

**TELFORD & WREKIN COUNCIL****CABINET - 29 JUNE 2017****HOUSING INVESTMENT PROGRAMME UPDATE****REPORT OF THE MANAGING DIRECTOR****LEAD CABINET MEMBERS – CLLR SHAUN DAVIES, CLLR RICHARD  
OVERTON AND CLLR LEE CARTER****PART A – SUMMARY REPORT****1. SUMMARY OF MAIN PROPSALS**

1.1 In March 2016, Cabinet approved an update to the original Business Case underpinning the Council's Housing Investment Programme (HIP), which made changes to the number and nature of the sites being developed, as well as the Terms of Reference for the HIP Board.

1.2 This report follows the format of previous cabinet reports for the HIP and provides:

- A programme update to year end 2016/17
- An overview of proposals contained within the updated Business Case, appended to this report (Appendix 1).

**2 RECOMMENDATIONS**

**2.1 That Cabinet approve the revised Business Case included at Appendix 1 of this report**

**2.2 That Cabinet approve the revised terms of reference for the HIP Board included at Appendix 2 of the Business Case**

**2.3 That Cabinet delegate authority to the Managing Director in Consultation with the Assistant Director for Finance & Human resources, the Leader and Cabinet Members for Housing & Enforcement and Finance, Commercial Services & Economic Development to:**

**2.3.1 Execute any documents, as required, to implement the recommendations contained within the revised Business Case**

**2.3.2 Execute any agreements, as required, for the disposals or acquisition of land required to give effect to the recommendations contained within the Business Case**

**2.4 That Cabinet delegate authority to the Assistant Director: Governance, Procurement & Commissioning to seal or sign any documents required to give effect to the recommendations contained in this report.**

**3. SUMMARY IMPACT ASSESSMENT**

<b>COMMUNITY IMPACT</b>	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	Regenerate those neighbourhoods in need and work to ensure that local people have access to suitable housing
	Will the proposals impact on specific groups of people?	
	No	
<b>TARGET COMPLETION/ DELIVERY DATE</b>	Indicative timescales for the delivery of future phases of the programme are included within Section 4.0 of the Business Case appended to this report.	
<b>FINANCIAL / VALUE FOR MONEY IMPACT</b>	Yes	The financial implications are set out in Section 5.0 below.
<b>LEGAL ISSUES</b>	Yes	The legal implications and risks are set out in Section 6.0 below.
<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	Yes	Programme wide risks are included within Section 9.0 of the Business Case appended to this report
<b>IMPACT ON SPECIFIC WARDS</b>	No	Borough wide

## **PART B – ADDITIONAL INFORMATION**

### **4. INFORMATION**

4.1 The Housing Investment Programme (HIP) is a strategic programme, delivering a portfolio of properties for private and affordable rent, and in doing so seeking to;

- Respond to the borough’s housing need for quality rental homes and places to live and in doing so support the Council’s ambitious growth agenda and major investment into the Borough
- Raise 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;
- Generate a long term income stream for the Council that can contribute towards the protection of frontline services otherwise affected by budgetary constraints;
- Protect Council jobs by utilising these roles in the development, management and maintenance of the portfolio of rental properties;
- Stimulate local economic growth through job creation during both the construction and operational phases of the Programme;
- Regenerate brownfield and stalled sites;

4.2 Nuplace Ltd is the Council’s chosen delivery vehicle for the programme. Having been incorporated in April 2015, Nuplace has been operational for just over two

years with 2016/17 having been a key year in which the company moved from the purely developmental to the operational phase of the programme. This has allowed many of the assumptions of the original Business Case to be tested for the first time. Over this period Nuplace has:

- Developed, and fully let, 136 houses for private rent at Pool View (Randlay), Woodlands Walk (Madeley) and The Oaklands (Dawley).
- Commenced development of a further 154 homes at The Oaklands, (Dawley), Miners Walk (Madeley), Blossom Walk (Hadley) and Springfields (Newport), bringing the total number of homes developed or in delivery to 290. This includes the development of 36 affordable homes across two sites, including a fully affordable scheme in Newport, one of the least affordable parts of the Borough.
- Pre-let over half of the properties on The Oaklands and Miners Walk, despite these sites not due to be complete until May 2018 and September 2018 respectively.
- Delivered combined income to the Council of £1.322m for financial years 2015/16 and 2016/17, of which £0.538m was as a result of services provided to Nuplace by the Council, and £0.785m represented interest on debt finance provided to Nuplace.
- Delivered a profit before interest and taxation to Nuplace Limited for the year ended 31 March 2017 of £438k, and £274k after interest but before taxation, (based on unaudited accounts)
- Through construction contracts for those sites completed, or in delivery, stimulated growth in the local economy amounting to £77.7m as a result of the investment made in the Housing Investment Programme. Nuplace have worked hard with appointed contractor Lovell to develop a comprehensive local supply chain, resulting in between 79 and 93% of investment being within a 30 mile radius of the six development sites.
- Worked with Lovell to support employment and training in the local economy by providing 40 weeks of work placements, 314 weeks of apprenticeships and 33 weeks of graduate training. In doing so the programme has supported 7 Lovell and 29 Sub-Contractor apprenticeships, 1 trainee surveyor, 2 management trainees and 1 sales advisor.
- Regenerated 20 acres of brownfield land, across six sites in the Borough.

4.3 Overall, the programme is performing well against the original priorities. However prevailing market conditions will inevitably have an impact on the ongoing performance of the existing portfolio as well as impacting on decisions for the future direction of the HIP and Nuplace. A review of market conditions has shown:

- Continued buoyancy in the private rented sector (PRS) with a greater number of families and “high earners” now entering the market.
- A growing propensity for older people to rent privately, despite there currently being a long term shortfall of specialist private accommodation to meet this demand.
- Growth in the supply of and demand for one bed and single occupancy properties, and sustained growth in two and three bed properties. Currently, 98% of Nuplace’s portfolio is made up of two and three bed properties, compared to a borough average of 63%.

- A reduction in average monthly rental values within the borough compared to rises experienced regionally and nationally, although rent increases were experienced on one, two and three beds. Despite this reduction, Nuplace continues to command rents circa 10% higher than Borough averages due to the quality of the property and management service.
- 4.4 In summary the PRS looks strong and offers opportunities for further expansion and diversification. Given continued demand and sustained rental values, development of two and three bed properties should continue to be an integral part of Nuplace's business plan. However, there is a danger that over reliance on one section of the market could make Nuplace's business model vulnerable to changing market conditions. Furthermore, assuming that the PRS continues to grow at the rates experienced last year, it is likely that by the end September 2018, when Phase 2 developments are complete, Nuplace will have a significant 14% share of the PRS market in the Borough, with the majority of this being located in south Telford.
- 4.5 In the context of current market conditions and the location, mix and tenure of Nuplace's existing portfolio, opportunities for expansion have been identified which seek to respond to the original objectives contained within the business case but also:
- Deliver a more geographically balanced portfolio by increasing developments in the north of the Borough
  - Avoid an over commitment towards two and three bed properties without first ensuring that rental values and occupancy levels can be maintained in accordance with the model.
  - Respond to the increasing demand for, and rents associated with, one bed properties.
  - Better balance the portfolio and respond to an untapped demand for larger, more executive type homes, both three and four beds.
  - Deliver a positive rental stream and at the same time maximise the gross development value (GDV) of Nuplace's portfolio to deliver both short and long term benefits. Customarily the return on GDV is greatest on larger units.
  - Diversify the portfolio to reduce the risks associated with a very narrow property base. In particular opportunities for Nuplace to expand into developing and managing supported living accommodation are being explored. Whilst having obvious risk mitigation benefits for Nuplace, for the Council, this provides the opportunity to provide high quality accommodation which is designed to specifically meet the needs of key groups within the Borough and in doing so relieve pressure on other service areas within the Council.
- 4.6 These proposals are included within the updated Business Case, included at Appendix 1. This identifies a further five sites (Table 1) across which these objectives could be delivered. Feasibility work has been undertaken to varying degrees with a view to determining deliverability and viability with the decision to include these or other sites within the programme to be subject to a full viability appraisal and approval of the HIP Board.

Site	Land Ownership	Status	Housing Mix	Unit Numbers	Submit Planning Application	Start on Site
Land off Church Road, Snedshill, St Georges	Homes & Communities Agency	Greenfield	2, 3 and 4 beds	37	July 2017	October 2017
Land at junction of Whitchurch Drive & Apley Avenue, Wellington	Homes & Communities Agency	Greenfield / Brownfield	2, 3 and 4 beds & 1 and 2 bed Supported Living/Step Down Care	Houses: 43 Supported Living: 52	October 2017	March 2018
Former Leisure Centre, Stirchley	Telford & Wrekin Council	Brownfield	2 bed bungalows	19	July 2017	October 2017
Southwater	Telford & Wrekin Council	Brownfield	Supported Living	Supported Living: 50	October 2017	May 2018
Scout Hut Site, Longford Road, Newport	Telford & Wrekin Council	Brownfield	2 beds	9	January 2018	April 2018
<b>Total</b>				210		

Table 1: Housing Investment Programme Expansion Proposals

- 4.7 The inclusion of these sites would bring the number of properties to be developed to 500, from the originally envisaged 425, but the principal of development is considered to be largely consistent with the original objectives for the programme. The capital allocations required to deliver this programme are detailed in the Finance section below. Allocations have been increased from £52.9m as at March 2016, to £64.15m, with the increased allocation having been incorporated within the Services and Financial Planning capital programme.
- 4.8 The main adjustment to the delivery assumptions contained in the original business case is the proposal to consider development on third party land with two of the five sites identified currently being owned by the Homes & Communities Agency.
- 4.8 In order to implement the recommendations of the updated Business Case, further delegations are sought to the HIP Board in order to ensure that Nuplace

can work flexibly and commercially whilst having due regard for the legal structure in which it operates. These changes have been captured in amendments to the HIP Board Terms of Reference, included at Appendix 2 of the Business Case and are summarised and justified below:

<b>Delegation</b>	<b>Justification</b>
<p>Implement schemes on third party land, both within and outside of the borough.</p>	<p>Opportunities to expand and diversify the portfolio are supported in the context of prevailing market conditions, and the current performance of the HIP. However, a review of the Council's remaining land assets, allocated for residential development has shown that there is limited land available which meets the objectives identified, with sites being too small, too large, not well placed geographically or too risky in terms of abnormal costs associated with development. Extending development onto third party land will facilitate expansion in accordance with the objectives outlined in the updated Business Case whilst reducing risk and minimising abortive up-front costs.</p>
<p>Pursue joint developments with third parties where they are in line with the objectives of the original business case and can be delivered within the parameters of existing Council approvals for investment.</p>	<p>As Nuplace's reputation in the private rental sector grows, other developers and house builders have started to approach Nuplace regarding land led housing development opportunities, both within and outside of the Borough. This would build on the principles established on the joint development being undertaken at The Oaklands in Dawley, where contractor, Lovell, are developing properties for sale alongside those for rent for Nuplace. This approach delivers economies of scale in terms of development cost but also de-risks both the sales and rental elements.</p> <p>Such opportunities to expand the programme would need to be assessed on site by site basis in terms of their ability to meet financial thresholds, as well as the objectives of the Business Case.</p>
<p>Agree adjustments to the levels of return on the Councils debt and equity funding provided to Nuplace, , subject to any adjustments being State Aid compliant</p>	<p>Nuplace is 100% financed by the Council, with funding comprising of a mixture of debt and equity. Cash equity is provided on a project by project basis, having due regard to the levels of return projected. The Council's debt funding to Nuplace is governed by a 30 year facility agreement, whereby interest on the debt is charged at a fixed rate. This rate was set by reference to State Aid requirements and the level of collateralisation in the company. However the market for long term rates has stabilised at a relatively low level compared to historic rates. An ability to adjust the onward lending rate to Nuplace in response to prevailing market conditions is important if lending is to remain State Aid compliant as well as competitive with what Nuplace could secure on the open market. In order to facilitate the adjustments of returns on both funding streams, it is recommended that approval for any changes is delegated to the HIP Board in consultation with the Section 151 officer.</p>

<p>Agree parameters against which the viability of individual sites will be assessed and;</p> <p>Agreeing variations to these parameters where this will be of benefit to the overall programme.</p>	<p>The original business case was based on a detailed and highly complex financial model encompassing a range of sites envisaged to be delivered at that time. There have been a number of changes to the programme as sites have been included, omitted, re-profiled and costed in more detail. It is recommended that moving forward viability is assessed on a site by site basis with individual sites only being incorporated into the programme, subject to approval of the HIP Board, and only then when pre-determined return on investment thresholds are met. Investment thresholds will be subject to HIP Board approval and will include parameters such as rental yield, return on gross development value, return on debt and equity investment etc. Viability appraisals will be approved in consultation with the Section 151 Officer.</p>
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#### **4.9 Delivery**

To date, Nuplace have worked solely with Lovell Partnerships Ltd via an EU compliant Framework to deliver the programme and have experienced positive performance overall, with schemes delivered on budget and to programme, excepting a 2 week delay on a 73 week programme at Woodlands Walk. However, with a further suite of projects in the pipeline and a potential to differentiate the programme to include not just traditional housing but specialist accommodation such as supported living, it was considered prudent to embark on a new procurement exercise to effectively re-test the market. Following a comprehensive tendering exercise, covering both cost and quality criteria, and involving three major design & build contractors on the Constructing West Midlands Framework, Lovell Partnerships Ltd were identified as the preferred contractor with which to develop future phases of the HIP.

Working with a single contractor on a further pipeline of development provides opportunities to deliver greater added value. These objectives were specifically tested as part of the contractor procurement and Lovell made a number of specific commitments to work with Nuplace to deliver added value through community engagement, skills and employment and supply chain engagement. These commitments will be captured in an “Employers Expectations” document which will form part of each contract award to Lovell. Nuplace and Lovell are currently developing a set of Key Performance Indicators which can be used to document added value so that this can form part of the formal reporting to the HIP Board and Cabinet.

#### **5.0 FINANCE**

5.1 Capital allocations for the HIP, totalling £64.15m are contained within the Council’s Service and Financial Planning Strategy, of which £21.2m has been spent as at 31 March 2017, with a further £16.9m allocated to sites in development. Therefore, £26.0m remains unallocated for future schemes. Capital is allocated to sites based upon feasibility criteria which are validated to be in accordance with the Business Case. The Council invests capital into the Company through either debt or equity finance and demands a commercial return on both. The rate of return for each investment is dependent upon a range of parameters and is reviewed by the Council’s finance department on a case by

case basis. The rate of return on debt finance is currently 5.29% and the long term rate on equity finance is 6.84%. These rates will be tested for future phases of developments and any changes agreed by the Board in consultation with the Section 151 Officer.

- 5.2 Whilst the interest rate on existing debt finance is set at 5.29% fixed for 30 years, the market for long term rates has stabilised at a relatively low level compared to historic rates. The interest rate on new debt finance forwarded to Nuplace will be established with due consideration to these rates and in consultation with the Assistant Director, Finance & Human Resources and approval of the HIP Board.
- 5.3 Nuplace generates income to the Council from a variety of sources, including services supplied and interest on debt finance. The table below demonstrates the income generated/ forecast to be generated during the first 3 years of operation:

£'000s	Actual 15/16	Actual 16/17	Forecast 17/18
Services income	283	255	366
Interest income	166	618	1,064
<b>Total income</b>	<b>449</b>	<b>873</b>	<b>1,430</b>
PWLB cost of debt finance	(85)	(252)	(790)
Other marginal Council costs	(60)	(92)	(125)
<b>Net incremental income</b>	<b>304</b>	<b>529</b>	<b>515</b>

- 5.4 The original business case was based on a detailed and highly complex financial model, encompassing a range of sites envisaged to be delivered at that time. It is recommended that moving forward viability is assessed on a site by site basis by Finance, in conjunction with the Housing Investment Programme Team, with individual sites only being incorporated into the programme, subject to approval of the HIP Board, and only then when pre-determined return on investment thresholds are met.
- 5.5 The Finance team will work with the Housing Investment Programme Team to establish a robust set of investment and viability thresholds which will include parameters such as rental yield, return on gross development value etc, which will be brought to the Project Board for approval.
- 5.6 Nuplace Limited is forecast to deliver a profit before interest and taxation for the year ended 31 March 2017 of £438k, and £274k after interest but before taxation, which is in line with current expectations, (based on unaudited statutory accounts) The Council will additionally benefit from Council Tax and New Homes Bonus as appropriate on the housing stock delivered. This is forecast to generate an additional £83k in 16/17, rising to £308k in 18/19 and £540k in 19/20 as more sites are developed and units delivered.

## 6.0 LEGAL

- 6.1 The Council set up Nuplace under s1 of the Localism Act 2011 and s95 of the Local Government Act 2003. Nuplace is a commercial company and must comply with rules and regulations applicable to companies.

- 6.2 The permitted use/purpose of Nuplace is set out in Nuplace's Articles of Association; it is paramount that any new activity Nuplace embarks on is permitted in the Articles of Association. It is confirmed that new activities set out in this Cabinet Report are permitted in Nuplace's Articles of Association.
- 6.3 Nuplace is a contracting authority for the purpose of the Public Contracts Regulations 2015; this means Nuplace needs to comply with EU procurement rules when purchasing goods, works or services. The renewed arrangement with Lovell was fully compliant with EU procurement rules.
- 6.4 Nuplace is a 'Teckcal Company' (regulation 12 of the Public Contract Regulations 2015) which means that the (due to the control, functions and the fact there is no private sector ownership) Council and Nuplace are exempt from Procurement Rules when buying services, goods and works from each other.
- 6.5 State Aid rules apply to the Council when providing aid to Nuplace; therefore in order to prevent breaching State Aid Rules any aid provided to Nuplace by the Council must be on commercial terms. It is important when setting interest rates on the loan to Nuplace, that the Council's finance team confirm it is at a commercial rate in accordance with the State Aid Rules. It is also important that the charges for any services provided by the Council to Nuplace are not subsidised.
- 6.6 Where properties are being built through s106 funds, there will be an s106 obligation that some of the 'lettings' are at "affordable rents". In these cases the rents will not exceed 80% of the local market rents for the property concerned. This has been taken into consideration in the financial modelling.
- 6.7 On the 7 February 2017 the Government released a White Paper called "Fixing our Broken Market". The paper welcomes Councils producing housing for market rents; however the paper goes on to state *"Increasingly and across the country local authorities are using innovative new models to get homes built in their area. There are a number of good examples of Local Development Corporations, local housing companies and/or joint venture models building mixed sites, which include new market housing for sale or private rent, as well as affordable housing. We welcome innovations like these, and want more local authorities to get building. To that end we will seek to address the issues that hold them back. However, we want to see tenants that local authorities place in new affordable properties offered equivalent terms to those in council housing, including a right to buy their home." (para 3.28)*
- 6.8 The Nuplace model does not include for tenants having a right to buy their home. At the moment the White Paper is a consultation document and is not official policy; however it would be reasonable for one to assume that most of what is in will be adopted as such. Therefore the Council and Nuplace should be keep abreast with what is happening in this area, and also should consider any mitigations should this become an issue. This will be picked up by the HIP Board and Nuplace Board of Directors and legal advice will be given as appropriate.

## **7.0 IMPACT ASSESSMENT**

7.1 The recommendations included at Section 2.0 have been made in order to allow more effective management of opportunities and risks associated with the Housing Investment Programme moving forward, as well as ensuring that decisions are made within robust governance structures. An up to date Risk Register is included at Appendix 3 of the updated Business Case, appended to this report.

## **8.0 PREVIOUS MINUTES**

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
Housing Investment Programme Update	25 March 2016

**Report prepared by Kate Callis, Housing Investment Programme Manager**