Ravelin
HOUSING

BUSINESS PLAN 2021 TO 2026

Last updated **November 2021**

Ravelin
HOUSING

BUSINESS PLAN

EXECUTIVE SUMMARY

Ravelin Housing LTD (RHL) is a wholly-owned development company set up by Portsmouth City Council (PCC) to deliver both private and affordable housing for sale and for rent. RHL is the commercial development arm of the Ravelin Group Limited family of companies.

Portsmouth's traditional housing market has underperformed for a number of years, with the growth of student accommodation in the city centre accounting, most recently, for a large percentage of the city's housing growth. The city's housing challenges are exacerbated due to densely populated residential areas that consist predominantly of old housing stock, an absence of new build mixed-use housing development and more specifically a failure, where we have had new housing development, of the market to deliver affordable homes to meet the city's housing need.

RHL has been established by Portsmouth City Council as vehicle to disrupt and ultimately speed up the recovery of these broken markets. RHL will not to compete with but will aim to complement and enable private sector developers in the city, at a time where there is a regeneration opportunity and clear evidence of market failure.

RHL will deliver projects with outcomes that are aligned with the new city vision[1] and the council's corporate objectives, thereby supporting the city's economic growth and regeneration ambitions whilst specifically focusing on satisfying the demand for new housing of all tenures.

Simply put RHL's primary goal is to deliver multi-tenure housing for sale and rent with a target to deliver 1,000 residential units over the next 10 years, commencing delivery in 2022.

This document sets out the business plan for RHL for the next five years and should be read in conjunction with the Ravelin Housing Investment and Development Plan 2021 - 2026. The business plan provides the company's vision and broad strategic objectives, as well as the financial forecasts that sit behind the business plan.

Broadly, the business plan and the investment and development plan together set out:

- The context and background to the company
- The longer term growth strategy of the business
- The plan for pipeline schemes and scaling of the company
- The financial projections of the company for the next five years

The council through a meeting of its cabinet originally identified five council-owned assets to be considered by RHL for development, of which only two will be taken forward by RHL. These two sites hold the potential to create 92 residential units which will form RHL's first tranche of projects as supported by the original business plan. This new business plan 2021- 2026 will build on these tentative first steps and look to ensure RHL delivers to its full potential.

The business plan will be complimented by the Ravelin Investment and Development Plan (RIDP) which demonstrates how, across Ravelin's current projected (10 year) pipeline of development projects, it will deliver housing products whilst breaking even across the portfolio.

The future of the business beyond the fifth year is truly exciting as the delivery programme accelerates, potentially delivering in excess of 1,000 homes by 2031.

1 The City Vision was launched at Shaping Portsmouth in January 2021 and a copy can be found at https://imagineportsmouth.co.uk/

SECTION 1
INTRODUCTION

1 INTRODUCTION

Purpose of the business plan

1.1 The purpose of this business plan is to set out the clear objectives, the governance structure and financial forecast, board and management structures and any potential risks for RHL.

Role and scope of Ravelin Housing

1.2 The role of RHL is to provide a commercially driven development company designed to specifically deliver housing aligned with the economic needs of the city.

1.3 RHL is not a traditional development vehicle and will apply a flexible approach when bringing homes to the market, adapting its approach to deliver maximum value for the shareholder. Surplus income will either be returned to the shareholder in the form of dividends or invested back into the business to support the delivery of additional housing.

Context and background

About Portsmouth

1.4 Portsmouth, the great waterfront city, is a unique coastal city with an unrivaled ambition for growth.

1.5 Located in the Solent arc, it is well connected to key hubs like London and Southampton but has an identity of its own. As a historic port town with over 500 years of naval history, a growing population and one of the highest small-business growth rates in the country, Portsmouth is looking to buck the trends seen in many coastal communities across the UK. To ensure this happens the council is taking a proactive approach to developing and increasing employment opportunities in the city by:

- working closely with stakeholders like the Royal Navy, the University of Portsmouth, QA hospital and the NHS
- ensuring that local businesses are supported and given a fair chance to compete
- and investing in the city by taking the lead where market failure exists

1.6 The council's five corporate priorities are inclusive and support the wider agendas of all of the city's stakeholders. They seek to promote economic growth, inward investment and look to support the creation of mixed and balanced communities. These priorities form a golden thread that runs through a raft of policy documents and define the council's vision for the future of Portsmouth.

1.7 Part of the shared vision between the council and its stakeholders is the need for more homes people can afford, to meet the city's emerging housing need and support the city's economic growth ambitions.

1.8 In 2019 the council approved it's Economic Growth and Regeneration Strategy 2019-2036 which highlights its ambition to:

"Make Portsmouth Britain's premier waterfront technology and innovation city – a great place to invest, learn, live, work and visit and the most attractive place to start, grow and move your business to."

1.9 The city has received significant infrastructure investment in recent years, with which it is now regenerating Portsmouth, namely:

- £48m of City Deal funding to support the development of the Tipner West regeneration.
- Local Full Fiber Network (LFFN) grant of £3.8m to roll-out gigabit-capable fiber network in the city.
- £98m from the Environment Agency to support the Southsea Coastal Scheme.
- £50m is already committed to prevent flooding and enhance walking, cycling and public realm across the north of the island.
- £29m has been granted by the DFT in a combined bid with Southampton for a Future Mobility Zone which promotes last mile consolidation and alternative travel solutions amongst other things.
- £56m has been allocated to the Transforming City Fund to support the SEHRT project which promotes modal shift linking people's homes to their place of work here in the city.
- £2bn Solent Freeport has been announced and is expected to create 52,000 jobs across the UK and enable the UK and our region to capitalise on the Solent's geographic advantage in a highly competitive global market following Brexit.

This all combines to create an unrivalled context for investment and growth in Portsmouth and an exciting time for a new development company like Ravelin Housing Ltd to start trading.

About Ravelin

1.10 The Ravelin family of companies currently includes:

- **Ravelin Group Limited (RGL)**, a holding company
- **Ravelin Property Limited (RPL)**, a development company
- **Ravelin Housing Ltd (RHL)**, the commercial development company which is the focus of this business plan.

1.11 This structure is designed to be adaptable and may be expanded in future to include further subsidiaries, as and when the Ravelin Group board and shareholders see the need to do so.

1.12 This business plan picks up on the activities of RHL which is an arm's length development company (ALDC) that has been established by Portsmouth City Council (PCC) to deliver property and housing projects, using further subsidiary ALDCs for individual or groups of projects. RHL is 100% owned by PCC with the shareholding controlled by a cross-party shareholder committee in accordance with PCC's constitution.

1.13 A commercial wholly-owned development company like RHL can deliver a number of benefits for its shareholders and partners, including but not limited to:

- The generation of income for the shareholder with capital and revenue returns possible depending on the projects i.e. build-to-rent projects could be used to deliver long term revenue streams.
- The delivery of alternative affordable housing products that complement and support the private sector development market and PCC's Housing Revenue Account (HRA) housing products.
- Enabling a separate, more responsive and commercial operation for the shareholder.
- Provide a means by which third-party investment could be quickly leveraged in, if required.
- Allowing the shareholder to develop when the usual market forces are on hold, RHL can act as a counter-cyclical developer where market failure is evident. Focusing on delivering quality housing products with a long-term sustainable investment view and not short-term profit making.

Portsmouth's challenges

1.14 Portsmouth is an island city with some of the densest neighbourhoods in the country, outside London but is still required deliver against its housing need. The target for housing delivery will be set through the Local Plan process. However, at present, the assessed local housing need for the city is around 863 homes per annum 2016-2036, a total of 17,260 homes.

1.15 PCC is currently reviewing Local Plan to help it meet its housing targets along with other emerging objectives. The new Local Plan will replace the current planning policy framework. It is due to be adopted in 2022 and will provide support for developers to meet these targets.

1.16 Part of the housing challenge that Portsmouth faces is the provision of a mix of tenure types at a variety of price points to suit the diverse housing and economic needs of the city's population.

1.17 PCC has significant land holdings within the city, with several under-utilised assets. The council has recognised this opportunity and is proactively looking, through RHL and the Housing Revenue Account (HRA) to develop mixed and balanced communities at a time when the private sector is not.

1.18 The Ravelin Housing team has been working to establish a pipeline of development projects to make the best use of the council's surplus land, to support the council's ambitions for the physical, social and economic regeneration of the city.

SECTION 2
COMPANY AIMS AND OBJECTIVES

2 COMPANY AIMS AND OBJECTIVES

Company aims and objectives

2.1 The purpose of the Ravelin Group was agreed by PCC's cabinet in October 2018 and subsequently confirmed in February 2019, as follows:

"Ravelin Group will deliver sustainable growth in a commercial manner through the development of council owned (and other) lands. Through its development, it will prioritise the creation of balanced communities, delivering a range of homes people can afford (in line with city's housing need) and other products to enable economic growth in and around the city of Portsmouth."

2.2 The aims of RHL are aligned with those of RGL and ultimately its outputs will support both these RGL aims and the need for economic growth in the city. Outputs will be clarified on a project-by-project basis as the business plan(s) are developed. Some consistent themes will be:

- Delivering project outputs where there is alignment between RHL and the council's corporate objectives i.e. working together to shape a great waterfront city and where they will support some of the key focus areas, namely encouraging regeneration and investment.
- Supporting the city's residents with their housing needs.
- Support the city's economic growth and regeneration needs.
- Profits generated by RHL could be paid back to the shareholders as dividends, or reinvested back into the business to support future development.

2.3 Some of RHL's key deliverables have been incorporated into this business plan, they include (but are not limited to):

- The delivery of multi-tenure housing for sale and for rent.
- Prioritisation for local residents to purchase / rent private homes when they are launched to market (with a corresponding aim to priorities provision of homes to households and first-time buyers ahead of investors).
- A commitment to work with the PCC housing needs team to house (if appropriate) Portsmouth residents within Ravelin developments.
- The delivery of new commercial or retail developments where they support mixed use housing developments.
- The delivery of cultural, community, educational, health, public realm or other developments as part of mixed-use schemes.
- A target to deliver 100 residential units per annum from 2022 onwards and to have developed 1,000 homes by 2032. Maintaining a minimum of 30% affordable housing provision across the portfolio of projects (a mix of shared ownership and affordable rent).

- To carry out all of the above activities on a commercial basis in the best interests of the company with a view to maximising the dividends to its shareholder and social value to Portsmouth.

Alternative housing models

2.4 One of the opportunities RHL provides is the ability to disrupt failed markets and to establish new ones for the longer term benefit of the city.

2.5 To establish a new product in the city RHL would look to bring in professional experienced support and create a detailed business case built on local data and product need. By proving the concept, i.e. demonstrating it works in Portsmouth, RHL will pave the way for other private sector developers.

Build to rent model

2.6 Traditionally market values for sales products have been low in Portsmouth and this has been a barrier to developers in the past. RHL may be delivering sites that are difficult to deliver as a pure sales product. RHL will seek to take a longer term view where it will deliver a build to rent product which generates a long term income stream and will increase in market value in the future and therefore make these difficult sites viable for delivery.

Corporate social responsibility

2.7 RHL will aim to maximise the social benefit to the residents of Portsmouth from its development activity with social value being a consideration in all decision making of the company.

2.8 Going forward RHL will develop and implement a defined corporate social responsibility (CSR) policy aimed at ensuring there is the broadest possible positive impact from its work beyond housing delivery, making real, tangible improvements to the lives of PCC residents.

2.9 The corporate social responsibility (CSR) policy will pick up on the main themes adopted by PCC through its recently published policy in this area.

2.10 Portsmouth Social Value is: 'the lasting and positive impact that we create through the way in which we act to shape a resilient future, for our local and regional communities, businesses and environment'. Our definition will be achieved through delivering impact, with examples set out in the following areas:

2.10.1 Social impact – improving the physical and mental wellbeing of local people, strengthening community spirit and collaboration to reduce poverty and social isolation, supporting young people, disadvantaged groups and addressing inequality, by raising aspirations of our future generations.

2.10.2 Economic impact – improving opportunities for our local SMEs, greater inclusion of the VSCE and social enterprise sectors within our supply chains, driving down unemployment, upskilling the future workforce and addressing skills gaps through apprenticeships and similar schemes. Driving up inward investment and harnessing the green revolution to 'build back better'.

2.10.3 Sustainability impact – working towards our 2030 carbon net zero goal, improving our air quality, and enhancing our biodiversity through net gains. Evaluating our approach to place making and taking care of our heritage as a 'port city.' Ensuring that communities and businesses are educated and empowered about the vital roles they play in delivering a sustainable future, one which builds back greener.

2.11 The policy is underpinned by the leadership role that we are committed to taking, both as an organisation, and within our wider remit both regionally and on the national stage to drive forward social value.

Ravelin's values

Social Heart, Commercial Mind.

Build happy, healthy, safe and connected communities through a bold and inclusve approach, that competes with developers in the urban private and urban social sectors.

Innovative.

Break down the traditional model of local authority home building to create high quality homes and something that works for everyone.

Ambitious Growth.

Build 1,000 new homes by 2032 including 300 homes people can afford, whilst delivering a commercial return to the council.

Sustainable Growth.

Deliver sustainable growth and balanced developments.

Reimagine Regeneration.

To build what is best for people and communities, breaking down barriers to do what's right for residents, Ravelin Housing puts people at the heart of regeneration.

SECTION 3
MARKET ANALYSIS
ANDRISK ASSESSMNT

3 MARKET ANALYSIS AND BUSINESS RISK ASSESSMENT

Market analysis and business risk assessment

3.1 The dynamics of the land and property markets in Portsmouth like the rest of the country is changing on cyclical basis.

3.2 Undoubtedly the impact of Covid-19 and Brexit remains the biggest driver of uncertainty across the property market, as it does across the wider economy. In many ways the challenges posed to property developers are consistent with those in other sectors, concerned as they are with the availability of labour and the potential for cost inflation throughout the supply chain. The more unique challenge will of course be the specific impact Covid-19 and Brexit has on the UK property market, in terms of both property values, the demand for housing, material costs and availability.

3.3 This section examines a number of key indicators and draws together evidence regarding the impact that a range of factors are having on the ability of Portsmouth residents to access housing. This is an important area of analysis in terms of the overall viability of the Ravelin Housing business model, with implications for overall market demand, the current and future demand for affordable housing and the value of Ravelin Housing products.

3.4 Evaluating the housing market requires an understanding of the real cost of buying or renting a property and the level of housing need. This analysis isRHL has commissioned Savills to undertake research into the need for homes in the Portsmouth market, the detail of which is provided within this section.

3.5 Vail Williams has also provided valuation advice which draws on comparable evidence in the area to derive rental levels that would be achievable at the subject development.

Local & national regulatory framework

- The current Local Plan for Portsmouth sets out a requirement for affordable housing to be delivered as part of larger for sale developments (15 units or more) at a minimum of 30% of the total number of dwellings.
- There are currently no policies in Portsmouth to support build to rent (BTR) developments and as such any BTR projects will be considered under the National Planning Policy Framework (NPPF) guidance and as such will require a minimum of 20% affordable housing.
- The South Hampshire Strategic Housing Market Assessment (SHMA) 2014 outlines the projections for housing mix, which are driven by long-term demographic factors. Over the last decade the analysis points towards a shift in the housing mix towards smaller properties, but also a growth in private renting. In Portsmouth owner-occupation has fallen.
- Additionally, in November 2011 the government published, Laying the Foundations: A Housing Strategy for England. The strategy includes initiatives to support growth and investment in the private rented sector (PRS), including build to rent (BTR).

- Affordable housing is defined in the NPPF as social rented, affordable rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. To meet the affordable housing requirements in the Local plan affordable rented units are proposed, which are not subject to the national rent regime but are subject to other rent control that require a rent of no more than 80% of the local market.
- The SHMA also provides the housing mix for market and affordable provision in Portsmouth, which is as below and has been adopted in the financial projections in line with the desired apartment numbers outlined in the council's cabinet report dated 9 October 2018.

Macro trends in the UK housing market

3.6 Latest national trends:

The below commentary is provided by Vail Williams as at March 2021 (market reports by Mace (Q3 2020) have provided similar sentiment to corroborate these statements):

After months of negotiations, the UK and European Union finally agreed a deal that will define their future relationship. The UK stopped following EU rules at 23:00 GMT on 31st December 2020, as replacement arrangements for travel, trade, immigration, and security co-operation came into force. Although there will be no taxes on goods (tariffs) or limits on the amount that can be traded (quotas) between the UK and the EU from 1st January 2021, there is additional paperwork and checks relating to goods entering the EU from this date and checks for controlled substances on goods entering the UK from 1st July 2021, with this additional bureaucracy having the potential to cause severe disruption to the flow of goods. In terms of the UK services sector, businesses such as banking, architecture, and accounting, will lose their automatic right of access to EU markets and will face some restrictions.

UK goods exports to the European Union fell 40.7% in January, according to the Office for National Statistics (ONS), while imports fell 28.8%. The ONS said temporary factors were likely to be behind much of the falls.

Since February 2020, the number of payroll employees has fallen by 828,000; however, the larger falls were seen at the start of the pandemic. The UK employment rate, in the three months to November 2020, was estimated at 75.2%, 1.1 percentage points lower than a year earlier and 0.4 percentage points lower than the previous quarter (ONS).

The labour market in London has been particularly affected. In the space of just three months, unemployment in the Capital has jumped by almost 2 percentage points, hitting 6.9% in November. London, with its higher proportion of service sector jobs (92% of the total), has leapfrogged the North East to become the region with UK's highest unemployment rate. By December, the number of workers on the payroll in London had fallen almost one-quarter of a million below pre-pandemic levels.

GDP shrank by 2.9% in January 2021, amid the third lockdown. The economy is 9% smaller than it was before the start of the coronavirus pandemic.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose 0.9% in the 12 months to January 2021, up from 0.8% to December 2020.

The Bank of England's Monetary Policy Report (November 2020) projects CPI inflation to remain well below the Bank's Monetary Policy Committee's 2% target in the near term, largely reflecting the direct and indirect effects of Covid-19. These include the temporary impact of lower energy prices and cut in VAT, as well as downward pressure from spare capacity in the economy. As these effects wane, inflation rises. In the central projection, inflation is projected to be around 2% in two years' time.

After a long period of static interest rates, the Bank of England raised its base rate in August 2018 by a quarter percentage point to 0.75% from 0.5%. As a response to the COVID-19 crisis, the Bank cut the rate to 0.25% on 11th March 2020, before a further emergency meeting saw base rate cut to 0.1% on 19 March 2020, together with a £200 billion package marking the resumption of quantitative easing.

The Halifax House Price Index reports that house prices decreased in February 2021, with the percentage change reported at 0.1% lower than in January 2021, continuing the slowing pattern from January.

Nationally, the RICS has indicated that there is a further easing in momentum for new housing market activity, meaning that the upturn in the housing market is starting to decline.

As a result of the economic difficulties arising from the Coronavirus pandemic, a temporary holiday on Stamp Duty Land Tax on the first £500,000 of all property sales in England and Northern Ireland is in place and has been extended until 30th June 2021, the tax threshold temporarily raised to improve the property market. As a result of the Budget 2021, the Furlough Scheme has also been extended until 31st September 2021.

Although market sentiments seemed strong and positive, this recovery is beginning to indicate signs that it is potentially short lived, with a declining market beginning to show in places.

Redundancies are growing and economic commentators are increasingly concerned that growth will not see the early-predicted V-shaped return to trend, and that purchasing power and confidence will inevitably decline in response.

Currently, we are not able to see the full impact on the housing market from this period of economic uncertainty, although the government continues to be in conversation with both banks and building societies about the housing market during the virus crisis to avoid a crash and to allow financial institutions to offer mortgages.

Market factors are currently driven by the extension of the temporary Stamp Duty Holiday, the extension of the Help to Buy scheme for new homes, with pent-up demand from those unable to move during the initial Spring 2020 lockdown, and those now assessing their housing needs and preferences.

If labour markets worsen, with material negative impact from the end of the Brexit transition period, these, coupled with winding down of government support policies such as the Furlough scheme and Stamp Duty Holiday extension in due time, could instigate a down-turn in the market. In the longer-term, the performance of the housing market remains inextricably linked to the health of the wider economy. The pace and extent of recovery are still highly uncertain, and much will depend on the ongoing success of the UK's vaccination roll out.

Immediate outlook

3.7 The outlook for UK house prices in 2021 varies according to different reports. Actual house price growth in last part of 2020 was exceptionally strong with most market commentators now forecasting single digit growth year on year.

Table 1: UK property market forecasts

Organisation	
Savills	Projecting capital value growth from 2020 to 2025 of 21.1% within the UK, with the South East at 17% in the same period. In the rental market Savills projects growth in the UK at 17% between 2020 and 2025.
PwC	Forecast annual UK house price growth to remain around 3% until 2025, with an average of 3.4% between 2020 & 2022. PwC predict the South East to perform in line with the average at 3.3% in the same period.

3.8 Most analysts agree that the south coast is likely to perform in line if not slightly below the rest of the country over the next five years.

3.9 The other important macro-economic indicator for Ravelin Housing to consider is the Construction Price Index, given the significant impact that this has on the cost of development activity. This data is released quarterly by ONS with the most recent update available at Q4 in 2020 (see below).

Table 2: Construction Price Index

	All Construction	New Work	Repair & Maintenance
2020 Q2 Output Construction Price Index	112.2	114.5	108
12-month rate	1.4%	1.5%	0.9%

3.10 This data covers a wide range of construction activity, but the important measure is the one for new housing (public and private) which stands at 116.3 (12-month rate of 1.8%). The UK house price index (HPI) stands at 130.8 (January 2021) which equates to a 7.5% increase in 12 months. The relationship between these metrics is an important one as it often helps explain viability issues the market is facing.

3.11 Construction cost viability remains one of RHL's biggest risks, and the company intends to mitigate this risk through careful planning and procurement.

The Portsmouth market

3.12 Savills has undertaken market research into the Portsmouth market. Notably this has revealed Portsmouth is a net importer of workers, with 13,000 more people traveling into the city each day to work compare to those traveling out. In total, 41,000 people travel into the city each day to work. Therefore, there is an opportunity to capture some of these by providing additional, adequate housing.

3.13 Savills also reported: "In 2011 the economically active, in employment population of Portsmouth was 89,900 people. The 28,300 workers commuting out of the city represent 31% of the employed resident population. By comparison Southampton had an economically active, in employment population of 103,900 and so the 41,600 out commuters represented 40% of the total employed resident population. This suggests that Portsmouth has traditionally been a more captive market for local residents to be employed in the local area, with close to 70% of employed residents staying in the local authority. It is anticipated that this high proportion may be due to the naval base, with naval personnel being stationed at, and living in the same area."

3.14 At present, the assessed local housing need for the city is around 863 homes per annum 2016-2036, a total of 17,260 homes. This estimate was taken in early 2020 whilst awaiting MHCLG's final position on assessed housing need. The new Local Plan will replace the current planning policy framework and is due to be adopted in 2022.

Market Impact on RHL Business Plan

3.15 With the Construction Price Index running at 1.5% or more for new housing, Ravelin Housing faces a challenging market context over the short to medium term.

3.16 However, a number mitigating factors should be considered in terms of the durability of the business model. Firstly, scheme viability appraisals are always conducted using current prices. This insulates much of the programme given that the initial viabilities can now be considered to contain fairly conservative unit values.

3.17 Unlike many other developers Ravelin Housing has considerable potential to use tenure as a means of addressing any potential reduction in property values. This could include altering the proportions of private, shared ownership and affordable rent elements across the programme, or introducing new temporary tenures such as private rented, to address major value shifts. This is possible due to the established nature of the relationship between Ravelin Housing and the HRA business, and also the non-cyclical nature of demand for affordable tenures.

3.18 The Ravelin Housing pipeline programme, which is currently at an initial feasibility stage, (see section 5) is not forecast to deliver its first completed units until the second half of 2022. However the market advice demonstrates a clear need for new homes at market and affordable values which is not predicted to be sated in the life cycle of this development pipeline.

3.19 Viability of developments generally remains a key barrier to many private sector developers in Portsmouth. This has resulted in land banking or a high number of micro flat developments with little or no affordable homes resulting in market failure for traditional housing solutions.

3.20 RHL's role in these challenging markets is clearly to deliver more mixed-use housing, to reset the bar when it comes to the quality and space standards for new homes in the city and to demonstrate to the private sector that Portsmouth is a place where they can do business.

3.21 RHL has an advantage initially in that it can accept little or no profit margin in some projects provided this is supported by the Ravelin Investment and Development Plan (RIDP). RHL will also use its status to apply and benefit from grant funding to support the delivery of affordable housing products whilst noting that the variability of rent/sales levels are likely to weigh heavily on viability, this could be achieved through partnering with other registered social landlords in the city. Individual financial appraisals of potential sites with their own characteristics will determine whether to proceed with a development or not.

3.22 RHL also notes that new housing creates a wide range of benefits including the economic benefits for employers who would reap benefits from having new fit for purpose homes in the same city as their place of work.

3.23 While the market analysis conducted above and the specialist reports (see background documents) will guide the decision making on future projects, there remains an expectation across experts in the sector that HPI should recover and the new Ravelin Housing pipeline schemes can be expected to benefit from this bounce.

SECTION 4
COMPANY STRUCTURE
BOARD AND RESOURCING

4 COMPANY STRUCTURE, BOARD AND RESOURCING

Company structure, board & resourcing

4.1 RHL is a limited company with a single shareholder (Ravelin Group Limited). It has been established under s1 of the Localism act 2011 which says that a local authority may do anything that a person – i.e. a legal entity - may generally do; and s4 (2) of the same act, which provides a caveat to that power, such that if a local authority wishes to do something for a commercial purpose it must do so through a company. The company is governed by the Companies Act 2006. It was incorporated on with Model Articles of Association adopted (Amended Provisions). The core activities of the company are to:

- Provide economic regeneration in Portsmouth
- Deliver mixed tenure residential development
- Better utilise surplus council sites that have previously been difficult to develop.

4.2 The core duties of the RHL board are to:

- Set and deliver the strategic direction of RHL.
- Put in place and effective governance structure.
- Ensure the company optimises the return on investment using private sector experience brought in through the non-executive directors and consultants.
- Establish and grow RHL and support and the delivery of housing in Portsmouth for the full duration of the business plan.
- Operate RHL within a framework of prudent, commercial and effective controls which manages risks and rewards in line with the business plan.
- Be entrepreneurial and innovative to deliver acceptable returns and value to RHL.
- Ensure that all legal and regulatory obligations are understood and discharged.

4.3 A register of director interests is held, updated and monitored. Risk is monitored on an ongoing basis. Conflict of interests are managed and provided for within the articles.

4.4 The core duties of the shareholder include:

- Consultation on the appointment of RHL directors (both executive and non-executive) and the external auditors.
- Holding the RHL board to account.
- Receiving and agreeing the RHL Business Plan.
- Receiving financial and performance monitoring reports and accounts.

4.5 Information as to the operation and performance of the company is provided on an ongoing basis by the board to the shareholder. This takes the form of:

- Quarterly highlight reports on all projects.
- A five year business plan agreed with the shareholder.
- Annual report to the shareholder noting progress against the business plan.
- Regular updates to Ravelin Group directors and shareholders committee, as and when requested.

Resourcing structure

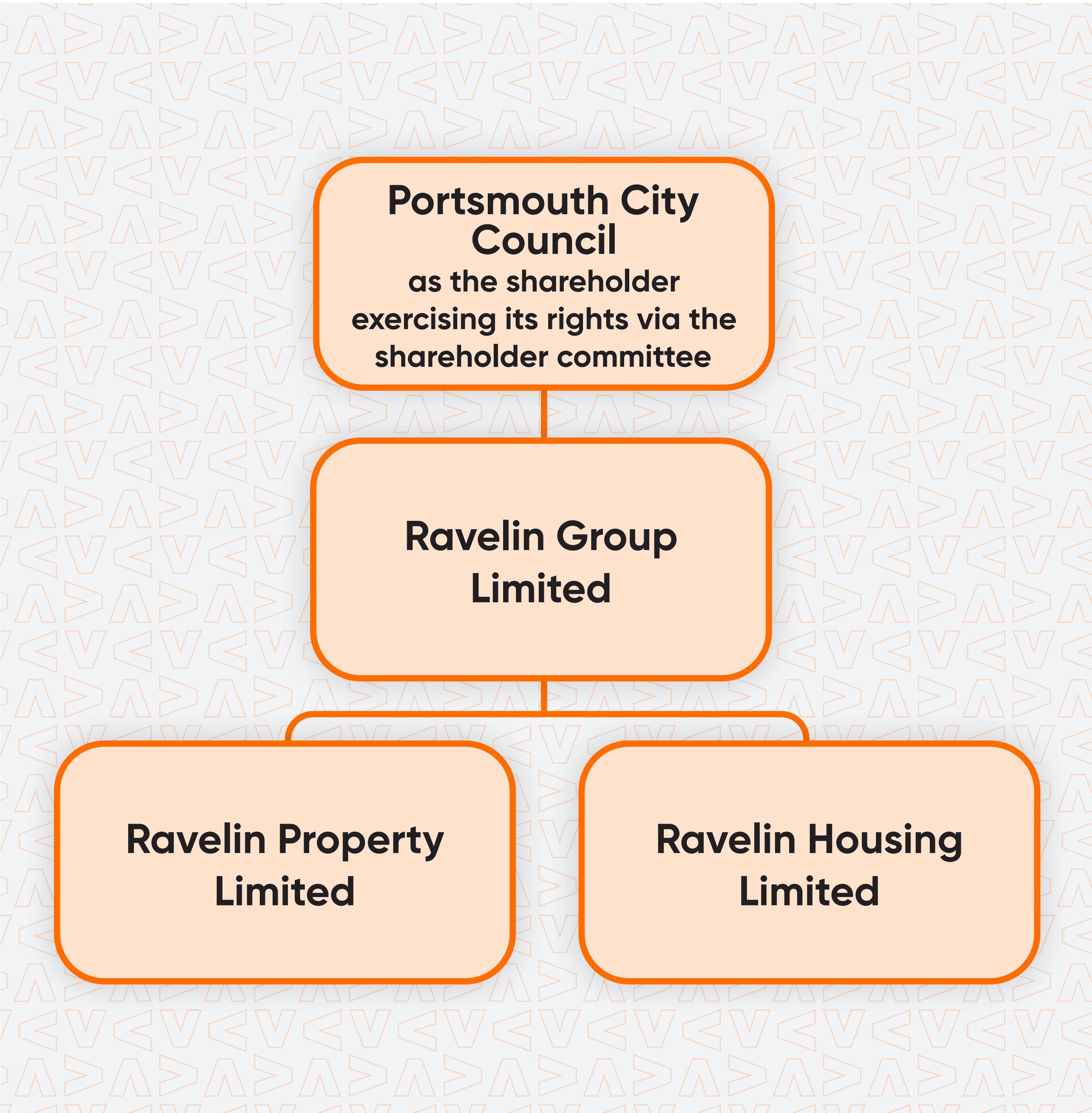
4.6 There are five main areas where in the future recruitment should be considered, within the executive structure of the company. The company currently does not have a directly employed staff complement but instead purchases services to fulfil these functions from various sources, including services purchased directly from Portsmouth City Council at market rates via Service Level Agreements (SLAs).

4.7 In future, roles that maybe considered by the board could include:

- Chief executive: ultimately responsible for the corporate strategy and operation of the company including strategic, commercial and creative direction, organisational culture, financial management, business development and the delivery of all schemes. The chief executive also has a role on the board as managing director.
- Development management: including a head of development and several development managers whose role is to provide a holistic clienting function for all development activity and to oversee the progress of all phases of development. This team commissions the architectural and technical services required to deliver development schemes.
- Design management: including a head of design and several architects whose role it is to conduct feasibility on likely sites, specify design activity and provide design review, expertise and guidance through the development process. This team is also responsible for the day-to-day operation of Common Ground Architecture, RHL's in house trading architectural practice.
- Communications: including a head of communications whose role is to provide PR, media, and branding support across RHL's activities.

Note: A balanced scorecard will be agreed with the board and shareholders setting out a set of measures that provides a comprehensive view of the performance of the business. It will include financial, operational, development and regeneration and business growth metrics to measure achievement of outcomes, along with a list of required skillsets in both the executive and non-executive directors.

Ravelin structure chart



SECTION 5
PLANNED PROGRAMME ACTIVITY

5 PLANNED PROGRAMME ACTIVITY

Ravelin Housing – planned programme activity

5.1 The development programme is planned over 10 years with the first projects commencing on site in 2021.

5.2 The business plan outlines the core activities for the first tranche of the programme. The detail on the second and third tranche of the programme, which will seek to deliver 907 homes between 2024 and 2032, can be found in the Ravelin Investment and Development Plan (RIDP). These projects are being subjected to further feasibility analysis prior to being agreed to be delivered as part of the RHL programme.

5.3 Acquisitions and collaborations – RHL will continue to investigate and progress viable acquisition opportunities as they arise, in and around the city to add to the pipeline of development sites, if fundable. Similarly, RHL will evaluate the potential to undertake development in collaboration with public and private partners whose qualitative and commercial objectives align with RHL's.

Tranche one of the programme

5.4 The first tranche brings forward two projects (Brewery House and Arundel Street) which could deliver 93 homes across the period below.

5.5 These sites are all in the council's ownership and have either been vacant for a period of time or have failed to be developed for a variety of reasons. These two were agreed as part of a list of five sites by cabinet in October 2018 as sites where the council should be delivering housing.

5.6 RHL is actively developing proposals for these sites and planning consent has been granted for Brewery and Arundel Street. We are aiming for a planning compliant affordable housing provision across this tranche.

5.7 Based on our development programme timescales we are aiming to start these schemes on site in financial year 2021/22.

5.8 RHL is also in discussion with a third party to acquire the former Debenhams site at Hanleys Corner, Southsea with a view to bringing forward a development of 130 residential units and commercial space.

Approach to delivering the pipeline

5.9 For details on the tranche 2 and 3 sites see RIDP (background document 5)

RHL 10 year anonymised pipeline of potential projects

	Status	Total Dwellings (units)	Short Timescale (0–5 years) Private	Short Timescale (0–5 years) Aff.	Medium Timescale (5–8 years) Private	Medium Timescale (5–8 years) Aff.	Long Timescale (8–15 years) Private	Long Timescale (8–15 years) Aff.
Site A	Procurement	76	52	24				
Site B	Procurement	17	17	0				
Site C	Acquisition Options	134	98	36				
Site D	Acquisition Options	200	150	50				
Site E	None	100			80	20		
Site F	Concept	500	200	50	200	50		
Site G	Concept	500			100	25	300	75
Site H	Consultation & Construction	492	220	272				
Site I	Concept	25			17	8		
Site J	Concept	350			200	50		
Site K	Concept	10					10	0
Site L	Concept	3,500			1,000	200	1,800	500
		5,400	737	432	1,597	353	2,110	575

SECTION 6
PROGRESS TO DATE

6 PROGRESS TO DATE

Progress to date

6.1 This business plan proposes that RHL commences operations during the financial year 2021 -2022 and for a five-year period thereafter (up to financial year end 2026).

6.2 The previous RHL business plan covered the 2020 to 2021 period and saw the initial projects being brought forward as per the cabinet decision (October 2018), with all progress to date being supported by the council. This temporary arrangement has allowed RHL to keep projects moving forward whilst establishing its governance and funding streams.

6.3 RHL is currently delivering one of the original five sites noted in the cabinet paper, steps to develop these concepts to date have been carried out and signed off by PCC as shareholder prior to execution and sign off of this business plan, the shareholder agreements and any approval to allocate funding to RHL.

Old Brewery House (Hambrook Street)

6.4 The vacant site is currently allocated for D1 use, it has fallen into disrepair and is no longer viable as a leisure asset. The asset is held by PCC's General Fund but a decision to dispose of the asset to RHL was taken by the portfolio holder on the 14 September 2020.

6.5 A scheme has been developed by architects Reformat for 17 residential units with a refurbishment and extension of the existing building which has a locally listed façade. Consultation took place in November 2019 with local residents and the scheme was received positively.

6.6 Planning was granted on the 17 September 2020 for the conversion of Brewery House to form 17 dwellings with external alterations to include: construction of additional story; replacement windows and doors; replacement bay windows.

6.7 Work commenced on site in September 2021.

Arundel Street

6.8 This site was previously occupied by office and retail accommodation and currently comprises a temporary office for mobility services.

6.9 The site is suitable for the development of 76 flats over an estimated 21 stories. The asset was held by PCC's General Fund but a decision to dispose of the asset to RHL was taken by the portfolio holder on the 27 July 2020.

6.10 Consultation took place in December 2019 with local residents and the scheme was received positively.

6.11 Planning was granted on the 18 September 2020, for construction of 22-storey building (c.72 meters) comprising 76 dwellings (Class C3) and ground floor commercial unit (Class A3) with associated storage facilities and public realm works; alterations/relocation of windows to 54D, 54E and 56 Arundel Street.

6.12 Following demonstration of expected site viability, a two-stage procurement has been completed for a design and build contractor and a pre-construction services agreement (PCSA) will commence shortly.

New pipeline

6.13 The new pipeline of tranche 2 and 3 projects has now been identified, see the pipeline in chapter 5 and the RIDP in background document 5 for further detail.

SECTION 7
FINANCIAL PROJECTIONS

7 FINANCIAL PROJECTIONS & COMMERCIAL STRATEGY

Ravelin Housing – financial projections & commercial strategy

7.1 Ravelin Housing will mainly be financed through a facility agreement with the council. The release of funding through this agreement is controlled by a series of commercial gateways to ensure that full due diligence and alignment with the company's aims and objectives, as agreed in the business plan, is in place and adhered to.

7.2 These gateways are held at specific times in the projects evolution and capture in a project business justification case (BJC).

7.3 Ravelin Housing has been established to be wholly funded through borrowing, with all costs relating to the operation of the business covered by the proceeds of development. As such due diligence to establish the risks and mitigation is critical at all stages of the development.

Gateway stages

Concept Stage (RIBA 0/1)

7.4 Initial analysis work on potential sites takes the form of a desktop capacity study by the internal design and strategic development teams to test a number of options.

7.5 In most instances this work is funded by working capital and will only be capitalised into a development cost once the project BJC is approved. These are kept to minimum as working capital is provided in the form of a credit facility agreement from the council.

7.6 RHL will seek to balance the need to keep costs of this stage low by working collaboratively with our partners and the strategic developments team, whilst carrying our enough design and due diligence to understand the local market and project risks to allow directors to decide whether or not to proceed with a project. A high-level financial appraisal will be developed including market assumptions and local comparable data, if relevant.

7.7 To commence the next stage a draft BJC is required. This BJC must capture the work done in the concept stages along with some market analysis to justify the assumptions in the financial appraisal. The draft BJC is presented to the S151 officer (acting on behalf of the lender) in line with the terms of the facility agreement, to release funding for the next stage.

Detailed Design Stage - including planning (RIBA 1-4)

7.8 This stage will see surveys carried out and on site due diligence (title searches, pre-planning, geotechnical, utilities, etc.) as the site constraints necessitates. Along with detailed design of the preferred option.

7.9 This work informs further revisions of the BJC with an updated financial appraisal to agree and further checks on conformity with the business plan aims and objectives. The BJC once agreed by the RHL board is submitted to the S151 officer for approval in line with the facility agreement terms and PCC's financial controls.

7.10 Each financial appraisal will evaluate likely financial risk and provide appropriate sensitivity analyses which will form part of the decision-making process over the life time of the project.

Construction and Operation Stages

7.11 Subject to approval of the BJC, payments to RHL are made in line with the approved drawdown schedule and aligned with the direct costs incurred by the contractors.

7.12 RHL has the option to refinance post construction subject to agreement with the funder.

Project examples

7.13 One of the key aims of the company is to bring forward land with the potential for development and several suitable sites have been identified in Portsmouth, which are in council ownership.

7.14 These sites are suitable for development to be purchased by RHL at market rates, directly or under an option agreement, which is subject to conditions including those that are planning related or financial (i.e. overage).

7.15 The company can also purchase land or housing stock from the private sector, both strategically and speculatively, where there is a business case for doing so. Such purchases are reported to the board for approval along with a financial appraisal which details the financial reasoning for the acquisition and is supported by a BJC.

7.16 The full cost for each development site (including land, financing, construction and all associated fees) is then appraised against revenue generating potential with the aid of specialist consultants.

7.17 In general, RHL does not have a targeted level of profit on each development. It does however appraise each project on the basis that it is able to repay its borrowing to its lender and that each project is properly financially appraised using NPV. Each project must be able to demonstrate a positive NPV after taking account of 3.5% cost of capital.

7.18 These financial appraisals ensure that the company is able to meet all of its outgoings, including servicing and repaying its debt, against the potential income that could be generated from the development, after taking account of inflation and sensitivity analysis.

7.19 The financial appraisal will take account of:

- An inflation element – representing the forecast long term average inflation rate.
- A return element – firstly to ensure on-going commercial viability of the company and secondly for future re-investment in challenged sites.
- A risk element (including factors such as obsolescence) – this may vary from site to site depending on its characteristics and sales / tenure arrangements.

7.20 RHL, as a local authority owned company with aspirations to regenerate the city will often need to operate in a way that is different from normal commercial companies, which could mean any element of profit needs to be weighed up against its other strategic objectives. Whilst profit may be compromised to deliver strategic objectives, this will not be to the extent that the overall company viability is put in jeopardy.

7.21 RHL will assess project viability in a number of ways. When developing a build-to-rent product it will aspire to ensure that with any project that annual gross rental income is at least 4% of the development costs. Deviations from this will be discussed with the board. This will allow the organisation to be able to ensure that it is able to meets its maintenance and debt commitments throughout the project. Gross rental income for the purposes of this calculation is defined as income from private, social and commercial lettings.

7.22 Additionally, Ravelin will produce sensitivity analyses for each development within the business justification case in order to forecast the likely range of financial outcomes. The sensitivity analysis will seek to vary the most significant elements of cost and income that are of deemed the most at risk of variability and are likely to be of such significance as to materially affect the overall financial appraisal. The sensitivity analyses will compare the'base case' and seek, as a minimum, to show the impact of varying the following both individually and in combination, an example of which could be:

- Build costs by 10%
- Inflation on Rents by 0.5% per annum
- A void allowance of an additional 2% per annum
- Annual maintenance costs increase of 2% per annum
- Any development specific variables

7.23 Debt costs will not be varied as part of the sensitivity analyses and these will be known with reasonable certainty at the point of decision making.

Commercial strategy

7.24 The commercial strategy for Ravelin Housing Limited is to provide a commercially viable company capable of delivering homes to meet both affordable and general housing need over the medium to long term. To establish viability the company will seek to deliver the following:

Years 1 to 5 - build financial resilience

- Develop sites of a lower financial risk for sale and for rent
- Each development will be viable in its own right
- Seek to maximise return on capital deployed
- Cash flow surpluses from Year 5 onwards
- Profits will be retained in the business to the extent that it supports the financial resilience of the company, any profits in excess of this could be returned to the shareholder as dividends.

Years 5 to 10 – develop viable and some marginal viability sites

- Develop sites of up to a medium financial risk for sale and for rent.
- Each development will be viable in its own right.
- Seek to maximise return on capital deployed.
- Cash flow surpluses from Year 7 onwards.
- Seek to balance profit / surplus, retained within the business and returned as dividends to shareholders, prioritising the financial resilience of the company.

Year 10 onwards – develop viable, marginally viable and challenged sites

- Develop sites of up to a medium financial risk but with greater than medium risk considered on an exceptional basis and only if the balance sheet strength of the company could sustain a reasonably expected loss.
- The portfolio of developments to be viable.
- Seek to maximise return on capital deployed.
- Cash flow surpluses from Year 8 onwards.
- Seek to balance profit / surplus, retained within the business and returned as dividends to shareholders.

Corporate funding structure

7.25 Initially, the council provides the sole source of development finance. The council would lend the money to Ravelin on commercial terms through a credit facility agreement. This is reflected in the financial appraisal for each site. Repayment of any debt by Ravelin Housing provides an additional revenue stream to the council as it can borrow at very competitive rates to service this lending. All borrowing by Ravelin Housing Limited is site specific and subject to an individual utilisation agreement. The borrowing is secured against land and buildings and will include pre-conditions on drawdown as well as ongoing performance measurements that are set out in the business justification case.

7.26 In addition, the council will provide a working capital loan facility although this will only be used where there is a reasonable degree of certainty that a financially viable scheme will be brought forward and delivered RHL can not borrow money without this certainty that it can repay this debt.

7.27 The viability of the developments is also dependent on RHL maintaining a positive cash flow throughout the project lifetime. This may mean that the structure of the debt financing needs to be bespoke to each project and the profiling of debt and interest may be negotiated on a project basis with the council. The project business justification case will set this out. This reprofiling cannot be to the financial detriment of the council.

7.28 This will allow RHL to ensure that it is able to operate in a sustainable and is able to cover its borrowing liability. Properties, land and work in progress will be valued on an annual basis and a gearing ratio will be calculated that evidences this in the audited accounts.

7.29 All this information feeds into a financial planning process which allows the company to make detailed projections as to the levels of planned expenditure and likely revenue. The gap between the two, which will largely be driven by timing (given the intention to generate returns on all sites), provides an estimate of the company's financing requirement which will need to be met for it to commence activity.

7.30 These estimates will be monitored and reviewed regularly as part of a robust financial management cycle in order to provide a periodic review of actual spending on a site-by-site basis against the granular elements of the detailed financial appraisals. A change process is initiated if appraisals need to be adjusted as estimates crystallise, and all key variations and exceptions are reported upwards (including a periodic board report). All this information is also integrated into detailed cash flow projections to give the company sufficient treasury control.

7.31 RICS published a guidance note, 'valuing residential property purpose built for renting' in July 2018, which highlights the broad characteristics of the BTR sector and has been used to develop the BTR financial analysis. It is important to highlight the financial appraisals associated with this document should not be relied upon as red book valuations.

7.32 The intention is that the company will be wholly financially self-sufficient, with all costs relating to the operation of the business covered by the proceeds of its activities.

BACKGROUND DOCUMENTS

1. Vail Williams – The Build to Rent Sector in Portsmouth 16 November 2020
2. Mace – UK Market View Q3 2020
3. Vail Williams – Report and Valuation Arundel Tower 4 September 2020
4. Vail Williams – Report and Valuation The Old Brewery 4 September 2020
5. Ravelin Investment and Development Plan (RIDP) 2021 to 2026

Ravelin
HOUSING

BUSINESS PLAN
2021 TO 2026