



Committee Report

KEY DECISION OR FOR INFORMATION: Key decision over £500k

COMMITTEE: Strategy and Resources Committee

DATE: 13 July 2026

TITLE: Temple Island: Agreement for Lease (AFL) Variation and Delivery Funding

Ward(s): Windmill Hill Ward

Officer presenting the report: Alex Hearn **Job title:** Director Economy of Place

Committee Chair: Cllr Tony Dyer

Executive Director lead: John Smith: Executive Director for Growth & Regeneration

Proposal origin: BCC Staff

Purpose of Report:

This report provides an update on progress related to enabling works, planning permission and the affordable housing strategy for Temple Island. It seeks approval to deploy a proportion of Economic Development Fund (EDF) within the previously approved delegation of £32m and to vary the Agreement for Lease in relation to office space, affordable housing and development viability assumptions for the project.

Evidence Base

Context

1. Temple Island is one of Bristol's most significant and complicated regeneration opportunities and sits at the heart of the wider Temple Quarter and St Philip's area, which is itself one of the country's largest city centre regeneration programmes. This former diesel rail depot had been derelict for twenty years before the Council completed major remediation, decontamination and biodiversity net gain works in March this, providing a cleared and development ready site for delivery.
2. In 2019, Cabinet signalled the Council's intention to partner with Legal & General (L&G) on a mixed-use scheme to deliver strategic objectives of new homes, office space, a hotel, active ground floor uses and high-quality public realm. This partnership was formalised through the 2022

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Agreement for Lease, including establishing a phased development structure and a long-term Council lease on Office 1 to support overall viability.

3. Since then, Temple Island has continued to represent both an anchor project for Temple Quarter and a major opportunity to deliver new homes (including affordable housing), new employment space, improved connectivity, and substantial placemaking benefits for the city and region.
4. The 2019 Cabinet report allocated £32m of Economic Development Fund (EDF) for decontamination, enabling infrastructure and development costs associated with the project. In March 2026, the council completed the delivery of a major decontamination and enabling infrastructure works package to remove diesel from the ground and install a comprehensive set of utilities services including pipework for the Bristol District Heat network which have been specifically designed to service the consented hybrid planning permission.
5. This has required extensive partnership working with the West of England Combined Authority, the University of Bristol, L&G, City Leap and Network Rail. The main contractor Sanctus delivered substantial social value benefits through its work.
6. In April 2026, Bristol's Planning Committee voted unanimously to approve L&G's hybrid planning application for the development of 520 homes, office space, a hotel, a community building and a site wide public realm package. L&G have publicly committed to delivering 20% affordable housing despite the viability appraisal accompanying the planning application demonstrating that it is not possible to deliver affordable housing without the support of subsidy. This demonstration of a lack of viability was required to enable L&G to apply for Homes England funding.

Changes to the Agreement for Lease

7. Since the 2022 Agreement for Lease was signed, national economic conditions have shifted significantly, impacting development viability across country, as explored by the Economy and Skills Committee Development Viability Working Group. Build cost inflation, changes arising from the Building Safety Act, and major shifts of investment yields have placed downward pressure on development viability. This is manifesting in stalled development sites and difficulty in delivering affordable housing through the planning process.
8. In relation to Temple Island, these shifts are generating a significant negative residual land value that cannot be resolved under the 2022 Agreement for Lease. Concurrently to these challenges, demand and pricing for grade A office space in central Bristol has increased markedly. Therefore, the Council and L&G have undertaken a detailed review of the project, and this has established that a variation to the Agreement for Lease is required.
9. The proposed variation does not alter the Council's overall strategic objectives for Temple Island, nor the headline outputs to be delivered through the scheme including the number of homes, commercial space and public realm. However, the variation does introduce a set of targeted changes to improve the scheme viability and deliver affordable housing.
10. Under current economic conditions, the 2022 Agreement for Lease structure is no longer viable and is therefore incapable of delivering the original scheme assumptions, including the previous ambition for 40% affordable housing. The proposed variation seeks to restore viability by revising

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the commercial and delivery terms of the Agreement to ensure that development proceeds and that affordable housing is deliverable in practice.

11. The council has worked closely with WECA throughout the planning process and the delivery of infrastructure. Discussions continue to ensure that this regionally significant project can remain deliverable.
12. A key driver for the revised approach is the set of updated assumptions that now underpin Phase 1 of the scheme, reflecting changes in market conditions, construction requirements, and the policy environment since 2022. These updated assumptions, alongside targeted changes to delivery and funding mechanisms, are incorporated into the revised appraisal as follows:

Affordable housing

13. It was originally envisaged that this project would be able to support 40% affordable housing. It is now proposed that 20% affordable housing will be delivered with a tenure mix in line with the council's affordable housing policies. The scheme viability has deteriorated such that Affordable Homes Programme Grant and Brownfield Land Infrastructure Funding from Homes England will be required to contribute to the delivery of this affordable housing. The council's Affordable Housing Enabling team has worked closely with Homes England and Legal and General Affordable Homes to agree the maximum level possible.

Office space

14. The Agreement for Lease assumes that the council will pay a long-term rental guarantee for a new office block and, when capitalised, this generates a contribution into the viability of the development. As the prevailing rents for Grade A Office Space have increased significantly since 2022, it is proposed that the rental guarantee is now valued proportionately higher so that it can still contribute to the development viability. The council is being independently and professionally advised in relation to costs and values associated with the office space over the 40-year period. Further detail that is commercially sensitive is provided in exempt papers.

Infrastructure costs

15. While the decontamination and enabling works are now largely completed, in 2019 the council anticipated that up to £32m of EDF would need to be injected into the project to support development delivery. This continues to be the case and while Cabinet approved this commitment, further approval is sought from Committee since this was seven years ago. This decision does not increase the commitment of EDF above £32m. Further information is provided in exempt papers.

Accelerated mixed use delivery

16. L&G will accelerate the delivery of all residential development on the site including affordable housing. As this is a mixed use project, this will also enable the delivery of commercial spaces and public realm within and between these blocks which will bring forward substantial placemaking benefits and support the occupation of new office space. The second office building, a hotel and a multi-purpose building will be delivered in future phases alongside a connection to the A4 Bath Road.
17. L&G has agreed to make further changes to assumptions within the development appraisal. This is commercially sensitive information and is provided in exempt papers.

18. The variation to the Agreement for Lease will:

- Enable delivery of 520 homes, including 106 affordable units (20%) secured through Homes England funding, representing a deliverable level of provision under current viability conditions.
- Deliver 100,000 sq ft of high-quality workspace in Office 1 with a revised rent mechanism that balances risk while supporting long-term income generation to the council, and injects value into the viability appraisal
- Provide a pathway to a positive land value (£1), in contrast to the unviable baseline produced by the 2022 structure.
- Support net-zero ambitions through connection to the District Heat Network.
- Lock in the public realm and infrastructure benefits required for Temple Quarter to function as a connected, mixed-use district.

Keys Risks and Mitigations:

- **Delivery and viability risk** – There could be further changes to market conditions that impact the scheme viability over time. Further adverse movement could impact scheme deliverability or require additional intervention.

Mitigation: The structure has been stress-tested through joint viability work with L&G and adopts updated market assumptions, with flexibility to adjust phasing and funding where required.

- **Council financial exposure** – The proposed lease arrangement creates a long-term revenue commitment for the Council. There is a risk that income generated from office occupiers may be insufficient to meet lease payments to L&G due to void periods, slower-than-anticipated occupation, market rent fluctuations, rent-free incentives, operating costs or wider market changes. This may create a revenue budget pressure, particularly during the early years of occupation.

Mitigation: The Council has undertaken detailed independent financial modelling and sensitivity testing of the proposed lease structure. To manage revenue volatility and protect the General Fund, the Council will establish a smoothing/risk reserve funded from income generated above the lease payment level where possible. Financial performance will be actively monitored throughout the life of the lease, with reserve levels reviewed regularly and additional mitigation measures considered if required

- **Partner delivery risk (L&G)** – Delivery is reliant on Legal & General progressing the scheme in line with the agreed structure and programme. Any delay, reprioritisation, or change in partner commitment could impact outcomes.

Mitigation: The Agreement for Lease and associated delivery framework set out clear obligations, milestones, and mechanisms to manage performance and delivery.

Alternative options considered:

1. Proceed with the original 2022 development structure

Not recommended. Significant market shifts, including a c35% rise in build costs, material outward

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yield movement, and Building Safety Act-related programme impacts, have rendered the original financial structure unviable.

2. Remove or reduce affordable housing provision

Not recommended in principle. The Council has sought to maximise affordable housing delivery on site in line with its strategic objectives. However, viability evidence demonstrates that no affordable housing is deliverable without subsidy under current conditions. The revised structure therefore secures 20% affordable housing through Homes England funding, representing the maximum deliverable provision at this stage.

3. Terminate or significantly delay the scheme

Not recommended. Both L&G and BCC recognise the financial and reputational risks of Temple Island not progressing. Further delays would risk grant eligibility, increased inflationary pressures, and loss of investor commitment.

Officer Recommendations:

That the Strategy and Resources Committee

1. Approves the use of the remaining £32m Economic Development Fund (EDF) be deployed into site wide infrastructure and development costs.
2. Notes the delivery of a Build-to-Rent scheme, including the provision of affordable housing (currently proposed at 20%), supported in part through Homes England funding.
3. Approves a variation of the Agreement for Lease in principle to support delivery of Office 1, based on revised commercial assumptions reflecting current market conditions.
4. Agrees that the proposed lease arrangement will be structured on the basis of:
 - a lease rent paid to L&G to which an investment yield can be applied to generate a capitalised value into the overall development viability;
 - the lease rent not exceeding a defined proportion of the prevailing market rent; and
 - the market rent to be determined at the point of agreement based on independent professional advice, taking into account comparable evidence, location characteristics, and scheme-specific factors.
5. Authorises the Executive Director of Resources (Section 151 Officer), in consultation with the Executive Director of Growth and Regeneration and the Chair of the Strategy and Resources Committee, to:
 - finalise and agree the detailed commercial terms of the lease arrangement (including rent, yield, lease structure and phasing), within the parameters set out above;
 - complete all necessary legal documentation, including any required variation to the Agreement for Lease and associated documents, in accordance with the Council's Contract Standing Orders.

Corporate Strategy alignment: The revised Temple Island Phase 1 delivery structure directly supports several priority outcomes within the Council’s Corporate Strategy:

- **Homes and Communities** – The updated approach secures a viable route to deliver 520 new homes including 20% affordable housing aligned with the city’s long-term housing needs.
- **Inclusive and Sustainable Growth** – The scheme delivers significant employment space through Office 1 (100,000 sq ft), with a funding and asset-management model designed to create long-term income for the Council while supporting market-appropriate rental growth. The revised commercial structure aims to secure positive land value and manage viability risks identified due to market changes.
- **Climate and Ecological Sustainability** – L&G and BCC remain committed to connecting the site to the District Heat Network (DHN) wherever a viable solution can be identified. The partners continue to explore cost-bridging solutions to maintain alignment with net-zero objectives, reaffirmed in the January 2026 briefing.
- **A Well-Connected City** – Integration of public realm improvements, utilities upgrades, and infrastructure phasing supports the wider Temple Quarter regeneration objectives of delivering a walkable, sustainable urban neighbourhood connected by public transport and active travel. Updated cost plans account for inflation and phasing changes to ensure essential enabling infrastructure is delivered.

Overall, the revised Temple Island delivery structure strongly aligns with the Council’s strategic priorities for housing, inclusive economic development, sustainable infrastructure, and long-term financial resilience.

City Benefits: The Temple Island scheme provides major long-term economic, social and environmental benefits for Bristol:

- **Housing delivery and affordability** – Phase 1 will deliver a significant number of new homes, including 106 affordable units at social rent and shared ownership tenures, representing a viable and deliverable level of provision secured through Homes England funding. This supports citywide housing supply, addresses acute need, and delivers 20% on-site affordable housing through a secured Homes England funding route and an agreed delivery model with L&G Affordable.
- **Economic growth and job creation** – Delivery of Office 1 brings high-quality workspace into the Temple Quarter regeneration area, supporting new employment opportunities and attracting investment. The revised commercial structure ensures the scheme remains viable despite adverse market movements, allowing job growth to be secured earlier than under a “do nothing” or delayed scenario.
- **Regeneration and placemaking** – Significant public realm investment and infrastructure works will create a high-quality urban neighbourhood adjacent to Temple Meads, improving connectivity, walkability, and permeability. Updated cost planning ensures essential enabling works remain deliverable even amid inflationary pressures.
- **Environmental sustainability benefits and net-zero alignment** – Continued joint commitment to integrating the District Heat Network supports carbon-efficient heating for the development. L&G is actively progressing lifecycle and cost analysis and seeking funding solutions to secure

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DHN viability. This contributes positively to citywide climate objectives and future-proofs the development.

- **Long-term financial sustainability** – The revised Office 1 lease mechanism generates new income for the Council and enables a viable route to land value uplift across the whole phase. The proposed capital contribution at lease commencement offers further financial flexibility for BCC and reduces upfront risk.

Together, these benefits make the Temple Island project a strategically important driver of homes, jobs, sustainability, and city transformation, contributing materially to Bristol’s long-term prosperity.

Consultation Details:

1. To date, consultation on the proposed variation has been undertaken with the Council’s development partner, Legal & General, as part of the joint review of the Agreement for Lease and associated viability and delivery work.
2. The project has been subject to public engagement by L&G and statutory public consultation by the Local Planning Authority in the determination of the planning application. The site is included within the Temple Quarter and St Philips Masterplanning documents that have been subject to public engagement and consultation.

Background Documents:

1. Cabinet Report July 2019: [Temple Island July Cabinet Report - publication version 240619.pdf](#)
2. Cabinet Report February 2020: [FINAL Temple Island February Cabinet Report.pdf](#)

Revenue Cost	£	Source of Revenue Funding	N/A
Capital Cost	£	Source of Capital Funding	N/A
One off cost <input type="checkbox"/>	Ongoing cost <input type="checkbox"/>	Saving Proposal <input type="checkbox"/> If yes - existing or new saving? Choose an item. OR Income generation proposal <input type="checkbox"/>	

Professional comments section:

1. Finance Advice:

The purpose of this Committee Report is to seek approval for the variation to the Agreement for Lease (AFL), incorporating revised financial and commercial adjustments currently being agreed with Legal and General (L&G) to restore scheme viability to Temple Island Phase 1 in response to materially changed market conditions since 2022.

The proposal remains within the previously approved £32m EDF capital funding envelope. This does not increase the approved capital envelope, but any further capital pressures would need to be contained within existing approvals or brought back through the appropriate decision-making route.

The revised appraisal indicates a pathway to a marginal positive land value, reflecting the constrained viability of the scheme under current conditions rather than a strong financial return. Delivery of the affordable housing provision (20%, 106 units) is dependent on Homes England grant funding and L&G's affordable housing platform. The report does not confirm the status or certainty of this funding, and any change in grant assumptions would present a risk to both affordable housing delivery and wider scheme viability.

The proposed variation to the Agreement for Lease in this report would create a higher base expenditure budget for lease payments to Legal & General from the council.

The current financial modelling for the council indicates that the office scheme does not generate a positive return on rental income from onward leasing of the office space alone, with the overall financial case relying on a combination of tenant income, business rates growth and the residual asset value at the end of the lease period.

This position is sensitive to letting performance, achieved rental values, void periods, rent-free incentives, indexation, operating costs and wider market conditions. In the early years, there is also a cashflow risk before the scheme becomes cumulative cashflow positive.

There therefore remains a risk for the council on income and expenditure differential, where there will be commitment to the lease payments to L&G, whilst having sensitivity to income from tenants that could be impacted by voids, market rent movements or slower occupation. This will need to be managed through a smoothing / risk reserve to ensure stability to the council's general fund budgets. This should be earmarked from surplus income generation where possible before other earmarked funds, which may include a need to consider EDF2 pooled retained business rates underwriting.

Subject to the establishment of clear revenue cost and income budgets and a risk reserve mitigation to manage sensitivity, Finance supports the principle of the proposed variation as a pragmatic route to progressing the scheme in current market conditions. However, Members should be clear that the decision creates a long-term revenue exposure for the Council and that the financial position will require active monitoring and management over the life of the lease.

Finance Business Partner: Vivi Sargioti – Finance Business Partner Growth & Regeneration 18 June 2026 and Sarah Chodkiewicz – Director of Finance 30 June 2026.

2. Legal Advice:

The proposed variation will reflect the revised viability position (market conditions, assumptions and costs as set out by Finance) but will not alter the deliverables under the AfL. The variation, if approved, must be agreed between the parties and recorded in writing under a deed of variation (DoV). Legal assistance will be required to draft and finalise the DoV.

Legal Team Manager: Anita Kearney, Solicitor and Team Manager, Commercial and Governance Team 14.05.2026.

3. Implications on IT: I can see no implications on IT arising from this report.

IT Team Leader: Alex Simpson – Lead Enterprise Architect – 15th May 2026

4. HR Advice: There are no HR implications evident

HR Partner: Celia Williams, HR Business Partner, 13 May 2026

APPENDICES

Appendix A – Further essential background / detail on the proposal	NO
Appendix B – Equality Impact Assessment (EqIA)	YES
Appendix C – Environmental Impact Assessment (EIA)	YES
Appendix D – Decision Risk Assessment	NO
Appendix E – Exempt Information	YES
Appendix F – Details of consultation carried out - internal and external	NO
Appendix G – Options appraisal matrix	NO
Appendix H – Business case / financial analysis	NO