

**TELFORD & WREKIN COUNCIL****CABINET - 24 MARCH 2016****HOUSING INVESTMENT PROGRAMME UPDATE****REPORT OF THE MANAGING DIRECTOR****LEAD CABINET MEMBERS – CLLR SHAUN DAVIES / CLLR RICHARD OVERTON****PART A) – SUMMARY REPORT****1. SUMMARY OF MAIN PROPOSALS**

1.1 In January 2015 Cabinet approved the Business Case underpinning the Council's Housing Investment Programme which is set to deliver c.400 private rented properties across the Borough. The update included in this Report shows that the Programme has surpassed the original assumptions of the January 2015 Cabinet Report including:

- First tenants moving into Pool View, Randlay on 11<sup>th</sup> March;
- 100% reservation of 31 homes at Pool View, Randlay shortly after availability being announced and with minimal marketing indicating a demand for Nuplace rental homes far greater than originally anticipated;
- Achievement of higher rental yields on the properties being built and, as a result, the generation of returns greater than modelled;
- Receiving positive feedback from the new tenants on the simplicity and quality of the process between registering and occupying their new home and the quality of the homes available for rent.

1.2 This report follows previous Cabinet reports for the Housing Investment Programme (HIP) as listed in Section 7.0 and sets out:

- A Programme update following the period that Nuplace Ltd, the Council's delivery vehicle for developing, managing and maintaining the HIP rental property portfolio, has been operational;
- A comparison of this updated position with the January 2015 Cabinet Report and Business Case, and proposed amendments to the Business Case.

Embarking on a Programme as significant as this and having already established such a positive position, not only financially but in the reaction of initial tenants and demand for Nuplace homes is extremely reassuring and highlights the real potential of the HIP to contribute to meeting housing need, influence the quality of the private rented sector and create a sustainable revenue stream to support the delivery of services.

<b>2. RECOMMENDATIONS</b>
<b>2.1 That Cabinet approve the revised Business Case (Appendix 1);</b>
<b>2.2 That Cabinet approve the revised Project Board Terms of Reference (Appendix 3) and as included in the revised Business Case (Appendix 1);</b>
<b>2.3 That Cabinet delegate authority to the Managing Director in consultation with the Cabinet Members for Business, Neighbourhood &amp; Customer Services and Housing, Public Health &amp; Protection, and the Housing Investment Project Board, to:</b>
<b>2.3.1 Execute any documents necessary to implement the revised Business Case;</b>
<b>2.3.2 Enter into any agreements necessary for the disposal of or acquisition of land required to give effect to the recommendations within this report.</b>

**SUMMARY IMPACT ASSESSMENT**

<b>COMMUNITY IMPACT</b>	Do these proposals contribute to specific Co-Operative Council priority objective(s)?	
	Yes	Regenerate those neighbourhoods in need and work to ensure that local people have access to suitable housing and amenities. The proposals will create jobs during the construction and operational phase of both developments
	Will the proposals impact on specific groups of people?	
	No	
<b>TARGET COMPLETION/DELIVERY DATE</b>	Indicative Timescales: Refer to the programme provided within Appendix 2, Business Case Site Assessment.	
<b>FINANCIAL/VALUE FOR MONEY IMPACT</b>	Yes	This report details the improved financial position of the HIP compared to position set out within the approved January 2015 Business Case (details included in Section 4 Finance).
<b>LEGAL ISSUES</b>	Yes	Legal details are contained within the Section 5 Legal.
<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	Yes	Details contained within the Impact Assessment Section and the Risk Register included within Appendix 1.
<b>IMPACT ON SPECIFIC WARDS</b>	Yes	The potential impact is Borough wide.

**PART B) – ADDITIONAL INFORMATION**

**3. INFORMATION**

3.1 The Housing Investment Programme (HIP) is a strategic Programme delivering a portfolio of around 400 properties available for both market and affordable rent over a 30 year period. The HIP contributes towards the achievement of the Council’s vision and priorities by:

- generating a long term income stream for the Council;
- stimulating economic growth through job creation;
- responding to the boroughs housing need and the demand for quality rental stock;

- raising the standard of rental provision in the Borough, both in terms of the quality of the rental homes themselves as well as the quality of the landlord management and maintenance service.

3.2 The Councils Business Case, approved by Cabinet in January 2015 sets out the purpose of the Programme and its objectives, how it is to be delivered, the resources required, the associated risks and the financial and business outputs.

Since the establishment of the Programme significant progress has been made with 3 tenants moving into their new homes on the first Nuplace site, Pool View at Randlay, on 11<sup>th</sup> March. To summarise, key achievements include:

- establishment of Nuplace Ltd on the 1 April 2015;
- approval and implementation of Nuplace's Business Plan, a Plan responding to the objectives of the HIP as outlined within the Council's Business Case;
- awarding of building contracts for the two Phase 1 development sites, Randlay (Pool View) and Woodlands, Madeley (Woodland Walk);
- implementation of the marketing and promotional programme, initially focussed on raising the awareness of Nuplace Ltd. including establishment of the [Nuplace](#) website, delivery of media campaigns, social network advertising etc. with focus now on marketing properties in advance of being available to let including the use of Rightmove;
- achieving 100% pre-let of the 31 unit development at Pool View, Randlay, and an equivalent number of properties also pre-let on the larger Woodland Walk site in Madeley;
- planning applications submitted for two of the four Phase 2 sites, (Matlock Avenue, 92 units; Madeley Court, 53 units), with imminent submissions planned for the remainder, (Newport, 31 units; a proposed site at Hadley, 24 units);
- design development and viability assessments of the Phase 3 site at Southwater;
- feasibility assessments of future sites and development opportunities that could be delivered as an expansion to the Programme subject to further approvals;
- further website development/testing including the creation of a Nuplace property search facility;
- establishment of the Nuplace property and tenant management service including a tenant portal facility providing a 24 hour accessible reporting, monitoring, information sharing etc. facility that supports the unique selling point of high of quality management and maintenance services that Nuplace prides itself on.

3.3 The Programme of sites set out in the original Business Case was based on a significant level of detail. However it was acknowledged that detailed feasibility and viability assessments of all Business Case development sites would be required which has formed a major part of the HIP Team's work. It was also anticipated that this analysis could identify the need to amend sites in the Programme and where this was the case, to consider alternatives and/or solutions to maintain the scale and financial basis of the Programme.

As a result of this work detailed surveys as well as detailed development costs from building contractors, have proven certain sites unviable and therefore unsuitable to be brought forward by Nuplace. High abnormal costs associated with expensive foundations for sites with poor ground conditions, and expensive noise attenuation measures for sites with elevated background noise levels, have resulted in certain developments projected to deliver a rate of return lower than acceptable as stated in the Nuplace legal documentation (the Viability Condition, Land Transfer Agreement). These costs were unknown at the time of the Business Case.

Appendix 2, Business Case Site Assessment Summary, sets out the current position in relation to each of the original programme sites compared to that of the approved Business Case. This highlights that:

- Developments at both Wildwood, Woodside, and Deercote, Hollinswood have been shown to be unviable, with the recommendation both are removed from the Programme;
- Proposes a reduction in units at Southwater and the need for further analysis of the Business Case for the site given the untested apartment market and high build costs. The Business Case for Southwater also confirms that the apartment costs are based on connection to the District Heating System and that further analysis will include reviewing the viability for incorporating solar energy into the design.

Appendix 2 also identifies proposals on how to address these changes and the potential for this to deliver an improved rate of return including:

- Delivering additional units at Matlock Avenue, (a site in the Business Case originally set for 30 units as Phase 1 of a multi-phased development);
- Introducing a site adjacent to the new Hadley Centre into the HIP and delivering 24 units.

These proposals are detailed within a revised Business Case, (Appendix 1), for which this report seeks approval.

- 3.4 The removal of unviable sites from the Programme does incur abortive costs however these cost incurring activities undertaken to determine viability are included in the Programme's risk management procedure.

It is imperative that Officers have the ability to respond quickly upon identifying unviable sites by bringing forward alternative sites for development in order to a) deliver similar unit numbers and retain the same, if not an improved, level of return; and b) remain within timescales as close to that of the abortive site as possible. A primary reason for this being that an extension to the build programme increases the interest payable over the term of the investment therefore diminishing the overall financial return. In this case an original Business Case site, Matlock, already had capacity for additional units however there is not this opportunity on other 'original' sites hence the proposed introduction of a new site at Hadley.

In order to ensure the ability to respond quickly to issues of viability but also opportunities which, as the Programme advances, may come forward e.g. property conversions, and learning from initial delivery around demand for certain types of properties and locations, amendments are proposed to the approved Business Case Terms of Reference to allow for changes to be made swiftly. Such changes would be subject to robust value for money analysis and would be contained within the financial model and would remain subject to the HIP Board's review and approval. These amendments as a comparison to the original principles are detailed in Appendix 3 and are captured in the revised Business Case, (Appendix 1).

## **4. FINANCE**

- 4.1 The current financial position of the HIP is contained in the revised Business Case (Appendix 1). The financial implications of the current locations, mix and phasing of housing units have been remodelled and the key modelling assumptions have been updated as appropriate and as captured in the revised Business Case.

The capital cost estimate and source of funding for each element of the Programme can be summarised as:

	<b>£'000s</b>
Approved budget Jan 15	52,618
Capital adjustments	325
<b>Capital cost revised</b>	<b>52,943</b>

The revised capital cost is within approved capital allocations and reflects:

- HIP delivery of the car parking solution for the Southwater apartments, the capital allocation for which was previously included within the Commercial delivery vehicle (PIP);
- Revision to land values following viability assessments and changes in the mix of sites.

Changes to the phasing of the capital spend has been reported to Cabinet and Full Council via Service and Financial Planning updates. The sources of capital funding remain unchanged from the January 2015 Cabinet Report.

- 4.2 The key financial assumptions underlying the project have been reviewed and revised as appropriate and are detailed in Appendix 1. The revised General Fund impact of the Programme over the 30 year term can be summarised as:

<b>£'000s</b>	<b>Years 1-10</b>	<b>Years 11-20</b>	<b>Years 21-30</b>	<b>Cumulative</b>
Cabinet 8 <sup>th</sup> Jan 2015 *	2,120	6,975	55,179	64,274
Revised Position	2,259	8,236	59,755	70,250

\*the Cabinet returns have been adjusted to reflect the cost of borrowing of the Southwater car parking solution which was previously being delivered by the PIP.

Market expectations for interest rate increases have softened considerably over recent months and PWLB interest rates have also continued to reduce further. It is now thought likely that interest rates will start to increase considerably later than previously anticipated and that the rate of increase, when it starts, will be slower than previously expected. It is therefore considered reasonable to reduce the base case estimate for the cost of long-term borrowing by the Council to 3.76% from 3.96% which still leaves a prudent level of contingency compared to the current PWLB rate for 30 year loans of 3.17%.

Changes in the timings of delivery of sites have contributed to the revised phasing of the general fund returns. The Equity Internal Rate of Return of the project has improved from 5.61% to 6.84%, which has benefitted from:

- Improved rental values on the Phase 1 sites, which have been replicated across similar sites;
- Improved GDV's on the current mix of sites.

Changes in the phasing and the impact on the General Fund during the 3 year development phase have been reported to and approved by Cabinet and Full Council via regular Service and Financial Planning updates.

## **5. LEGAL**

- 5.1. Legal representation on the Housing Investment Project Board, (meetings are 6 weekly) ensure Legal Services are involved in determining the direction the Programme takes. Legal advice has been given, and will continue to be given throughout the Project. This includes advice on the various agreements that the Council may enter into, procurement, land disposal and acquisition advice and construction contract advice regarding any ultimate construction contract.
- 5.2. Legal Services are appointed to provide legal advice and services to Nuplace in relation to the Programme. This approach ensures Nuplace Ltd, as the Council's delivery vehicle for the HIP, are also taking the Programme in a direction that is legally acceptable.
- 5.3. The Council has the power to carry out the recommendations detailed in this report. Consideration and advice will be given regarding the Council's statutory duty to obtain the best consideration reasonably obtainable when disposing of any land.

## **6. IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

- 6.1 The recommendations in Section 2.0 have been made based on their ability to improve risk management thus reducing the likelihood of certain risks occurring and their impact if they were to occur. An up to date Risk Register is included in Appendix 1 and is based on the recommendations having been applied. A large proportion of the risks identified in the approved Business Case Risk Register have either been removed, by nature of the Programme having progressed over a 12 month period, or the risk ratings reduced.

## **7. PREVIOUS MINUTES**

- 7.1 Telford Town Centre 21 July 2009  
Housing Investment Programme Cabinet report 25 April 2013  
Housing & Property Investment Programme Cabinet report 24 July 2014  
Housing Investment Programme Full Council Report 11 September 2014  
Housing Investment Cabinet Report 8 January 2015  
HIP, Southwater Development Options Cabinet Report 19 March 2015

**Report prepared by Jo Middleton Housing Investment Programme Manager**

**Appendix 1: Updated Business Case – attached as a separate document**

## Appendix 2: Business Case Site Assessment Summary

Site	B.Case Unit No.	Viability	Status	Next Steps
<b>Phase 1</b>				
Randlay, Stirchley	33 Units (33 Market Rent)	Viable	<ul style="list-style-type: none"> <li>- Planning approved Feb 15 (33 market rent units);</li> <li>- Building contract awarded May 15;</li> <li>- Construction commenced Jun 15 (due to complete May 16);</li> <li>- 100% Reserved. First releases from Mar 16.</li> </ul>	Sign tenancy agreements, arrange tenancy move in dates. Establish the Nuplace quality management and maintenance service, build tenant relationships, establish/implement tenant retention strategy etc.
Woodlands, Madeley	101 Units (101 Market Rent)	Viable	<ul style="list-style-type: none"> <li>- Planning approved Feb 15 (101 market rent units);</li> <li>- Building contract awarded May 15;</li> <li>- Construction commenced Jul 15 (due to complete Nov 16);</li> <li>- 35% Reserved. First releases from Apr 16.</li> </ul>	Commence Right Move advertising (12month contract), continue to market and reserve properties, as above with Randlay.
Deercote, Hollinswood	44 Units (12 Market Rent) (32 Affordable Rent)	Unviable	- High noise attenuation costs combined with low rental returns have determined the site unviable for development under the HIP. Site to be removed from the Programme.	Alternative identified as appropriate to deliver the overall 400 unit Programme is Phase 2 of Matlock Avenue. Units to increase from the originally proposed 30 to 92. Viability means all 92 will be market rent, no affordable units.
<b>Phase 2</b>				
Matlock Avenue, Malinslee	30 Units (Phase 1) (30 Market Rent)	Viable	<ul style="list-style-type: none"> <li>- Development of 92 market rent units;</li> <li>- Planning approved Feb 16 (subject to drainage strategy);</li> <li>- Building contract to be awarded Mar 16;</li> <li>- Construction Period Apr 16–Nov 17, first releases Jan 17.</li> </ul>	Sign the building contract, start on site, commence marketing of plots /take reservations. Follow the same process as with Phase 1.
Madeley Court, Madeley	50 Units (50 Market Rent)	Viable	<ul style="list-style-type: none"> <li>- Development of 53 market rent units;</li> <li>- Planning submitted Feb 16 (expected decision Apr 16);</li> <li>- Building contract to be awarded May 16;</li> <li>- Construction Period Jun 16–Aug 17, first releases Feb 17.</li> </ul>	Obtain planning approval. Follow the process as set out for Matlock Avenue.
Wildwood, Woodside	25 Units (25 Affordable Rent)	Unviable	- Ground conditions and unfavourable levels, resulting in high foundation and retaining wall costs, combined with poor rental returns have determined the site unviable for development under the HIP. Site to be removed from the Programme.	Alternative identified as appropriate to deliver the overall 400 unit Programme is Hadley Local Centre (outline permission for residential granted). Propose a development of 24 units, combination of 2/3 bed apartments/houses, 3 apartments to be affordable. Propose: <ul style="list-style-type: none"> <li>- Planning Period Mar 16-Jun 16;</li> <li>- Building contract to be awarded Jul 16;</li> <li>- Construction Period Aug 16-Apr 17, first releases Mar 17.</li> </ul>

Springfields, Newport	29 Units (29 Affordable Rent)	Viable	<ul style="list-style-type: none"> <li>- Development of 31 affordable rent units;</li> <li>- Planning due for submission Mar 16 (determination Jun16);</li> <li>- Building contract to be awarded Jul 16;</li> <li>- Construction Period Aug 16 – May 17, first releases Mar 17.</li> </ul>	Submit and achieve planning approval, follow the process as set out for Matlock Avenue.
<b>Phase 3</b>				
Southwater Apartments	115 Units (115 Market Rent)	Assessment to be concluded	<ul style="list-style-type: none"> <li>- Exploring a 53 market rent unit scheme that fits better with the overall Development Brief of Southwater, provides a more manageable quantum of units in this untested market, within an affordable construction budget;</li> <li>- Externally obtained costs combined with anticipated/ conservative rental figures for this untested market have identified the need for cost savings to be found, further design development, costing and market research exercises are planned in order to improve viability. The costs include for the connection onto the Southwater District Heating Scheme and opportunities for incorporating solar energy into the design are being assessed.</li> </ul>	Lost unit numbers to be provided at Matlock Avenue in order to retain the overall 400 unit Programme. The Business Case included an extension to the existing Southwater MSCP accommodating the parking requirements of a 115 units apartment block. With a reduction in numbers, a more affordable and appropriate solution based on parking directly underneath the residential has been accounted for in the construction budget of Phase 3.

### Appendix 3, January 2015 Terms of Reference Amendments

Terms of Reference	
January 2015 Business Case	Revised February 2016 Business Case
1.1 Only members of the Board will have the right to attend. However, other individuals may be invited to any meeting as and when appropriate. It is expected that at least one of the Directors of the Company will attend each meeting to provide updates as to progress. Members may nominate a relevant substitute if they are unavailable to attend a meeting.	Applicable
1.2 The composition and terms of reference of the Board will be reviewed by the Board every 12 months or as appropriate if more frequently.	Applicable
1.3 The Board will be chaired by the Managing Director. If the Chair is not present at any of the meetings of the Board then the remaining members shall elect one of themselves to chair the meeting.	Applicable
1.4 The Managing Director in consultation with the Board will have specific responsibility for the following:- a) Agreeing the Company's initial Business Plan, b) Agreeing sensitive policy issues relating to the Project (e.g. rent setting, length of term, allocations, rental deposits, tenancy enforcement, tenancy enforcement) c) Agreeing commercial terms for management agreements and funding (providing these are in accordance with the financial parameters set by the business case/plan) d) Agreeing the price for each piece of land introduced to the WOC (to ensure best consideration obtained) e) Agreeing terms for housing and operational management on specific sites (if not already covered by the overarching agreement) f) Receiving reports as to whether conditions precedent in the land transfer agreement have been complied with g) Use of Council resources to support the WOC via the management agreements i.e. staff, IT, finance systems, accommodation h) Agreeing any changes to the WOC's Business Plan (providing these are not regarded as material) i) Agreeing variations to the management agreements provided that they do not lead to the WOC being likely to deviate materially adversely from the financial projections contained within the Business Case j) Agree the appointment of External Auditors to the WOC k) Monitoring WOC's performance as against Business Case and Business Plan and taking intervening measures in the event of non-performance l) Monitoring compliance with the loan agreement(s) m) Agreeing any changes to the loan agreement (providing these are not material) n) Receiving and approving reports from the WOC (timing to be agreed)	a) Applicable (approved May 15); b) Applicable (approved at Project Board); c) Applicable (approved all Nuplace legal Agreements May 2015); d) Applicable (approved at Board meetings); e) Applicable (see c)); f) Applicable (Initial/Final Conditions confirmed as being met); g) Applicable (covered under Development & Housing Management Agreements); h) <b>Amended</b> - definition of 'material' to be amended; i) <b>Amended</b> - definition of 'material' to be amended; j) Applicable; k) Applicable; l) Applicable; m) Applicable;

<p>o) Attendance of Chair at AGM of WOC  p) General guidance and strategic direction to WOC Directors</p>	<p>n) Applicable;  o) Applicable;  p) Applicable.</p> <p>The amendments highlighted above refer to a variation of the term 'material', 'material' now to refer to the need for additional borrowing over and above the approved budget. Cabinet approval is sought for the Managing Director, in consultation with the Cabinet Members for the Business, Neighbourhood &amp; Customer Services, and Housing, Public Health &amp; Protection, and the Housing Investment Project Board, to approve changes to the development sites, the unit numbers, the mix etc. dependant upon a) this not being to the detriment of the overall Programme return as included in Section 4 of this Report; and b) spend remaining within the approved budget; for the reasons as set out in Section 3 of this Report.</p>
<p>2.1 An officer of the Council shall act as administrator for the Board allocated by the Chair.</p>	<p>Applicable</p>
<p>3.1 The Board shall meet every 6 weeks for approximately 1.5 hours. More frequent meetings shall be scheduled when appropriate.</p>	<p>Applicable</p>
<p>4.1 The scope is to implement a major housing Programme which will involve the construction of houses, apartments or commercial investments on land that is in the ownership of Telford &amp; Wrekin Council. The delivery of the project will be in accordance with findings of the feasibility and recommendations approved by cabinet on the 24<sup>th</sup> July 2014 and Full Council on the 11<sup>th</sup> September 2014. This delivery stage is referred to as Stage 2 and will see the construction, marketing and rental of the properties.</p>	<p><b>Amended</b> - Results of detailed site investigations combined with robust construction costs from contractors have concluded certain sites, recommended for delivery within these reports, as unviable and unsuitable to be brought forward by the Programme. The need to react quickly and bring in alternative sites for the reasons set out in Section 3 of this report have resulted in approval for the amendments detailed against 1.4.</p>