

Housing Investment Programme

Telford & Wrekin Council Business Case

March 2016

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1.0 Executive Summary

1.1 This Business Case is an update to the original January 2015 Business Case, produced by Telford & Wrekin Council, setting out the changes to the Housing Investment Programme following:

- a period of feasibility work on the originally proposed Programme of sites;
- exploration work on expanding the Programme and the introduction of new sites subject to further approvals; and
- benefitting from lessons learnt since the wholly owned company and delivery vehicle for the Council's Housing Investment Programme, NuPlace Ltd, was established and has been operational since April 2015.

1.2 As well as providing a general update on the Housing Investment Programme, this updated Business Case sets out the affect of the above on:

- the original business objectives and how they have evolved;
- the investment and resources required to achieve these revised objectives as a comparison to the original position;
- the anticipated financial position of the business as a comparison to the original projections; and
- the original Risk Register and how this too has evolved.

2.0 Programme Update

2.1 Telford & Wrekin Council is delivering an ambitious growth agenda and major investment in the borough has resulted in its recognition as one of the fastest growing areas in the West Midlands as well as a national growth point. Key to delivering this agenda is:

- to provide the right quality homes;
- to provide places to live; and
- to improve the attractiveness of Telford to inward investors.

To continue this investment, the Council recognised that it could influence and support economic regeneration by promoting housing investment using stalled and brownfield sites that it currently owns. As a result the Council established the Housing Investment Programme ("HIP"), a long term investment to develop, manage and maintain a portfolio of private rental properties.

2.2 Extensive market research carried out by Savills as well as information on the national, regional and local housing rental market, was used to establish an assessment of supply and demand by house type and location, typical rental values and anticipated rent increases, past and anticipated growth rates etc. across the Borough. This was used to justify the establishment of the HIP and formed the assumptions upon which the Programme was based. To reiterate, research identified that:

- the number of households in the market rented sector increased by 63% nationally and by 68% in the West Midlands between 2001 and 2011;
- the Telford & Wrekin rental market has effectively doubled from 5,839 to 10,793 households;
- the market rented sector has grown at a much faster pace in Telford & Wrekin than any other tenure;
- households have migrated from other tenures to the Telford private rental sector due to the affordability ratio (ratio of house price to earnings). People can afford monthly repayments on a mortgage but not the deposit required on these higher value properties, there is a general trend in people experiencing difficulties securing mortgages due to a combination of the increasing number

with bad debt and house price increases, and a housing demand greater than that supplied is pushing up prices;

- the number of house repossessions in Telford & Wrekin is relatively high emphasising the stretched affordability ratio of the Telford market;
- a further £200 billion of investment is needed over the next five years in England and Wales to meet the private rental market demand with only £50 billion expected to come from the buy to let market;
- Families, including couples with and without children, and lone parents have seen strong growth over the past 10 year. Telford has a larger family market, higher than the regional and national averages. The number of households in the market rented sector occupied by families has more than doubled, now standing at 46.5% of all market rented households;
- 2 and 3 bed properties are the dominant property size demanded each accounting for over a third of total listings in certain postcodes, and it is these properties which have seen increase in rental values with 1 bed and 4 bed units having seen a decline in values. Weaker demand for larger properties is in contrast to the growth in the number of sharing households however it indicates a clear preference for 2 & 3 bed units.

2.3 Not only was the HIP recognised as supporting this ambitious growth agenda, but it was also established as a Programme that could deliver other significant benefits associated with achieving the Council's vision and priorities including:

- generating a long term income stream for the Council that can contribute towards the protection of frontline services otherwise affected by budgetary constraints;
- protecting Council jobs by utilising these roles in the development, management and maintenance of the portfolio of rental properties;
- stimulating local economic growth through job creation during both the construction and operational phases of the Programme;
- responding to the boroughs housing need for quality rental homes and places to live;
- raising the standard of rental provision, both in terms of the quality of the rental homes and the quality of the landlord service, in the Borough;
- regenerating brownfield and stalled sites;

2.4 Following Cabinet Approval in January 2015 which set out the purpose and objectives of the Programme, how it was to be delivered, the resources required, the governance structure, the associated risks and the financial and business outputs; Nuplace Ltd, a wholly owned company of Telford & Wrekin Council established to construct and manage this Programme of circa 400 private rental properties; was registered with Companies House 1st April 2015. Since the establishment of Nuplace Ltd, the HIP has progressed at a pace with key achievements including:

- creation, approval, and signing of a number of legal agreements associated with the delivery of the Programme including the Facilities Management Agreement, the Land Transfer Agreement, the Development Management Agreement, the Housing Management Agreement;
- 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;
- letting of building contracts for the two Phase 1 development sites, Randlay (Fishermans Walk) and Woodlands, Madeley (Woodland Walk);
- marketing and promotional activities raising the awareness of Nuplace Ltd. including establishment of the Nuplace website, delivery of media campaigns, social network advertising etc.
- 100% reservation at the Fishermans Walk site, the earliest site to be complete, with Woodland Walk following suit;
- First 3 tenants moving into the first Nuplace homes on 11th March 2016
- planning applications submitted for two of the four Phase 2 sites with imminent submissions planned for the remainder;

- design development and viability assessments of the Phase 3 site;
- feasibility assessments of future sites that could be developed as an expansion to the Programme subject to further approvals;
- Further website development/testing including the creation of a Nuplace property search facility and a tenant portal to provide a 24 hour accessible reporting, monitoring, information sharing etc. facility that supports this unique selling point high of quality management and maintenance services that Nuplace prides itself on.

2.5 The high level principles and vision for the Programme remain very much in line with the above and as set out in the original Business Case, as do the roles of both the Council, as sole shareholder, and Nuplace Ltd, as the delivery vehicle for the Housing Investment Programme, including:

- The Council are, and will continue to:
 - o Facilitate the building of assets through prudential borrowing from the Public Works Loan Board (“PWLB”) in order to finance NuPlace’s activities;
 - o Sell land to Nuplace to facilitate the development of the housing sites;
- Nuplace Ltd are, and will continue to:
 - o To construct, manage and maintain the housing units for the life of the project, reporting to the Council as the sole shareholder.

During NuPlace’s first operational year and the completion of the key activities listed above however, the Authority has gained a better understanding of the most effective and efficient methods in which to deliver and manage the Programme learning lessons from the development of the phase 1 sites. This has resulted in changes being proposed to the original business case to strengthen and improve the efficiency and effectiveness of the programme against the objectives. This is detailed in the following sections of the Business Case with changes highlighted as comparisons to the original objective, resource, governance, finance and risk assumptions.

The content of this Business Case has been prepared having regard to guidance issued by the Secretary of State under Section 96 of the Local Government Act 2003.

3.0 Original Business Case Proposals

3.1 The original January 2015 Business Case proposals and the revised position is detailed in Table 1. Updated Business Case Position.

Table 1: Updated Business Case Position

January 2015 Proposals	Feb 2016 Proposals
<p>The Business Idea</p> <ul style="list-style-type: none"> - To deliver approx. 425 private market/ affordable rental units over 3 Phases and a total of 8 development sites; - To deliver additional sites through Nuplace Ltd in the future should the opportunity arise which will require new Business Plan and both Cabinet and Full Council approval; - For Nuplace Ltd to be 100% owned by the Council who will transfer the freehold of the land to Nuplace in exchange for shares (two separate transactions) with security being taken to protect the Council’s investment; 	<p>The Business Idea</p> <ul style="list-style-type: none"> - Amendment - The original January 2015 Business Case principles remain apart from a) the number of units having reduced from 425 to 387 and as detailed below; and b) the governance procedures, refer to Section 7, Governance; - Having successfully marketed the Phase 1 sites, it has become apparent the desire to rent a Nuplace property is based around a) the opportunity to rent a brand new home and reserve preferred plots, an unusual approach in the rental market; b) tenants having the

<ul style="list-style-type: none"> - Funding by the Council to Nuplace using the PWLB unless a more financially viable alternative can be found. Funding to be via an 'on lent' basis at a commercially acceptable rate to address State Aid requirements. Nuplace to construct and rent the properties using the rental income to pay a) the interest repayments to the Council for the loan used to cover the development costs of constructing the properties; and b) the management and maintenance services associated with the properties; - Nuplace to borrow from the Council on an interest only basis on the assumption housing is an appreciating asset. The term of the investment is 30 years with the assets to be disposed of for a capital receipt at the end of this term which the Council will use to repay the loan. Disposal proposals will depend on market conditions at that time and could include full disposal or partial disposal with the unpaid loan refinanced against the appreciating asset. Should an early exit strategy be required, this would be subject to the governance procedures provided set out in this Business Case; - Net surpluses, (rental income less the servicing of the interest and the management and maintenance costs), to generate a return to the Council as part of its equity investment; - Nuplace to raise the standards of quality both in terms of the rental product and the rental service enabling it to compete with other suppliers in the private rental market; - NuPlace's unique selling point to focus on this quality provision that is backed by Telford & Wrekin Council working with all its partners to deliver the best they can for their tenants. 	<p>ability to rent a home for life and from new, with the assurance, being wholly owned by the Council, that they wont be given last minute notice by buy to let landlords wanting to sell the properties; and c) the assurance of a quality landlord service, with homes to be well maintained, due to the company being wholly owned by Telford & Wrekin Council.</p>
<p>Strategic Case</p> <ul style="list-style-type: none"> - A key Council priority from its Medium Term Plan for 2013/2014 – 2015/2016 is to <i>"...protect and create jobs as a Business Supporting, Business Winning Council"</i>, working co-operatively with local people, organisations and partners in the public, private and third sectors to support existing businesses and to attract new businesses and investment into the Borough in order to create jobs and provide a quality housing provision is a key part of this strategy; - The National Planning Policy Framework requires that the Council <i>"...plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community"</i> and the plan should <i>"...identify the size, type, tenure and range of housing that is required"</i> 	<p>Strategic Case</p> <ul style="list-style-type: none"> - The original January 2015 Strategic Case market research principles remain and the strategic requirements will still be met by the Programme.

<p>which this Programme aims to deliver.</p> <ul style="list-style-type: none"> - The economic recession has reduced the availability of mortgage finance and falling or constrained incomes has meant that for many, especially first time buyers, the difficulty of being able to purchase a property has increased. In Telford & Wrekin, the affordability issue for first time buyers is particularly acute. Although average incomes could support mortgage repayments, the size of the deposit is preventing large numbers of households from entering the owner occupier market; - With the population of Telford predicted to rise to over 200,000, the demand for new housing and the limited availability of mortgage offers, the opportunity for growth within the private rental sector looks set to continue. 	
<p>The Economic Case</p> <ul style="list-style-type: none"> - Establishing a Wholly Owned Company (Nuplace Ltd), to deliver the HIP emerged as the preferred delivery mechanism; - For the Company to buy in development management and housing management services from the Council, utilising existing staff resources to deliver the HIP and supporting base budgets. - The original Programme of sites suggested as suitable sites to be brought forward by the HIP for financial, regeneration and economic reasons included: <ol style="list-style-type: none"> 1. Southwater Mixed use development, 115 Apartments with associated car parking, double height retail units on the ground floor, (to be sold to the Council's Property Investment Portfolio). 2. Hollinswood Residential development of 44 units (12 market rental / 32 affordable rental units). 3. Randlay Residential development of 31 market rental units. 4. Woodlands Residential development of 101 market rental units. 5. Madeley Residential development of 50 market rental units. 6. Newport Residential development of 29 affordable rental units. 7. Matlock Residential development of 30 market rental units (Phase 1 development). 	<p>The Economic Case</p> <ul style="list-style-type: none"> - The original January 2015 Economic Case principles remain with Nuplace Ltd having been established and registered in April 2015. Nuplace Ltd is a light organisation with no employees, only 3 Directors, appointments made from within the Councils organisation. NuPlace Directors purchase all its services to deliver the Programme from the Council. - A number of legal agreements exist between the Council and Nuplace Ltd governing their relationship and how the Programme is to be delivered and managed. Two key documents, the Development Management Agreement and the Housing Management Agreements, set out the scope of service and the fee associated with the services to be purchased by Nuplace from the Council to a) Construct the properties/build out the development sites; and b) Manage and maintain the property portfolio once built; - Amendment - A key difference to the original Business Case is the effect detailed viability assessments have had on the Programme of sites. High abnormal costs associated with poor ground conditions, expensive noise attenuation measures etc. have resulted in certain developments producing negative returns and being unviable. As such this Business Case proposes the removal of two sites from the Programme (Hollinswood and Wildwood), a reduction of units at Southwater, the introduction of a viable site at Hadley, and an increase in units at Matlock, Madeley and Newport. Southwater still includes for the connection onto the Southwater District

<p>8. Wildwood Residential development of 25 affordable rental units.</p>	<p>Heating Network and viability assessments on incorporating solar energy into the design will continue to be explored. This is detailed in Table 2, Revised Sites & Unit Numbers along with the proposed phasing of the sites and can be summarised as:</p> <p>Phase 1: Randlay (31) & Woodlands (101); Phase 2: Matlock (92), Madeley (53), Hadley (24), Newport (33); Phase 3: Southwater (53).</p>
<p>The Commercial Case</p> <ul style="list-style-type: none"> - Establishing a Wholly Owned Company (Nuplace Ltd), to deliver the HIP emerged as the preferred delivery mechanism for delivering the Programme and is also a statutory requirement to establish a separate company in order to operate in the ways required to deliver the HIP; - A detailed assessment proved that the private investment route generated a number of constraints that a wholly owned company drawing down from the PWLB approach did not; - Detailed market research, particularly looking at the Telford rental market, established the borough as having a fast growing private rental market with the greatest demand being for 2 and 3 bed houses, also the units that have witnessed the greatest increase in rental prices, with the family market having the largest uptake in the market in general and greater than that of the West Midlands. Affordability pressures had forced many into renting versus purchasing their own homes; - Rental levels used in the Business Case Financial Model were based on external consultant’s advice and results from market research. 	<p>The Commercial Case</p> <ul style="list-style-type: none"> - The original January 2015 Commercial Case principles remain with Nuplace Ltd having been established and registered in April 2015; - The market research principles broadly remain updated with local intelligence. This includes phase one pre-lets showing a greater demand for 2 bed houses over 3 bed, Nuplace have received interest from members of the public for 4 bed properties and bungalows, and there is also a demand for units in the north of the borough where rental values are generally higher than the south. NuPlace have been able to achieve higher rental values than anticipated and included in the original Financial Model. These values have been able to provide greater flexibility in applying inflationary rises in the future generating the level of return detailed in January 2015 over the term of the investment, as well as a degree of financial float in the Programme to account for voids greater than the anticipated 5%. This is detailed in Section 4, Finance.
<p>The Financial Case</p> <ul style="list-style-type: none"> - Refer to Section 4, Finance for a detailed summary of the original January 2015 Business Case financials. 	<p>The Financial Case</p> <ul style="list-style-type: none"> - Refer to Section 4, Finance for a detailed summary of the revised February 2016 Business Case financials.

The majority of principles remain with the amendments focussing on the change in the development sites and units numbers, as well as having a more in depth knowledge of the Telford market need.

4.0 Finance

- 4.1 The updated financial position discussed throughout this Section is based on the amendments as set out in Section 3.0, Original Business Case Proposals regarding the development sites, unit numbers and mixes. These amendments are summarised in Table 2, Revised Sites & Unit Numbers.

Table 2, Revised Sites & Unit Numbers

January 2015 Business Case Position	February 2016 Business Case Position
Southwater: 115 Units (Market Rent Apartments)	Southwater (Phase 3): 53 Units (Market Rent Apartments)
Hollinswood: 44 Units (12 Market/32 Affordable)	Hollinswood: Removed from Programme on viability grounds.
Randlay: 31 Units (Market Rent)	Randlay: (Phase 1) 31 Units (Market Rent)
Woodlands: 101 Units (Market Rent)	Woodlands: (Phase 1) 101 Units (Market Rent)
Madeley: 50 Units (Market Rent)	Madeley: (Phase 2) 53 Units (Market Rent)
Newport: 29 Units (Affordable Rent)	Newport: (Phase 2) 33 Units (Affordable Rent)
Matlock: 30 Units (Market Rent)	Matlock: (Phase 2) 92 Units (Market Rent)
Wildwood: 25 Units (Affordable Rent)	Wildwood: Removed from Programme on viability grounds.
	Hadley: (Phase 2) 24 Units (21 Market/3 Affordable)
Total Number of Units: 425 Units	Total Number of Units: 387 Units
Programme Affordable: 20%	Programme Affordable: 9%

4.2 Table 3, Programme Assumptions, sets out the key assumptions of the original January 2015 HIP Financial Model and their current status as applied to the February 2016 revised Financial Model. The February 2016 status includes the proposed Programme amendments as set out in Section 3.0, Original Business Case Proposals.

Table 3, Programme Assumptions

Activity	January 2015 Business Case Position	February 2016 Status
Funding rate	PWLB, financing, on-lent to the WOC at a margin, in order to mitigate a State Aid challenge.	Applied to February 2016 Financial Model.
PWLB Funding rate/term	30 years, interest only, 3.96% (PWLB 30 year rates at 11 December 2014 3.64%)	30 years, interest only, 3.76% (PWLB 30 year rates at 25 February 2016, 3.17%)
WOC Funding rate	30 years, 5.69% interest only	30 years, 5.29% interest only
Land cost	Based upon independent valuations	Applied to February 2016 Financial Model and updated based on a better understanding of site conditions.
Construction costs	Based upon tender prices as received and applied to the entire Programme.	Revised in accordance with a) Phase 1 and Phase 2 construction costs provided from our contractor, Lovell, and upon which building contracts have been and will be let; and b) Detailed cost consultancy pricing on Phase 3.
Rents/ letting profile	Rents are based upon current market rents, uplifted to the letting date and then uplifted at 1.5% per annum	Revised in accordance with a) Rental values achieved on marketed and already let Phase 1 units; b) Internal knowledge

	Letting profile is based upon industry advice received and benchmark data.	on latest rental values for Phase 2 and 3 sites; and c)Rental inflation of 1.75% per annum, phased according to letting start dates.
Tenure mix	As per individual site numbers, determined in accordance with market information and to maximise the return.	Revised in accordance with market demand combined with an assessment of those that provide the greatest return.
Annual maintenance/ operating costs	Management, maintenance, client management and lifecycle costs reflect analysis of Council costs and benchmarked data, uplifted at 2.0% per annum.	Applied to February 2016 Financial Model.
Void Rate/ Bad debts	5% of gross rental per annum. Based upon benchmark information.	Applied to February 2016 Financial Model.
Management fee	9% of gross rental income per annum. Based upon benchmark information.	WOC operating costs are in line with February 2015 assumptions, but refined where appropriate to allow for known management services arrangements. Bottom up operational budgets have been prepared.
Client Management costs	5% of gross rental income per annum, to reflect costs associated with increased central support services	
Maintenance charge	£10 per sqm per annum. (RPI indexed). Based upon benchmark information.	
WOC operating costs	3% of gross rental income per annum, based upon benchmark data.	
House Price inflation	2.0% per annum.	2.0% per annum

4.3 The key input and calculation assumptions contained within the modeling relating to the General Fund included in the original January 2015 HIP Financial Model and their current status as applied to the February 2016 revised Financial Model are detailed in Table 4, Input & Calculation Assumptions.

Table 4, Input & Calculation Assumptions

Assumption	February 2015 Status
All net positive cashflows arising from rental income generated by Nuplace in the first 3 years are recycled to fund construction where possible.	Applied to February 2016 Financial Model.
During the period when NuPlace is constructing properties it is assumed, from a cashflow perspective, that interest on NuPlace's loan be rolled up and added to the overall debt balance to be repaid. It is assumed that interest is paid by Nuplace when construction is complete.	Applied to February 2016 Financial Model.
The loan from the General Fund to Nuplace is repaid when all the properties are disposed.	Applied to February 2016 Financial Model.
Distributions from Nuplace to the General Fund are restricted where Nuplace has insufficient distributable reserves.	Applied to February 2016 Financial Model.
NuPlace's lifespan is limited to 30 years.	Applied to February 2016 Financial Model.

- 4.4 The capital cost estimates and anticipated funding sources included in the original January 2015 HIP Financial Model and their current status as applied to the February 2016 revised Financial Model is detailed in Table 5, Capital Cost & Funding Source Assumptions.

Table 5, Capital Cost & Funding Source Assumptions

Projected Cost (£'000s)	January 2015 Business Case	February 2016 Business Case
Construction Estimate (including fees and S106s, and interest during construction)	48,493	49,993
Land Value	4,125	2,950
Total Cost	52,618	52,943
Source of Funds		
PWLB Borrowing (Housing)	45,743	47,243
Capital receipt	4,125	2,950
Developer Contribution	2,750	2,750
Total Funding	52,618	52,943

The revised capital cost is within capital allocations and reflects:

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

The actual amount of PWLB loan drawn down in the model will vary from the amount shown above due to Nuplace recycling cashflows from rental incomes in the first 3 years. The commercial and financial assessments included in this Business Case have been led by senior officers supported by external professional advisors. The key financial data contains details of annual project cashflow, corporation tax (at the applicable rate) and accounting implications for Nuplace for the entire quantum of the development. The assumptions are detailed above and have been subject to review and challenge throughout the preparation of the Business Case. The cashflow implications for the General Fund have also been modelled alongside anticipated Nuplace cashflows

- 4.5 The Base Business Case KPI's included in the original January Business Case and their current status is detailed in Table 6, Capital Cost & Funding Source Assumptions.

Table 6, Capital Cost & Funding Source Assumptions

KPI	January 2015	February 2016
WOC gearing	76%	78%
PWLB Loan Rate	3.96%	3.76%
WOC Loan Rate	5.69%	5.29%
WOC Loan Retirement Date	31 March 2044	31 March 2045
Equity return (Internal Rate of Return)	5.61%	6.84%
Cumulative General Fund Income & Expenditure impact*	£64,274k	£66,551k

*the January 2015 returns have been adjusted for comparison purposes to reflect the cost of borrowing of the Southwater apartments 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%

- 4.6 The General Fund impact summary as included in the original January 2015 Business Case and its current impact is detailed in Table 7, General Fund Impact.

Table 7, General Fund Impact

January 2015 Business Case Position				
£'000s	Years 1-10	Years 11-20	Years 21-30	Cumulative
Investment Income	131	2,400	45,936	48,467
Net interest/lease income and Client Management	1,989	4,575	9,242	15,806
General Fund Income and Expenditure impact	2,120	6,975	55,179	64,274
February 2016 Business Case Position				
£'000s	Years 1-10	Years 11-20	Years 21-30	Cumulative
Investment Income	666	3,915	50,342	54,923
Net interest/lease income and Client Management	1,593	4,321	9,413	15,327
General Fund Income and Expenditure impact	2,259	8,236	59,755	70,250

Investment income includes one-off income from the disposal of the housing properties at the end of the 30 year term. The impact on the General Fund is identified as an improved position compared to the net returns contained in the consolidated position as detailed in the Cabinet Report dated 24 July 2014 and the January 2015 Business Case. This improved position is as a result of:

- Improved assumptions re rental inflation levels and starting rents
- Offset by reduced interest rate charge to the WOC, compared to January 2015 assumptions
- Improved GDV's on the mix of sites
- Reduced operating cost assumptions at Southwater apartments due to the reduced unit numbers and integrated car parking provision

Important highlights from the information presented above include:

- The base case assumes the General Fund is likely to prudentially borrow up to £45.7m which is used to fund NuPlace in the form of a loan and cash equity investment. The exact mix is assumed to generate a gearing ratio of 78%;
- The sale of properties by Nuplace after the 30 year term enables the repayment of its loan and a distribution to the Council to enable it to repay its PWLB loan;
- Nuplace makes significant distributions to the General Fund. These distributions increase as NuPlace matures. As a result the cumulative income and expenditure impact is positive (£66,521k post tax) at the end of the project; and
- Total cash returns (dividends and share capital) amount to £54m compared to an equity subscription of £9.5m (cash and land). On this basis the equity return amounts to 6.84% (nominal, post tax).

- 4.7 Sensitivity analysis continues to be undertaken in relation to the financial projections. The analysis considers changes in the key financial assumptions upon which the model is based. These sensitivities consider largely the impact of downside movements on key input variables against the key metrics of the base case.

- 4.8 Whilst NuPlace is an investment vehicle, the drivers behind a number of key metrics are centered on various capital elements such as development costs, sale values and House Price Inflation (HPI). To reflect this point the impact of reducing rental income inflation to 1% does have a materially adverse effect as the reduction in rental income results in lower equity returns and General Fund Income and Expenditure return. However an increase in rental income inflation to 2% or a 0.5% increase in HPI provide a significant increase on both IRR and return to the General Fund. The Business Case assumptions on rental income inflation and HPI can be considered prudent given current housing market trends.
- 4.9 The conclusion of the January 2015 Business Case analysis was that the proposed funding to NuPlace at that time was viable with an overall positive impact on Council's General Fund. The current position, including the Programme amendments as detailed within Section 3.0 Original Business Case Proposals, as included within this revised February 2016 Business case and supporting Financial Model is that the Programme still remains viable with an improved financial position to that of January 2015.

5.0 Programme

- 5.1 A detailed Programme was not included in the original January 2015 Business Case however assumptions were made upon which the Financial Model was based. A detailed Programme for the delivery of all 3 Phases of development is included in Appendix 1. Detailed Programme Phase 1-3. This Programme reflects the amendments as detailed within Section 3.0 Original Business Case Proposals and the key activities completed as listed in Section 2.0, Programme Update.

6.0 Legal

- 6.1 Extensive legal advice was sought during the feasibility stage of Programme. This advice continued to be sought during the establishment of NuPlace and continues to be provided throughout the development and operational stages of the Programme. The majority of legal matters raised in the January 2015 Business Case have now been addressed by way of the progress made i.e. the powers to deliver the Programme and transfer land, the need to tender for a Wholly Owned Company to deliver the Programme, state aid compliance, requirements for Secretary of State consents, company structure and governance, however legal involvement at both an operational and strategic level ensures legal advice and compliance as we move through the Programme. There is legal representation at the fortnightly Project Team meetings as well as the six weekly Project Board meetings.
- 6.3 A robust governance structure and procedures were detailed and approved as part of the original January 2015 Cabinet Report and Business Case. Refer to Section 7.0, Governance for details on how procedures have evolved following the operational period of NuPlace.
- 6.4 Following approval of the January 2015 Business Case and establishment of NuPlace Ltd, NuPlace was required to produce its own Business Plan that identified how it was to respond to and deliver against the objections of the HIP. This Plan was to act as a live document regularly reviewed by both NuPlace and the Council. The Business Plan was to be formally reviewed by the NuPlace Directors every 12 months and performance against it reported to the Council's HIP Project Board. If at any point changes to the Council's Business Case were required, following the relevant approval of this revision by the Project Board, Cabinet or Full Council, NuPlace was required to update its Business Plan in accordance with these changes and obtain approval of the revision by the HIP Project Board. Otherwise, the Council's Business Case and NuPlace's Business Plan would be presented to Cabinet for approval on an annual basis. Where new investment opportunities arose, instigated by either the Council or by NuPlace, NuPlace was required to present a separate Business Case to the HIP Project Board for approval by the Managing Director in consultation with the Cabinet Members for Co-

operative Council and Partnership and Finance and Enterprise to either approve, reject, or request further information. If approval was given, the Project Board would develop the proposals in conjunction with Nuplace into a formal Business Case (or revision to the current Business Case) for consideration at Cabinet prior to implementation, if approved. The majority of these principles for approval remain however a variation to what would be considered a 'change' to the Business Case requiring Cabinet approval and justification for this variation is set out in Section 7.0, Governance.

7.0 Governance

- 7.1 Not needing to tender for a Wholly Owned Company to deliver the HIP has been based upon the 'Teckal Exemption', an exemption reliant upon satisfying three conditions, all three of which have been and will continue to be satisfied during the establishment and the delivery of the Programme. These include a) the Council exercising control over Nuplace similar to that which it has over itself including having decisive influence over the strategic objectives and decisions of Nuplace i.e. being 100% owned by the Council with complete control over identity and appointment of Directors, having established a robust governance structure; b) Nuplace's activities being confined to those imposed on it by the Council; and c) that there is no private participation in the company.
- 7.2 The establishment of a robust governance structure is required not only to protect the Council's investment, its Officers by way of Member support, and Nuplace's Directors as far as possible from any personal liability, but as highlighted above, to satisfy a key condition of being able to establish Nuplace to deliver the Programme. This governance structure and the governance procedures were established in the January 2015 Business Case and included Terms of Reference for the Project Board. These principles are detailed in Table 9, Governance Principles, and variations to this requested through this revised February 2016 Business Case are set out.

Table 9, Governance Principles

Governance Principles	
January 2015 Business Case	February 2016 Business Case
The WOC to be constituted as a company limited by shares, not a charity or other "not for profit" entity. The Council to own the entire share capital, thus Nuplace will be a wholly owned company of the Council who will have ultimate control.	Applicable
Nuplace to have a minimum of 3 Directors, appointments from within existing Council posts, with company secretarial services to be brought in Council Legal Services.	Applicable
Nuplace Directors required to hold appropriate liability insurances, indemnity from the Council etc.	Applicable
Nuplace structure to be considered in-conjunction with the Project Board Terms of Reference and the company structure (refer to Appendix 3).	Applicable
A robust approval process to be established regards amendments to the Councils Business Case, and the implementation and monitoring of Nuplace's Business Plan against a set of robust KPI's, to ensure protection of the Council's investment is required.	Amendment – Existing governance procedures require a 'material' change to the Business Case to be approved by Cabinet or Full Council approval if outside of Budgetary and Policy Framework. There is no clear definition for 'material' but this Business Case seeks the term to be defined as ' <u>a change requiring capital expenditure over and above the approved budget</u> '. Justification for this

	relates to the ability to respond quickly to unviable sites, bring in new alternative and viable sites, amend unit numbers to best reflect the optimum quantum of development etc. whilst still working within the approved budget and achieving if not attempting to maximise returns. It is imperative that this be actioned at a pace that unfortunately the timescales associated with requiring Cabinet approval dramatically slows down. As is currently the process, the amendments suggested above will go through the existing approval procedure for non-material changes (Managing Director approval in consultation with the relevant Cabinet Members and HIP Project Board).
The Council is to prudentially borrow from the PWLB in order to finance Nuplace's development/construction activities with finance to be structured as a combination of loan finance and cash equity.	Applicable
The Council to transfer land to Nuplace in consideration for a capital receipt to be used by the Council to subscribe for share capital into Nuplace.	Applicable
Servicing of the loan to be achieved through the generation of net rental income on the housing rental portfolio.	Applicable
Returns generated by Nuplace on the General Fund cash and land equity are reflected as dividend distributions.	Applicable
Nuplace to enter into Design & Build contracts with the selected Contractor to construct the houses.	Applicable
Nuplace to enter into a number of Property Management Agreements for the management and maintenance of the housing portfolio. Nuplace will have no employees and will buy in services under these Agreements via the Council covering finance, legal, repair and maintenance etc.	Applicable
The Council to retain a strategic role over Nuplace the HIP by: <ul style="list-style-type: none"> - Approving this initial Business Case; - the Managing Director, in consultation with the Cabinet Members for Co-operative Council and Partnership and Finance and Enterprise (see terms of reference at Appendix A2) to approve the initial Nuplace Business Plan - the Project Board having an on-going involvement, receiving reports on progress together with making decisions on matters of sufficient importance that Senior Officer and Member involvement is appropriate; - Reports being presented to Cabinet (and Full Council when appropriate) in relation to matters 	Applicable - Applicable - Applicable - Applicable - Amendment – Refer to comment above.

for which Council approval is required but are not within the remit of the Project Board.	
That it be made critically clear, Nuplace is a commercial business and must be able to operate as such and have sufficient flexibility on an operational level to take actions and make decisions enabling it to comply with its constitutional requirements (to be fixed by the Council at company set up stage).	Applicable
That Cabinet be the strategic supervisory body with ultimate responsibility for ensuring compliance with the Business Plan and Business Case. However, Nuplace Directors will owe a duty to the company to perform in accordance with its constitution and wider company law. It is acknowledged that there is a very real possibility that conflicts of interest may arise between the requirements of Nuplace and those of the Council and measures must be put in place to protect the Directors from this potential conflict arising. It is therefore critical that the Directors of the Company have a separate and distinct role from the Project Team and Project Board. This role to be without prejudice to Cabinet's normal decision making powers and the role of Overview and Scrutiny as set out in the Council's constitution.	Applicable
Nuplace Directors to review and report on performance under the Business Plan to promote a full understanding and awareness of the activities and performance of the company and to ensure the Council is fully satisfied that its investment is properly protected. Legal advice received that the Nuplace Directors play a critical role in the initial stages of the Project and therefore careful consideration is to be given by the Council as to the identity of these Directors to ensure that they have sufficient status and ability to drive the Project forward to ensure success of Programme and Nuplace.	Applicable
Terms of Reference	
January 2015 Business Case	February 2016 Business Case
Refer to Appendix 3.	<p>All principles of the original terms apply with the exception of the following amendments:</p> <ul style="list-style-type: none"> - Titles for the Cabinet Members have been updated; - 1.5, a definition for 'material' has been included to address the proposed amendment above. - 4.1, has been amended to reflect the proposed changes including a) removing reference to January 2015 Cabinet approval of the Business Case to the 24th March 2016

	Cabinet approval of this revised Business case; and b) removing specific reference to unit numbers.
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Updated versions including the proposed amendments to the Terms of Reference are included at Appendix 3, Terms of Reference.

- 7.3 Appendix 4, Governance Structure sets out a more detailed version of the diagram included in the January 2015 Business Case.
- 7.4 In terms of any concerns or risks, these are captured, managed and monitored under the Legal Section of a number of HIP Risk Registers alongside financial, economic, resource etc. risks. A Strategic Risk Register capturing the strategic and high level risks is maintained with responsibility for managing shared between the Council and Nuplace. Individual site Risk Registers have also been established for sites that move into the construction stage, these cover site specific risks with responsibility for managing shared between Nuplace and our contractor, Lovell. The individual site Risk Registers can be requested at any time with the Strategic Risk Register appended at Appendix 2, Strategic Risk Register.

8.0 Conclusion

Following approval of the January 2015 Business Case substantial progress has been made to deliver the HIP. Since this time, lessons learnt and more economic and efficient ways of delivering the Programme have been determined. This includes a better understanding of the Telford rental market; more is known about the original Programme sites with certain sites becoming unviable and unsuitable to be brought forward under the HIP; a better understanding of opportunities for replacement and future sites in order to expand the Programme subject to approvals has been undertaken; and overall, both the Council and Nuplace are much more informed on delivering the Programme. Telford & Wrekin Council are 'ahead of their game' in the housing investment company arena according to the HCA, other Councils and the local construction industry, with numerous requests for meetings to advise and support other areas and authorities on how to establish and successfully deliver similar investments.

With the amendments proposed in this revised Business Case to enable the Programme to adapt more appropriately, and respond more quickly to risks, it is believed the HIP will continue on this successful path.

9.0 Appendices

Appendix 1. Detailed Programme Phase 1-3

HIP Programme, Feb 2016	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Phase 1: Woodlands (101 M)																													
Construction Period (76 Wks)	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Released From Month 10			█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Phase 1: Randlay (31 M)																													
Construction Period (52 Wks)	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Released From Month 10			█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Phase 2: Matlock (92 M)																													
Planning Period	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Detailed Design	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Construction Period (84 Wks)				█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Released From Month 10														█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Phase 2: Madeley (53 M)																													
Planning Period		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Detailed Design	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Construction Period (66 Wks)						█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Released From Month 8															█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Phase 2: Hadley (21 M/3 A)																													
Planning Period				█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Detailed Design	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Construction Period (45 Wks)								█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Released From Month 8															█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Phase 2: Newport (33 A)																													
Planning Period				█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Detailed Design	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Construction Period (42 Wks)								█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Released From Month 8															█	█	█	█	█	█	█	█	█	█	█	█	█	█	█

Appendix 2, Strategic Risk Register

Telford & Wrekin Risk Matrix

Impact Of Risk	HIGH	<p>Important Risk Unlikely to happen but would have catastrophic Impact on Objectives</p> <p>6</p>	<p>Key Risk Medium Likelihood – Catastrophic Impact on Objectives</p> <p>7</p>	<p>Key Risk High Likelihood – Catastrophic Impact on Objectives.</p> <p>9</p>
		<p>Unlikely to happen but could have an Impact on achieving objectives</p> <p>3</p>	<p>Important Risk Medium Likelihood - will make achieving objectives difficult but not impossible</p> <p>5</p>	<p>Key Risk High Likelihood – will make achieving objectives difficult but not impossible</p> <p>8</p>
	LOW	<p>Unlikely to happen and will have little or no Impact on achieving objectives</p> <p>1</p>	<p>Medium Likelihood but will have little or no Impact on achieving objectives</p> <p>2</p>	<p>Important Risk High Likelihood but will have little or no Impact on achieving objectives</p> <p>4</p>
		Unlikely	Likelihood of Occurrence	Likely

Risk Description		Consequences	Rating	Response Actions	Owner
Legal/Regulatory					
001	Ultra Vires Council is acting outside of its powers in establishing the Company and/or implementing the project	Cannot pursue initiative	1	Legal advice has been taken. Powers to invest in and/or undertake commercial activities in function related powers are established. Borrowing is via the General Fund. Council will comply with prudential borrowing requirements. Currently taking place.	TWC
002	State Aid -Challenge made by European Commission	Legal implications	3	Legal advice has been taken. Rates will be on a full commercial basis. Could also rely on the Services of General Economic Interest exemption for the affordable rent housing.	TWC
003	Necessary Consents - Secretary of State consent may be required for transfer of the land as 'gratuitous benefit'.	Programme delays	1	All sites have and will continue to be sold to Nuplace at market rent only.	TWC
004	Necessary Consents - Land transfer is not at the best consideration reasonably obtainable	Legal implications, programme delays, cost implications	1	Valuations have been undertaken by an external RICS Surveyor using the Red Book. Land has been and will continue to be transferred at the commercial value.	TWC
005	EU Procurement Challenge - A challenge is made that the project is not compliant with EU procurement requirements	Legal implications, programme delays	1	The Teckal exemption is available in respect of transactions between the Council and the Company. In addition, all development activity has been and will continue to be through competitively procured design and works contracts.	TWC
Financial/Economic/Legislative					
006	Accounting and Tax Treatment - The accounting and tax treatment set out in the Business Case is challenged	Legal implications, programme delays, cost implications	1	External financial advice obtained and considered as part of the Business Case	TWC
007	Financial Model - The assumptions in the financial model are not robust or the financial model is flawed.	Programme delays, cost implications	5	Business Plan model has been rigorously tested. Assumptions have also been challenged and set at prudent levels. Sensitivity analysis and testing has been undertaken and mitigation strategy for each scenario developed. Phase 1 is under construction and rental values being achieved via tenant reservations. Experience to date on Phase 1 is being applied to Phase 2 and 3.	TWC
008	External Contributions - The funding model is dependent upon an estimate of contributions to s106. These are subject to planning approval.	Programme and cost implications	5	Discussions with planners will be on-going. If the estimate compared to the final position is different than the estimate will be reassessed. Phase 1 S106 are confirmed/aid, Phase 2 S106's are confirmed with the consultees. Actuals are coming in in line with model assumptions. If S106's are unaffordable based on viability, this will be picked up as part of the Viability	TWC

				Assessment at planning stage and in the majority supported if it means the development could not go ahead.	
009	Funding - The Council is unable to provide finance for the project as planned.	Programme and cost implications	1	Financial advice has been obtained regarding prudential borrowing for the project and the impact on the General Fund. A senior finance officer of the Council is a member of the Working Group and approval/budgetary arrangements are in place in respect of prudential borrowing by the Council to on-lend to the Company. This is currently taking place.	TWC
010	PWLB Interest Rates - PWLB interest rates may increase such that the project is no longer financially viable	Programme and cost implications	5	The Council will manage its treasury requirements through its Treasury management function. Movements in interest rates and underlying market factors are monitored as part of this process. PWLB financing is being used.	TWC
011	General and specific inflation - If inflation assumptions are lower (in relation to income – rent and sales prices) or higher (in relation to costs – construction or management and maintenance costs) than Business Plan assumptions then viability of Company is reduced	Programme and cost implications	5	Inflation assumptions are deemed to be prudent. Phase 1 is being delivered with costs fixed, Phase 2 costs are being fixed, and Phase 3 costs account for appropriate inflationary pressures as provided by external cost consultants.	TWC
012	Changes in Legislation or Government Policy - Changes in legislation could have many risk impacts ranging right across the project and Company's activities. Such changes could affect any or all of the Business Plan assumptions and its development and operational activities i.e. changes to taxation, construction/building regulations, Government Policy which impact on rents and/or rent collection, right to buy. Changes could occur with regards to NHB and Council Tax, or changes to the Local Government Finance System.	Legal, programme and cost implications	5	Wherever possible changes in law will be passed onto third parties who may be better placed to manage them. Changes in law may also be reflected in general inflation so there would be mitigation in terms of ability to adjust rents. In addition, the risk may be capable of management by sale of dwellings. The impact of any changes to the Local Government Finance System will be assessed as they occur; there is no information currently available to allow the implications of any Policy changes to be reflected in the model.	TWC
Strategic Governance					
013	Decision Making - Governance structures do not enable the project to be properly set up or delivered.	Programme and cost implications	1	Governance structure has been approved by Cabinet. The programme is being delivered under this governance structure with no issues.	TWC

014	Constitutional power of the Council to participate in external organisations such as the Company - The Council's constitution may not permit participation in the Company.	Legal and programme implications	1	Full Council approval has been obtained to participate in the project and the project is in its delivery phase.	TWC
015	Decision Making - Conflicts of interest arise may arise between the Council and the Company and/or Company officers' primary duties to the Company cause operational issues.	Legal and programme implications	4	Members and officers of the Council and officers of the Council will receive briefings from the Council's legal team on how to manage such conflicts and duties. There will be formal terms of reference and clear Governance procedures relating to the project.	TWC/Nu place
016	Site Availability - The number of sites does not fulfil strategic requirements and/or Business Plan projections	Programme and cost implications	7	Several sites in the Business Case/Business Plan have proven unviable following feasibility studies. Viability appraisals for each site will be presented as part of the site approval process within the financial modelling.	TWC
017	Resources - The Council has inadequate resources to deliver the project.	Programme and cost implications	5	A Working Group has been established to deliver the project. The Council will identify existing resources for the delivery and the management of the properties. Costs have been built into the financial model.	TWC
018	Delay during delivery - The project suffers delay during construction preventing the WOC from repaying its loan.	Programme and cost implications	5	Sensitivities have been tested which show that the WOC could repay debt if it suffered a minor delay (+6 months) in the delivery of the project. This forms part of the financial analysis.	TWC
Political					
019	Change in Government Policy - Support for the project may be eroded leading to difficulties in delivering to the Business Plan.	Programme and cost implications	1	The three principal political parties are committed to housing development as part of the UK Growth Strategy. The project is in its delivery stage.	TWC
020	Change in Local Policies - As Above	Programme and cost implications	5	A change in political administration or changes to local policies may affect the support for the project and affect the delivery	TWC
021	Loss of Stakeholder Support - Failure to provide adequate information/marketing could lead to poor public perception and take up of the homes, affecting viability.	Cost implications	6	A Marketing Plan and Action Plan have been established, marketing budgets allocated to deliver this. Phase 1 properties are already being let off plan.	TWC
Resources					
022	Management and administration resources - The Council is unable to support the overall management of the Company.	Programme and cost implications	5	Sound governance structure in place and being managed in accordance with this. Nuplace is a lean organisation with most functions provided on an agency basis by the Council. Currently in delivery stage with no issues. Resources are adequate to date and are deemed to be adequate for the foreseeable future.	TWC
023	Management and administration resources - The Council has inadequate financial and legal and technical resources to support the day to day administration and management of the	Programme and cost implications	5	Sound governance structure in place and resources allocated in accordance with this. Nuplace is a lean organisation with most functions provided on an agency basis by the Council. Currently in delivery stage with no issues. Resources are adequate to	Nuplace

	Company.			date and are deemed to be adequate for the foreseeable future.	
02 4	Development resources -The Council has inadequate housing development resources to support the Company.	Programme and cost implications	5	Sound governance structure in place and resources allocated in accordance with this. Nuplace is a lean organisation with most functions provided on an agency basis by the Council. Currently in delivery stage with no issues. Resources are adequate to date and are deemed to be adequate for the foreseeable future.	Nuplace
02 5	Housing Management & Maintenance resources - The Council has inadequate housing management and maintenance resources to support the Company.	Programme and cost implications	2	Sound governance structure in place and resources allocated in accordance with this. Nuplace is a lean organisation with most functions provided on an agency basis by the Council. Currently in delivery stage with no issues. Resources are adequate to date and are deemed to be adequate for the foreseeable future. Operational costs account for the appointment of additional staff as more rental properties come online.	Nuplace
Development					
02 6	Planning & Design - Planning permission is delayed or challenged with a consequent effect on costs and timescale.	Programme and cost implications	3	Phase 1 sites have planning permission and are being built. Phase 2 has completed SAW Workshops with no planning issues raised. Phase 3 already has outline approval.	Nuplace
02 7	Site Factors - Encumbrances affecting legal title impact adversely on development costs and timescale.	Programme and cost implications	1	Phase 1, 2 and 3 title reports have already been reviewed, no issues raised.	TWC/Nu place
02 8	Site Factors - Abnormal ground and site conditions cause delays and/or cost increase.	Programme and cost implications	5	Site condition surveys have been undertaken for the majority of the sites and further surveys will be undertaken as part of the design process and sites which are not suitable will not be put forward for development. Phase 1 is being built, Phase 2 requires further testing and Phase 23 is complete	TWC/Nu place
02 9	Site Factors - Services/utilities are unavailable or lack capacity.	Programme and cost implications	5	Utilities enquiries have been undertaken to ensure availability and capacity. Provisional sums have been included within the costs based on the enquiries.	TWC/Nu place
03 0	Site Factors - Off-site contamination affects sites	Programme and cost implications	5	Site condition surveys have been undertaken for the majority of the sites and further surveys will be undertaken as part of the design process and sites which are not suitable will not be put forward for development. Phase 1 is being built, Phase 2 requires further testing and Phase 23 is complete	TWC/Nu place
03 1	Design or Construction - Defective design and/or construction causes delay and additional costs.	Programme and cost implications	3	Design team/contractor warranties taken out. NHBC or similar registration.	TWC/Nu place
03 2	Design or Construction - Insolvency of member of design team or contractor.	Programme and cost implications	3	Use of Frameworks. Credit checks undertaken. Performance bonds, PGC's taken	TWC/Nu place
03 3	Design or Construction - Construction costs are higher than estimated.	Programme and cost	3	All contracts are fixed price contracts, any price increase during contract is, in the main, the contractors risk	TWC/Nu place

		implications			
03 4	Design or Construction - Delay in handover of properties due to inclement weather, materials supply industrial action etc. Loss of anticipated rental income may arise in consequence of such delay.	Programme and cost implications	3	Prudent construction timescales and rigorous monitoring of contract. LADs form part of the contract.	Nuplace
Operational Management					
03 5	Demand - Lettings & Sales - Inability to find tenants and/or sell properties leading to loss of income and costs of securing properties whilst empty.	Cost implications	3	Housing needs and affordability analysis regularly updated and reviewed as each scheme is approved to ensure scheme viability and appraisals are based on realistic and up to date market information. Initial advice taken from Saville's effectively shows the letting market within Telford has doubled over the last 10 years and looks set to increase. Phase 1 uptake has surpassed expectations with many reserving prior to them being built/available for let.	Nuplace
03 6	Initial Rental Values - Initial rental values are lower than forecast.	Cost implications	3	Scheme viability and affordability will be based on up to date and market information and regularly monitored. Advice taken by lettings agents before construction starts on site. Phase 1 uptake has surpassed expectations with rental prices increased to that in the model and plots be reserved at these rates prior to them being built/available for let.	Nuplace
03 7	Rent & Service Charge Collection - Failure to collect all legally recoverable monies.	Legal and cost implications	2	The rent collection will be managed by the Council, via Nuplace, who have experience in collection of commercial rents. The lettings policy will require the use of direct debits and rental deposits/ credit checks prior to the letting of property.	Nuplace
03 8	Failure to comply with rental deposit scheme requirements - Failure to comply means that rent may not be collectable and/or possession cannot be obtained. The court can also levy fines.	Legal and cost implications	2	Suitable procedures will be put in place to ensure that necessary notification requirements are provided to tenants in a timely fashion.	Nuplace
03 9	Void Management - Failure to make available for re-letting or to re-let in timescale.	Cost implications	3	A bad debt and void provision in the Business Case will be monitored carefully, as will the cost of void turnover repairs and time taken to re-let properties.	Nuplace
04 0	Repairs & Maintenance - Costs are not in line with Business Plan projections and/or quality is poor.	Cost implications	3	The Council and Nuplace review the management arrangements and costs on a regular basis and have sought advice on the level of repairs and maintenance funding within the model. The %age is higher than most lettings agencies but this accounts for the superior maintenance and management service to be provided by Nuplace.	Nuplace

04 1	Liability under section 11 Landlord and Tenant Act 1985 (disrepair notices), section 82 Environmental Protection Act 1990 (statutory nuisance) and failure to undertake gas, electrical or fire safety checks - Court action, fines and compensation to tenants may be available if the Company is in breach.	Legal and cost implications	2	Nuplace will institute an inspection regime and ensure prompt responses to repair requests. Statutory nuisance may be mitigated by claims against the constructor or design team where caused by works or design problems.	Nuplace
04 2	Tenancy Management - Costs are not in line with Business Plan projections and/or quality is poor.	Cost implications	3	The Council and Nuplace review the management arrangements and costs on a regular basis and have sought advice on the level of repairs and maintenance funding within the model. The %age is higher than most lettings agencies but this accounts for the superior maintenance and management service to be provided by Nuplace.	Nuplace
04 3	Tenancy Management Tenant damage - Cost of tenant damage in excess of that provided for in repairs and maintenance budget. Cost generally not covered by insurance.	Cost implications	3	Recharge policies and (if taken) rental deposits will mitigate this risk as will tenancy enforcement procedures.	Nuplace
04 4	Damage to dwellings is caused by usual commercial risks - Material damage to dwellings and consequent loss of rent.	Cost implications	3	Nuplace to take out appropriate material damage insurance and loss of rent insurance. Nuplace would still be exposed to uninsured excesses.	Nuplace
04 5	Damage to dwellings are caused by uninsurable risks (e.g. flood or acts of terrorism) - Material damage to dwellings and consequent loss of rent.	Cost implications	3	Insurance is unavailable. Flood risks have and will continue to be investigated as part of the design and planning process and design will mitigate potential risk. Consequences of terrorism are unlikely to affect more than a few dwellings.	Nuplace
04 6	Debt Repayment - Company fails to repay debt and/or deliver a return to the Council	Legal and cost implications	3	The Company's Business Plan will be regularly monitored and reviewed. The Council will have security over the Company's assets and step in rights.	TWC/Nu place

Appendix 3, Terms of Reference (amendments to the original highlighted in red)

PROPERTY & HOUSING INVESTMENT PROGRAMME - TERMS OF REFERENCE

1. Membership

1.1. Members of the Board will be:

Member
Cabinet Member for Business, Neighbourhood & Customer Services
Cabinet Member for Housing, Public Health & Protection
Managing Director*
Director; Customer, Neighbourhood and Well-being Services
Assistant Director; Business, Development and Employment
Assistant Director; Finance & H.R. (C.F.O. & S.I.R.O.) (also s151 Officer)
Assistant Director; Law, Democracy & Public Protection (also Monitoring Officer)
Commercial Solicitor
Finance Team Leader

*Chair

- 1.2. 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.
- 1.3. The composition and terms of reference of the Board will be reviewed by the Board every 12 months or as appropriate if more frequently.
- 1.4. 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.
- 1.5. The Managing Director in consultation with the Board will have specific responsibility for the following:-
- Agreeing the Company's initial Business Plan;
 - Agreeing sensitive policy issues relating to the Project (e.g. rent setting, length of term, allocations, rental deposits, tenancy enforcement, tenancy enforcement);
 - Agreeing commercial terms for management agreements and funding (providing these are in accordance with the financial parameters set by the business case/plan);
 - Agreeing the price for each piece of land introduced to the WOC (to ensure best consideration obtained);
 - Agreeing terms for housing and operational management on specific sites (if not already covered by the overarching agreement);
 - Receiving reports as to whether conditions precedent in the land transfer agreement have been complied with;
 - Use of Council resources to support the WOC via the management agreements i.e. staff, IT, finance systems, accommodation;
 - Agreeing any changes to the WOC's Business Plan and the Council's Business Case (providing these are not regarded as 'material' the definition of which is 'a change requiring capital expenditure above the approved budget');**

- i) Agreeing variations to the management agreements provided that they do not lead to the WOC being likely to deviate 'materially' as adversely from the financial projections contained within the Business Case ('materially' being defined as 'a change requiring revenue spend over and above the approved budget');
- 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);
- o) Attendance of Chair at AGM of WOC;
- p) General guidance and strategic direction to WOC Directors.

2.0 Support

2.1 An officer of the Council shall act as administrator for the Board allocated by the Chair.

3.0 Frequency of Meetings

3.1 The Board shall meet every 6 weeks for approximately 1.5 hours. More frequent meetings shall be scheduled when appropriate.

4.0 Housing Investment Programme Delivery & Implementation (Stage 2) Deliverables

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 & Wrekin Council. The delivery of the project will be in accordance with findings of the feasibility and recommendations approved within the February 2016 Business Case and Cabinet on the 24th March 2016 and Full Council on the 11th September 2014. This delivery stage is referred to as the construction, marketing, rental, management and maintenance of the properties.

5.0 Approvals

Approved by the Board on.....2016

Appendix 4, Governance Structure

