success of the companies.

The Directors once appointed will need to establish a corporate business plan to be agreed by the Council. In the event that the business plan demonstrates that a Company run development programme delivers the best return for the City, the Director of Finance and Section 151 Officer in consultation with the Leader as per the recommendations of the Cabinet report (June 2016) will approve.

Following that there will be a requirement to produce a strategic/partnering agreement, in order to properly empower it, creating certainty for both it and its directors, but appropriate oversight and control for the Council.

### **An Example of the Process that could be followed after this report.**

- Powers may be reserved, appropriate limits on the powers of the Directors in relation to the disposal of assets, setting of pay, and participation in subsidiary companies or partnerships, and an investment strategy may be set.
- Once the company is set up then secondment and services agreements will be needed to enable directors appointed to operate. It will need to enter into secondment agreements for the directors and appropriate service contracts with them.
- The Council will also have to set up appropriate service agreements with the company to provide it with Legal, HR finance and other professional services.

It will be essential to obtain specialist tax advice both for Ravelin Group as well as any companies set up by it to ensure that there are no adverse consequences either for Ravelin or for the Council in any specific transaction, before trading commences.

### How Will Ravelin & PCC work together

On a project by project basis, the Dev Co will submit a project business case in 3 key stages. This is important for the Council to understand, scrutinise and review these business cases to manage the risks and ensure the direction of travel remains within the Dev Co's business plan.

These stages allow the council to drip feed funding to allow the DEvCo to progress with works in a controlled manner and ensure that land passes to the DevCo at the right time but with an appropriate level on conditionality and claw back.

The Dev Co will thus secure funding in the form of a commercial loan and land for the purposes of development under a long lease (agreement to lease).

### Stage 1 (Concept & early design - RIBA 1-2)

- Dev Co applies to the Council to take fwd a project (or group of projects)
- Dev Co application to incl - high level costings for this stage of work.
- Council reviews - if in agreement a loan on commercial terms to support the design and feasibility work (stage 1) is approved.
- Dev Co proceeds to complete stage 1.
- Once complete Dev Co presents to the Council. The Council needs to formally agree that Stage 1 is accepted and that Ravelin should progress to stage 2.

### Stage 2 (planning & design development, procurement soft marketing - RIBA 3-4)

- Dev Co confirms costs for stage 2 and estimates costs for the whole development project, including land transfer costs etc.
- Dev Co applies stage 2 costs and an agreement to lease the land subject to conditions.
- Council agrees loan on commercial terms to support stage 2.
- Council agrees Agreement to Lease.
- Ravelin secures planning and demonstrates preferred procurement route.
- Council confirms that it is supportive of the approved planning.
- Council confirms that the conditionality of the AFL has been met and the land can transfer (note this stage can take place later but prior to construction is preferred).

### Stage 3 (delivery)

- Council agrees loan on commercial terms to support the delivery of the approved planning.
- Council agrees transfer of land to Ravelin under an agreement to lease, to facilitate the development subject to Ravelin clearing conditions.
- Dev Co completes the project.