

# Housing Investment Programme

Telford & Wrekin Council

## Business Case

June 2017



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## Executive Summary

- 1.1 Nuplace Ltd (Nuplace), the company established to deliver the Council's Housing Investment Programme (HIP), was incorporated on 1st April 2015. In operation for just over two years the company have delivered some significant outcomes against the objectives identified within the original Business Case, approved at Cabinet in January 2015 and subsequently updated in March 2016.
- 1.2 To date Nuplace have delivered 136 homes across three sites with a further 154 under construction bringing the total number of houses delivered, or in delivery to 290 of the original intended 425 properties, across a total of six sites. Of these properties, 36 are available for affordable rent, with the remainder being rented on the open market.
- 1.3 At the date of this business case, all 136 completed homes are fully occupied, reflecting the high level of property and management service being delivered by Nuplace.
- 1.4 The company 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.
- 1.5 Looking forward, a further five sites have been identified for development, bringing the total number of houses to be developed to circa 500. These sites offer potential to respond to market changes and effectively manage risk while maintaining the delivery of the original objectives of Nuplace, by:
  - Delivering a geographically balanced portfolio by increasing developments in the north of the Borough.
  - Avoiding 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.
  - Responding to the increasing demand for and rents associated with one bed properties.
  - Balancing the portfolio and responding to an untapped demand for larger, more executive type homes, both three and four beds.
  - Delivering a positive rental stream and at the same time maximising 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.
  - Diversifying 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.
- 1.6 Expansion and diversification of the programme requires that suitable land is available in the right location. Whilst the original Business Case envisaged development on Council owned land only, a review of the Council's remaining land assets, allocated for residential development has shown that the availability of suitable sites is limited. As such, Nuplace's ability to meet the objectives above will be limited unless there is potential to extend development onto third party land. In response to this, two of the sites identified for development are currently owned by the Homes & Communities Agency (HCA) and form part of the Council's Land Deal with the HCA. The sites specifically provide opportunities for development in the north of Telford, suit a more executive offer and opportunities for differentiation due to the proximity to relevant services.
- 1.7 As Nuplace's reputation in the private rental sector grows, other developers and house builders have begun to approach Nuplace regarding land led housing development opportunities, both

within and outside of the Borough. For example on a large site, where the sales risk is high, there is potential for the developer to reduce risk by disposing of a predetermined number of houses to Nuplace at a predetermined price. It is recommended that such opportunities to expand the programme merit further consideration.

- 1.8 In accordance with the intentions within the original Business Case, borrowing has to date been via the Public Works Loan Board with £19.1m of the intended £47.2m loan having been drawn down as at 31 March 2017, and a further £15.5m committed toward the six development sites constructed or under construction. The development of the further five sites identified is anticipated to require investment of the remaining unallocated approved borrowing of £12.6m as well as a further investment of £13.4m. This allocation was approved as part of the Council's Service and Financial Planning Strategy for the three years from 2017/18.
- 1.9 The governance structure remains consistent with the original proposals with the three Nuplace Directors now having been in post for just over two years. One of the Directors now also Programme Manages the Housing Investment Programme, providing strategic direction to the programme on a daily basis. The HIP Board meet regularly and have been instrumental in supporting delivery of the programme as well as shaping thinking around future phases. With the core Business Case having been to a large extent proven, it is proposed within this Business Case that further delegations are granted to the HIP Board to allow Nuplace to operate more commercially and with greater flexibility in the future within pre-determined parameters.
- 1.10 To facilitate delivery, Nuplace continue to procure Development and Management Services from the Council, with resources having been refined to meet the demands of the programme as it has moved from the purely development to the operational phase. In 2016/17 The Council received income totalling £0.87m which is a combination of interest charged relating to the loan agreement with Nuplace and the provision of services to Nuplace Ltd. Additional resources will be required to deliver future phases of the programme.
- 1.11 In this context, this Business Case provides an update to that approved at Cabinet on 24 March 2016 and covers the following:
  - An update on the current status and performance of the programme from a development and lettings perspective, including an update on any activities not pursued, unanticipated risks encountered and any assumptions that have not been borne out.
  - An overview of current market conditions in relation to the private rented sector in Telford.
  - Proposals and justification for the further expansion and diversification of the programme including proposals to extend developments on to third party land.
  - Proposals to establish a series of parameters by which to evaluate the viability of investments on a site by site basis.
  - Recommendations for further delegations to the HIP Board to facilitate the above.

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.

## 2.0 Programme Update

2.1 Nuplace Ltd (Nuplace), the company established to deliver the Council's Housing Investment Programme (HIP), were incorporated on 1st April 2015. In operation for just over two years the company have delivered some significant outcomes against the objectives identified within the original Business Case, approved at Cabinet in January 2015 and subsequently updated in March 2016. These are summarised against each of the Programme priorities below:

- **Responding to the borough's housing need for quality rental homes and places to live and in doing so supporting the Council's ambitious growth agenda and major investment into the Borough;**

To date Nuplace have:

- Developed, and fully let, 136 houses for private rent at Pool View, Woodlands Walk and The Oaklands. All properties were fully let off plan, evidencing that developments are in demand and meeting local housing need.
- Commenced development of a further 154 homes at sites in Dawley, Madeley, Hadley and Newport, bringing the total number of homes developed or in delivery to 290.
- Commenced development of 36 affordable homes across two sites, including a fully affordable scheme in Newport, one of the least affordable parts of the Borough.
- Delivered a range of property sizes and tenures across these sites as summarised below, with a focus on two and three bed properties as advised in the original Business Case.

	2 Bed	3 bed	4 or more bed	Total	Affordable Units
<b>Nuplace</b>					
Pool View (Randlay)	13	18	0	31	0
Woodland Walk (Madeley)	13	85	3	101	0
The Oaklands (Dawley)	32	15	0	47	0
Miners Walk (Madeley)	36	17	0	53	0
Blossom Walk (Hadley)	19	6	0	25	3
Springfields (Newport)	25	8	0	33	33
<b>Total</b>	<b>138</b>	<b>149</b>	<b>3</b>	<b>290</b>	<b>36</b>
Percentage	48%	51%	1%	100%	12.4%

- **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;**

We continue to experience a high level of demand for properties with developments at Pool View and Woodland Walk being fully let. Pre lets are strong on the remaining sites as summarised in the table below:

Site	Launch Date	Pre Lets
The Oaklands	October 2016	25/47
Miners Walk	January 2017	30/53

Of the forty five properties where the tenancy agreement has come up for renewal, thirty tenants have renewed their tenancy with the remaining fifteen having been re-let.

At the outset of the programme, a number of Key Performance Indicators (KPIs) were established through which to monitor the performance of the management service including

level of rent collection, voids, bad debts etc. In all cases KPIs for 2016/17 have been met or exceeded as summarised in Appendix 1.

Tenants remain positive about the quality of the developments and the management service as well as the fact that the scheme is Council backed, thus offering residents a greater security of tenure as evidenced below by comments received from occupants at Pool View, Randlay.

*“From the outset, the team in the Nuplace office has been brilliant and the process has been so smooth,”*

*“We have been kept informed from start to finish and this only added to our excitement of moving in. For years we have rented from a private landlord but there is always the uncertainty around selling up and having to move home. We now have so much more security and are confident any maintenance issues will be fixed quickly. We would advise anyone thinking about renting in Telford & Wrekin to just send in their application form to Nuplace. It was completed quickly and now we are moving into a brand new home so it is definitely worth it.”*

Moving forward we are proposing to increase the visibility of the Council brand, alongside that of Nuplace, to capitalise further on this. However, whilst the association with the Council is largely a positive one, it has also brought property management challenges, especially in relation to tenant expectations which are higher than would normally be associated with private rented property and include dealing with neighbour complaints, anti-social behaviour and littering. Some feedback has also been received regarding the level of the rents, due to the link to the Council and expectations being that rents will be akin to those a social landlord would charge.

- **Stimulating local economic growth through job creation during both the construction and operational phases of the Programme;**

This has been, and continues to be, one of the key drivers for the programme. By awarding a pipeline of work to a single contractor, Lovell Partnerships Ltd, it has been possible to deliver positive outcomes in relation to this as well as other social added value.

The economic impact of the investment in the six Nuplace sites, completed, or under construction has been analysed using data on where investment has been spent and then re-spent in the local economy. This analysis shows the local multiplier effect as a ratio of pounds spent on a contract. The results across the six sites are summarised below and show how the multiplier effect is increasing as Lovell’s local supply chain develops over time and more money is spent within Borough. In total, investment made via the construction contracts on each of these sites is estimated to have generated £77.7m into the local economy.

<b>Site</b>	<b>Local Multiplier per £1 Spent</b>
Pool View, Randlay	£2.49
Woodland Walk, Madeley	£2.29
The Oaklands, Dawley	£2.59
Miners Walk, Madeley	£2.53
Blossom Walk, Hadley	£2.49
Springfields, Newport	£2.64

Other, added value, that has been delivered to date or is in the pipeline is summarised below:

Objective	Activity
Community Engagement	<ul style="list-style-type: none"> <li>Worked with Town &amp; Parish Councils to support the following community projects: <ul style="list-style-type: none"> <li>Decoration of Horsehay Methodist Church</li> <li>Decoration of Anstice Community Centre</li> <li>Decoration of Park Lane Centre</li> </ul> </li> <li>Sponsored the Friday Lunch Club at the Community Centre in Dawley.</li> <li>Supported in the delivery of DIY SOS in Trench, to be broadcast later this year.</li> </ul>
Skills & Employment	<ul style="list-style-type: none"> <li><b>Skills:</b> <ul style="list-style-type: none"> <li>Visited more than 320 students across primary and secondary schools and colleges.</li> <li>Exhibited at the Telford Apprenticeship Show 16/03/2017.</li> <li>Signed up to the Business School Connector and working with Telford Education Business Partnership to provide STEM activities.</li> <li>Worked with Wrekin View Primary School through the Enabling Enterprise Initiative to carry out exercises such as designing, drawing and creating the tallest tower whilst analysing costs.</li> <li>Attendance at Newport Big Bang Event - Harper Adams University 05/07/2017.</li> </ul> </li> <li><b>Employment &amp; Training:</b> <ul style="list-style-type: none"> <li>Phase 1: Provided 40 weeks of work placements, 216 weeks apprenticeship training for Lovell and Sub Contractor employees and 33 weeks of graduate training and in doing so supported 6 Lovell and 20 Sub-Contractor apprenticeships, 1 trainee surveyor, 2 management trainees and 1 sales advisor through the projects in Telford.</li> <li>Phase 2 (The Oaklands, Dawley): Provided 98 weeks apprenticeship training for Lovell &amp; Subcontractor Employees and in doing so have supported 1 Lovell and 9 Sub-Contractor apprenticeships.</li> </ul> </li> </ul>
Supply Chain Engagement	<ul style="list-style-type: none"> <li><b>Developed a significant local supply chain for all key trades through:</b> <ul style="list-style-type: none"> <li>Held "Meet the Buyer" events.</li> <li>Used Telford &amp; Wrekin's portal for engaging with Local SMEs.</li> <li>Included Lovell's supplier application form on the Telford &amp; Wrekin website.</li> </ul> </li> <li><b>Resulted in the following local (within 30 miles) supplier spend figures:</b> <ul style="list-style-type: none"> <li>The Oaklands (Dawley): 79% of contract value</li> <li>Miners Walk (Madeley): 83% of contract value</li> <li>Blossom Walk (Hadley): 88% of contract value</li> <li>Springfields (Newport): 93% of contract value</li> </ul> </li> </ul>

- Regenerating brownfield and stalled sites;**

Upon completion of the first 290 homes, the programme will have successfully brought 8.08ha (19.98 acres) of brownfield land back into use. Many of the sites on which development has and is being undertaken have been stalled for some considerable time and had become a blight on local communities as well as being the focus for antisocial behaviour. The high quality developments that Nuplace have delivered have added real value to these communities through physical regeneration but also by raising the standard of accommodation generally and the rented sector specifically.

Site	Brownfield land brought back into use (hectares)
Pool View (Randlay)	0.95
Woodland Walk (Madeley)	2.65
The Oaklands (Dawley)	1.53
Miners Walk (Madeley)	1.93
Blossom Walk (Hadley)	0.48
Springfields (Newport)	0.54
<b>Total</b>	<b>8.08</b>

However, development on brownfield sites brings with it some challenges and represents a risky strategy for Nuplace if pursued exclusively as viability tends to be marginal and in some cases cannot be proven. Sites at Hollinswood and Woodside have had to be omitted from the programme at feasibility stage on viability grounds, leading to abortive up-front costs.

Opportunities to review site selection to incorporate third party land and in some cases greenfield sites are explored further in Section 4.0.

- **Protecting Council jobs by utilising these roles in the development, management and maintenance of the portfolio of rental properties;**

Officers from across the Council are engaged in work to support the activities of the Housing Investment Programme. Nuplace buy back a range of services from the Council including; legal, finance and marketing support, programme and project management to deliver the developments and tenancy, estate management and maintenance services, once the properties are operational. To date, the Council has received income totalling £0.87m through a combination of interest charged and the provision of services to Nuplace with this set to grow as more developments come on line.

As the programme has moved from the purely development to the operational phase, resources have continued to be refined to meet the needs of the programme and the high brand aspirations for Nuplace. The Council has continued to undergo significant change and restructuring, with maintaining and improving the servicing of the Nuplace programme being a central objective of that process.

- **Generating a long term income stream for the Council that can contribute towards the protection of frontline services otherwise affected by budgetary constraints;**
- A summary of income generated for years ending 2015/16 and 2016/17 as well as forecast figures for 2017/18 are included within Section 6.0

2.2 Overall, the programme is performing well against the original priorities and in this context, and following a review of market conditions, opportunities for expansion of the programme have been reviewed. A summary of market conditions, which have informed proposals, is included within Section 3.0 below.

### 3.0 Market Conditions

3.1 Extensive market research was carried out by Savills to underpin the original Business Case and this was supplemented by the Council's own internal team's knowledge on the national, regional and local housing rental market. Many of the findings of this research are still relevant but two years on, it is timely to undertake a current review of market conditions in order to inform the future direction of the programme.

### 3.2 Supply & Demand

In line with national and regional trends, the private rented sector (PRS) continues to grow within the Borough with the number of private rentals increasing for all property sizes between September 2015 and September 2016:

	Sep-15	Sep-16	Difference	% Difference
Room	147	230	83	36.1%
1 Bedroom	142	170	28	16.5%
2 Bedroom	425	480	55	11.5%
3 Bedroom	394	430	36	8.4%
4 or more Bedrooms	131	140	9	6.4%
<b>Total</b>	<b>1,239</b>	<b>1,450</b>	<b>211</b>	<b>14.6%</b>

This continued growth is predominantly due to affordability but also an increase in supply arising out of the proliferation of buy to let mortgages as well as choice, as employment becomes increasingly mobile, people look for more flexible accommodation options. The demographic of renters is also changing with over half the renters now being families as opposed to single people or couples. Furthermore half of renters are now classified as "high income", whereas historically renting was associated with lower income groups.

This increasing demand continues to be reflected in Nuplace lets, with void rates currently running at well below modelled rates of 5%. All properties at Pool View (Randlay) and Woodland Walk (Madeley) were pre-let prior to completion, with over half of the properties at The Oaklands in Dawley and Miners Walk in Madeley having been reserved, despite the sites not being completed until May 2018 and September 2018 respectively.

### 3.3 Property Type

In Telford & Wrekin, two and three bedroom properties continue to make up the highest proportion of private rentals, comprising 910 (63%) of the total 1,450 rentals in September 2016. However strong growth was experienced in single rooms and one bed properties.

	Room	1 Bed	2 Bed	3 bed	4 or more bed	Total
<b>Borough Wide (Sept 2016)</b>						
Total	230	170	480	430	140	1,450
Percentage	16%	12%	33%	30%	10%	100%
<b>Nuplace</b>						
Pool View (Randlay)	0	0	13	18	0	31
Woodland Walk (Madeley)	0	0	13	85	3	101
The Oaklands (Dawley)	0	0	32	15	0	47
Miners Walk (Madeley)	0	0	36	17	0	53
Blossom Walk (Hadley)	0	0	19	6	0	25
Springfields (Newport)	0	0	25	8	0	33
<b>Total</b>	<b>0</b>	<b>0</b>	<b>138</b>	<b>149</b>	<b>3</b>	<b>290</b>
Percentage	0%	0%	48%	51%	1%	100%

In contrast, Nuplace's portfolio is heavily weighted towards two and three bed homes, with this property type making up 99% of the total number of properties. The company currently holds no one bed and only three, four bed properties. Interestingly the demand experienced by Nuplace for different property sizes varies on a site by site basis, with two beds being in high demand at Woodland Walk, whilst at The Oaklands, 80% of three beds are currently reserved, compared to 28% for two bed properties.

### 3.4 Rent Levels

Despite a growth in the number of properties, reflective of a continuing growth in demand in the PRS, average monthly rental prices fell over the same period by 0.6% from the previous year to an average of £575 per month. In comparison the average for the region increased by +4.2% and for England increased by +6.5%. Despite this, rental price increases were experienced on one, two and three bed properties.

	Sep-15 £	Sep-16 £	Difference £	Difference %
Room	383	372	-11	-3.0%
1 Bedroom	440	446	6	1.3%
2 Bedroom	542	545	3	0.6%
3 Bedroom	636	637	1	0.2%
4 or more Bedrooms	893	873	-20	-2.3%
Average	579	575	-4	-0.6%

Nuplace have, and continue to command premium rents for properties due to the high quality of the product and management service, with rents being circa 10% higher than the Borough average for two and three beds.

	2 Bed £	3 bed £	4 bed or more £	Average £
<b>Borough Wide (Sept 2016)</b>	545	637	873	575
<b>Nuplace</b>				
Pool View (Randlay)	600	702		651
Woodland Walk (Madeley)	582	695	765	680
The Oaklands (Dawley)	622	686		654
Miners Walk (Madeley)	613	694		654
Blossom Walk (Hadley)	603	702		652
Springfields (Newport)	614	723		669
<b>Average</b>	<b>606</b>	<b>700</b>	<b>765</b>	<b>690</b>
<b>Rental Premium on Borough Average</b>	<b>10%</b>	<b>9%</b>	<b>-14%</b>	<b>1%</b>

In summary the PRS looks strong and offers opportunities for further expansion and diversification. 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, that Nuplace will have a circa 14% share of the PRS market in the Borough which is significant, with the majority of this being located in south Telford.

### 3.5 Government Policy

During the course of the set-up of Nuplace the then Housing Minister made a parliamentary statement on housing, indicating that the government did not look kindly upon local authorities that set up housing companies, solely to let homes at affordable rents. As the provision of affordable housing in the Council's Housing Investment Programme is driven by

planning obligations rather than being the focus of its business this was not considered to be a relevant risk at the time the original business case was established.

However, in the recent housing White Paper (Fixing our Broken Housing Market) there has been a subtle shift in Government's view on the use of companies as summarised below:

- (a) to produce housing for sale is welcomed;
- (b) to produce housing for rent at market rates is welcomed;
- (c) to provide for temporary accommodation is welcomed; and
- (d) to provide housing for rent at affordable rents is now welcomed subject to tenants that local authorities place in new affordable properties being offered equivalent terms to those in social housing managed by Councils or registered providers (housing associations), including a right to buy their home.

The White Paper is therefore generally very positive in that it provides clear support for the existing core business activities of Nuplace in producing housing for rent at market rates, but should it move from a consultation document, to policy, the Council will need to consider whether any mitigation is required in relation to the opportunity for affordable rent tenure tenants to have the right to buy their home.

There are a number of possible remedies for this including;

- (i) Entering into longer term tenancy agreement which offers tenants a contractual right to purchase their property.
- (ii) Disposing of the affordable let dwellings to a Registered Provider which is provided for in the S106 agreements entered into in relation to the sites at Hadley and Newport.

In both of these scenarios it is acknowledged that the properties would be sold at discounted values to reflect their affordable status. However, this is in line with Nuplace's original business case and associated financial model and so should not materially affect the financial performance of the programme. Ultimately the Council and Nuplace would look to reinvest the income generated from these disposals into other rented accommodation on future sites. As further detail emerges on the contents of the White Paper, along with timescales for the implementation of new policy, Nuplace may need to adopt one of the remedies outlined above and ensure that viability assessment accounts for this moving forward. However, this is not considered to materially impact on the overall viability of the programme.

## 4.0 Opportunities for Expansion & Diversification of the Programme

4.1 In the context of current market conditions and the location, mix and tenure of Nuplace's existing portfolio, opportunities for expansion need to be carefully considered and developed to respond to the original objectives contained within the business case but also in order to:

- Deliver a 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.

In response to these requirements, Nuplace have identified a number of sites on both Council owned and third party land which lend themselves to development. Feasibility work has been undertaken on these sites to varying degrees with a view to determining deliverability and viability. Each site is summarised in the table below:

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		

The development of these sites is considered to be consistent with the original objectives for the programme as summarised below:

- **Responding to the borough’s housing need for quality rental homes and places to live and in doing so supporting the Council’s ambitious growth agenda and major investment into the Borough;**

Diversification of the portfolio is recommended based on market intelligence from a range of sources. The proposals summarised above seek to directly respond to a range of occupiers:

- The introduction of larger three bed and four bed homes with integral and detached garages at sites at Snedshill and Wellington will provide a more executive product which appeals to high end renters and families. This will directly support the Borough’s wider inward investment offer by providing a higher quality of executive home in the more affluent parts of the Borough.
- The proposal to develop bungalows at the site in Stirchley is in response to an ongoing unmet demand for bungalow accommodation and in particular accessible properties since Housing Associations tend to use sheltered schemes and bungalows solely for over 55s. We are aware of a number of disabled people under this age and with families who would welcome a development of this nature.
- The decision to explore opportunities to diversify into supported living accommodation is in direct response to national and local market intelligence which shows a growing propensity for older people to rent privately and/or retain an equity stake in their home. Telford has a number of developments recently completed and in the pipeline but despite this increase in provision, demand remains high with facilities being consistently full with long waiting lists. Furthermore and of particular relevance to Nuplace, the most recent Strategic Housing Market Assessment identifies a long term shortfall of specialist private accommodation for older people. Consultants have been appointed to provide a more detailed assessment of local market conditions in relation to the two sites identified and this will support business case development in relation to this component. As part of the brief, consultants will be expected to evaluate the market for different kinds of supported living including over 55s, multigenerational care for both private and partly funded clients.

In addition to the above, the programme will continue to deliver much needed two bedroom homes with these constituting circa 43% of traditional dwellings to be delivered as part of this next phase of the programme.

- **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;**

As stated above, the development proposals reflect an aspiration to diversify the portfolio to provide a more executive product whilst maintaining standards of construction and management across all properties. Feedback from tenants on their properties is continually used to refine specifications on new developments to ensure continuous improvement, for example vinyl floor tiling used on the first two sites has been replaced with ceramic tiles on current sites in response to customer feedback. From a management perspective we are continuing to refine and improve our landlord service and have been trialling a new app, developed in house by Building Innovation Telford, at our Pool View and Miners Walk sites. The app allows;

- Prospective tenants to take a tour of the estate and their preferred property using a 3D model, before a brick is laid and reserve their home via the app.
- Existing tenants to review information about their property (e.g. operating manuals) via the app to improve self-service and reduce the demand for property maintenance services.
- Existing tenants to log property related matters and arrange appointments for works.
- Property inspections, maintenance etc. all to be recorded on site in real time thus streamlining the management and maintenance process.

Longer term we are looking to roll this app out across all of our development sites and to all tenants.

- **Stimulating local economic growth through job creation during both the construction and operational phases of the Programme;**

Working with a single contractor on a further pipeline of development provides opportunities to deliver greater added value in terms of community engagement, skills and employment and supply chain engagement. These objectives were specifically tested as part of the re-procurement of a contractor to deliver Phase 3 schemes which resulted in the appointment of Lovell Partnerships Ltd as preferred contractor. As part of the procurement process, Lovell made a number of specific commitments to work with Nuplace to deliver added value to the Borough and communities in which the developments are located in the following ways:

Objective	Commitment
Community Engagement	<ul style="list-style-type: none"> <li>• Develop a Community Development Strategy outlining the Lovell offer on a site by site basis.</li> <li>• Commit 0.1% of contract value to community projects, matched in time by Lovell employees – totalling £50,000.</li> <li>• Work with Nuplace, the Borough Council and Town &amp; Parish Councils to identify relevant community projects where this investment can help secure positive outcomes.</li> <li>• Donate surplus materials to local charities and other third sector organisations.</li> <li>• Engage with local schools over the construction works and invite them to provide artwork for hoardings.</li> <li>• Sponsor local events such as school sports days or fetes.</li> <li>• Hold consultation events, open days and site visits, prior to and during construction for the local community.</li> <li>• Send quarterly letters to local residents updating them on the status of the works and informing them of any up and coming activity which might impact.</li> </ul>
Skills & Employment	<ul style="list-style-type: none"> <li>• Create an bespoke Employment and Skills Plan.</li> <li>• Provide training/work experience placements for students as well as disadvantaged and vulnerable people, including ex-offenders. A minimum of 20 work placements will be offered.</li> <li>• Work with local schools, colleges, job centre and businesses to:               <ul style="list-style-type: none"> <li>• Offer five apprenticeship placements in trades including Bricklaying, Carpentry, Plumbing or Electrical, working towards an NVQ2 or 3.</li> <li>• Recruit 3 apprentices (NVQW 2&amp;3) and one management trainee (BTEC/HNC or Degree) specifically for work on Telford projects.</li> </ul> </li> <li>• Support careers events at schools and colleges (e.g. mock interviews).</li> <li>• Deliver career talks to schools in accordance with the “Inspiring the Future” Programme, supporting the Council’s Life Ready Work Ready programme</li> </ul>
Supply Chain Engagement	<ul style="list-style-type: none"> <li>• Hold “Meet the Buyer” events on future phases.</li> <li>• Work to further build on the local supply chain.</li> <li>• Provide Nuplace with Local Multiplier effects of its investment on a site by site basis, looking to maximise the local impact wherever possible.</li> </ul>

These commitments will be captured in an “Employers Expectations” document which will form part of each contract award. 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.

- **Regenerating brownfield and stalled sites;**

The original business case envisaged development being restricted to Council owned, brownfield sites. 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 to meet deliver economies of scale in terms of development, thus impacting on viability.
- Large strategic sites which are considered too risky for a purely private rental development.

- Located in the south of the Borough, when development in the north is recommended to better balance the portfolio.

In this context, opportunities to extend development onto third party have been explored with two sites owned by the Homes & Communities Agency (HCA) having been identified. These sites form part of the Council's Land Deal with the HCA and specifically provide opportunities for development in the north of Telford, suit a more executive offer and opportunities for differentiation due to the proximity to relevant services. For example the site located off Whitchurch Drive lies immediately opposite Princess Royal Hospital and would lend itself to the development of specialist 'supported living' accommodation such as step down care.

Approval to dispose of these sites to Nuplace, by way of a negotiated disposal, was granted at the Telford Land Deal Board on 23 February 2017. An open book approach has been agreed whereby Nuplace will disclose development costs and viability appraisals to the HCA in order to determine an affordable land value. It has been agreed with the HCA that exchange of contracts will only occur subject to planning approval, viability being proven and approval of the HIP Board.

In addition to development opportunities on land owned by HCA, 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. For example on a large site, where the sales risk is high, there is potential for the developer to reduce risk by disposing of a predetermined number of houses to Nuplace at a predetermined price. 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.

Such opportunities to expand the programme merit consideration as this provides a further and as yet untested opportunity for Nuplace to extend its portfolio. Whilst each opportunity would need to be assessed individually in terms of its ability to meet financial thresholds, as well as the objectives of the Business Case, it is recommended that the HIP Board are granted delegated authority to implement schemes on third party land, both within and outside of the borough, where these meet specified criteria.

When considering future sites, the regeneration of brownfield sites will remain a core objective, with the majority of new sites identified being having been previously developed, either in whole or in part. However, the proposals introduce one greenfield site at Snedhill and an "in part" greenfield site at Whitchurch Drive, both of which are allocated for residential development and within the urban area. This is justified since consistently developing on brownfield sites represents a risky strategy for Nuplace as viability is marginal and in some cases cannot be proven. Sites at Hollinswood and Woodside have had to be omitted from the programme on viability grounds following in depth feasibility work, leading to abortive up-front costs. By introducing an element of greenfield development we can more effectively balance this risk across the portfolio, reduce the likelihood of abnormal costs being incurred, and support the continued development and regeneration of brownfield land as well as the diversification of the portfolio.

- **Protecting Council jobs by utilising these roles in the development, management and maintenance of the portfolio of rental properties;**

Further expansion of the programme will safeguard jobs in both property development and management as well as have the potential to create additional roles. Resource requirements will continue to be monitored by the HIP Board and additional resources put in place as required.

- **Generating a long term income stream for the Council that can contribute towards the protection of frontline services otherwise affected by budgetary constraints;**

Phase 3 proposals are focussed on maintaining and de-risking the Council's income stream by looking to provide a suitable mix of properties in terms of type, size and tenure in a range of locations and at the same providing a choice of housing which meets local demand.

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. As such 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 rental yield, return on gross development value etc.

## **5.0 Amendments to the Business Case**

The high level principles and vision for the Programme, set out in the preceding paragraphs, remain very much in line with 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. However, the proposals do require some amendments and additions to the Business Case. Key changes are documented below in relation to both the January 2015 and February 2016 proposals.

### **5.1 The Business Idea**

- The principal aim of the company remains the development of properties for principally private and also affordable rent across a number of sites.
- A suite of possible future development sites have been identified taking the total number of houses for development to circa 500 from the originally envisaged 425.
- Full Council approval for additional funding to deliver these sites has been granted as part of the budget strategy.
- The proposals extend development from solely Council owned land onto third party land owned by Homes & Communities Agency. In order to maximise the potential of the programme it is recommended that the HIP Board are authorised to approve the acquisition of and developments on third party land as well as land outside of the Borough where it meets the objectives of the Housing Investment Programme and has the requisite Council approval for investment.
- Funding arrangements will be in accordance with the original business case, although it is recommended that delegated authority is granted to the HIP Board to agree adjustments to the onward lending rate to Nuplace, subject to any adjustments being State Aid compliant.

### **5.2 The Strategic Case**

As set out in Section 3, market conditions remain supportive of the development of rental accommodation. However local market intelligence gathered through the first fully operational year show that there are changes occurring locally in terms of both supply and demand which Nuplace must respond to. In addition, opportunities to diversify the portfolio to mitigate risk and reduce over dependence on two and three bed properties would seem prudent given Nuplace's likely market share following completion of the 290 units already committed.

### **5.3 The Economic Case**

The Wholly Owned Company (WOC) remains the preferred delivery vehicle for the Housing Investment Programme. However, as the reputation of Nuplace as a serious market player in the private rented sector grows, opportunities are emerging to progress developments in partnership with the private sector. Joint developments, like that pursued at The Oaklands, Dawley, with contractor Lovell Partnerships Ltd, whereby part of the site was sold directly to Lovell for the development of houses for market sale alongside Nuplace's rental development, have the potential to deliver economies of scale from a development perspective but de-risk a site where a wholly rental scheme would be potentially too large.

It is likely that more and more of these opportunities will arise and Nuplace need to be able to respond quickly to be considered as serious contenders by the private sector. As such it is recommended that delegated authority is granted to the HIP Board to 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.

### 5.3.1 The Sites

The table below provides a full summary of the sites currently incorporated within the programme as well as future proposed development sites.

Site	Land Ownership	Housing Mix	Unit Numbers	Status
Pool View, Randlay	Telford & Wrekin Council	2 and 3 beds	31	Complete Fully Occupied
Woodland Walk, Madeley	Telford & Wrekin Council	2, 3 and 4 beds	101	Complete Fully Occupied
The Oaklands, Dawley	Telford & Wrekin Council	2 and 3 beds	47	Under Construction 25 reserved 4 occupied Site practically complete May 2018
Miners Walk, Madeley	Telford & Wrekin Council	2 and 3 beds	53	Under Construction 28 reserved Site practically complete – September 2018
Blossom Walk, Hadley	Telford & Wrekin Council	2 and 3 beds	25 (3 affordable)	Under Construction Site practically complete – March 2018
Springfields, Newport	Telford & Wrekin Council	2 and 3 beds	33 affordable	Under Construction Site practically complete – April 2018
Land off Church Road, Snedshill, St Georges	Homes & Communities Agency	2, 3 and 4 beds	37	Feasibility Stage Target Planning Submission - July 2017
Land at jctn Whitchurch Drive & Apley Avenue, Wellington	Homes & Communities Agency	2, 3 and 4 beds & 1 and 2 bed Supported Living/Step Down Care	Houses: 43 Supported Living: 52	Feasibility Stage - subject to market analysis for supported living. Awaiting site investigation Target Planning Submission - October 2017
Former Leisure Centre, Stirchley	Telford & Wrekin Council	2 bed bungalows	19	Feasibility Stage Target Planning application Submission - July 2017
Southwater	Telford & Wrekin Council	Supported Living	Supported Living: 50	Feasibility Stage – subject to market analysis for supported living. Target planning application - October 2017
Scout Hut Site, Longford Road, Newport	Telford & Wrekin Council	2 beds	9	Feasibility stage – awaiting options for relocation of Scouts Target planning application submission - January 2018
<b>Total</b>			<b>500</b>	

The proposals would bring the total number of units to be delivered to circa 500, although exact numbers will be subject to detailed viability appraisals.

### 5.4 The Commercial Case

Assumptions made in the original Business Case of January 2015 and updated Business Case of March 2016, regarding the delivery vehicle and funding route remain valid and relevant. A full appraisal of the private rented market in Telford has been conducted when preparing proposals for the next phase of the Housing Investment Programme as set out in Section 3.0. Detailed research into supply and demand for supported housing in the context of

the local market, has also been commissioned to help inform decisions around opportunities to diversify Nuplace's asset base.

## 6.0 Finance

The current capital cost estimates and anticipated funding sources approved within the Service and Financial Planning capital programme, are detailed in the table below:

<b>Cost (£'000s)</b>	<b>Actual spend 31 March 2017</b>	<b>June 2017 Business Case</b>
Construction estimate (including fees, s106s, and interest during construction)	19,128	61,650
Land value	2,100	2,500
<b>Total cost</b>	<b>21,228</b>	<b>64,150</b>
<b>Source of Funds</b>		
PWLB borrowing	19,128	60,642
Capital receipt	2,100	2,500
Developer contributions	-	1,008
<b>Total funding</b>	<b>21,228</b>	<b>64,150</b>

The capital cost estimate has increased from the February 2016 business case by £11.2m, reflecting increased allocations in prudential borrowing and reassessments of land values and developer contributions following viability assessments and changes in the mix of sites. As the programme progresses to Phase 3, it is anticipated that construction cost will include third party land purchases.

Nuplace operates in accordance with governance arrangements which allow for the allocation of capital to individual sites following the satisfaction of predetermined conditions, several of which relate to viability and the ability to repay interest on loans forwarded. Finance provide comprehensive support to individual business cases as they come forward for approval. To date six sites have satisfied these conditions and capital totalling £38.1m has been allocated to these sites, which has been funded in accordance with the table below:

<b>Funding (£'000s)</b>	<b>Capital allocated</b>	<b>Unallocated</b>
Prudential borrowing	34,600	26,042
Capital receipts	2,500	-
Developer contributions	1,008	-
<b>Total</b>	<b>38,108</b>	<b>26,042</b>

As new sites come forward for approval, finance will support viability appraisals and ensure that the returns generated fulfil the Council's objectives. A set of viability criteria will be developed and presented to the HIP Board for approval, in consultation with the Section 151 Officer.

In accordance with the March 2016 Business Case, Nuplace continues to be funded by a mixture of debt and equity finance, such that each element of finance generates an acceptable return to the Council over the life of the investment, whilst having due regard to state aid requirements. The level of return on equity finance in the March 2016 Business Case was 6.84% over the life of the investment. Parameters for returns on equity finance for viability appraisals will be approved in consultation with the Section 151 Officer.

Additionally, the Council receive income from a range of services supplied to Nuplace, governed by various management agreements. These services include housing management and development management services. Income received/ forecasted to be received for the 3 years ended 31 March 2018, is summarised in the table below:

£'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>

Services and interest income will continue to increase as further sites are brought forward for development and rental levels increase and debt is drawn down.

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 of 5.29%. This rate was set by reference to State Aid requirements and the level of collateralisation in the company. The appropriateness of this rate will be reviewed for new debt finance and approval for any changes in the rate will be in consultation with the Section 151 officer.

The Council's interest charges are prudently calculated using current capital interest rates as agreed as part of the Budget Strategy. For 2016/17 and 2017/18 these were, short term cost of borrowing rate of 1.75% rising to 3% in 18/19 and 3.5% beyond. Actual borrowing is undertaken as part of overall treasury management and the current strategy is for short term borrowing as rates around 0.35%. Finance will review viability appraisals to ensure that each additional site demonstrates that it delivers a return on both the debt and the equity finance forwarded.

The inclusion of the new sites within the Business Case will generate additional Council Tax and New Homes bonus as appropriate to the Council. This is forecast to generate an additional £83k in 16/17, rising to £308k in 17/18 and £540k in 18/19 as more sites are developed and units delivered.

## **7.0 Legal Considerations**

Legal advice continues to be provided in relation to both development and operational matters with there being legal representation at Project Team, Nuplace Director and HIP Board Meetings. There is a robust governance structure in place and legal advice and training has been provided to the Directors of Nuplace to ensure conflicts of interest are avoided.

Legal will keep both the HIP Board and the Board of Directors of Nuplace fully abreast in relation to the developments of the White Paper and the implications for the Council and Nuplace (and any other legal developments).

Legal will continue to provide legal support to Nuplace in relation to Company secretarial duties i.e. filing at Companies House, and will provide advice and assistance to Nuplace in relation to Nuplace updating its Business Plan to demonstrate how they intend to respond to and deliver against the objectives contained herein. This updated plan will need to be submitted to and approved by the HIP Board and will act as a live document and be regularly reviewed by both Nuplace and the Council.

Legal will provide advice and support on a case by case basis in relation to acquiring predetermined properties from developers to ensure that any legal requirements are complied with and the relevant contract is entered into.

## 8.0 Governance

- 8.1 The 'Teckal Exemption', has been used as justification for the Council not needing to tender for a WOC to deliver the HIP. Application of the Teckal exemption is 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.
- 8.2 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 original business case and updated in March 2016.

In the most part these governance procedures and structure remain largely applicable with the only changes being in relation to the Terms of Reference of the HIP Board which are intended to grant greater delegated authority in terms of decision making. These build on the changes approved by Cabinet in March 2016 and are to provide greater flexibility to Nuplace to operate commercially and are not considered to contravene the Teckal assumption in any way. Revised Terms of Reference are included at Appendix 2.

## **9.0 Risk**

The Programme Wide Risk Register has been reviewed in the context of the proposals contained within this report, with an updated copy included within Appendix 3.

A number of risks have been removed from the risk register on the basis that they are no longer considered relevant since they relate to the establishment of the company which has now been concluded or are better captured in site specific risk registers which cover the pre-construction and construction phases.

**A Report of Nuplace Ltd**

**Housing Management**

**KPI & Performance Report for the year 2016/17**

<b>Housing KPIs</b>	<b>Annual Target</b>	<b>Performance for 2016/17</b>
% of gas servicing completed according to statutory requirements	100%	100%
% of electrical testing completed according to statutory requirements or good industry practice	100%	100%
Level of rent collection	99.5%	99.83%
Rent loss through bad debts and voids	Less than 5%	0%
Level of satisfaction with repairs service (very satisfied or fairly satisfied)	90%	N/A
Void turn round time	21 days	Annual average 21 days Woodlands 3 days Randlay
Emergency repairs completed within 24 hours	100%	100%
Urgent repairs completed within 5 working days*	98.5%	N/A
Other repairs completed within 16 working days*	95%	N/A
Number of Disrepair Notices.	0	0

## Appendix 2

# HOUSING INVESTMENT PROGRAMME BOARD

## TERMS OF REFERENCE

### 1. Background

- 1.1. Telford & Wrekin Council are focussed on proactively and positively building a long-term future for the Borough. The focus is on economic growth and the Council is integral to achieving this growth by providing the right services and making the right investments.
- 1.2 The Council recognised that it can influence and further support this growth by promoting housing investment using stalled and brownfield sites. In this context the Housing Investment Programme (“HIP”) was established in order to develop new homes for private and affordable rent and in doing so:
- Respond to the borough’s housing need for quality rental homes and places to live so as to support the Council’s ambitious growth agenda and major investment into the Borough and protect and create jobs as a ‘Business Supporting, Business Winning Council’;
  - Raise the standard of rental provision, both in terms of the quality of the rental homes and the quality of the landlord service to ensure that local people have access to suitable housing;
  - Stimulate local economic growth through job creation during both the construction and operational phases of the Programme;
  - Regenerate brownfield and stalled sites;
  - Protect Council jobs by utilising these roles in the development, management and maintenance of the portfolio of rental properties;
  - Generate a long term income stream for the Council that can contribute towards the protection of frontline services otherwise affected by budgetary constraints;
- 1.3 The Council established a Wholly Owned Company (WOC) to deliver the HIP, with Nuplace Ltd (Nuplace) becoming incorporated in April 2015.

### 2. Membership & Decision Making

- 2.1 Members of the Board will be:

<b>Member</b>
Leader and Cabinet Member for Neighbourhood Services & Pride Programme
Deputy Leader and Cabinet Member for Housing & Enforcement
Cabinet Member for Council Finance, Commercial Services & Economic Development
Managing Director*
Assistant Director: Finance & Human Resources (Statutory Chief Financial Officer)
Assistant Director: Governance, Procurement & Commissioning (Statutory Monitoring Officer)
Senior Commercial Solicitor
Finance Team Leader

\*Chair

- 2.2 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, but will not take part in any decision-making of the Board. Members may nominate a relevant substitute if they are unavailable to attend a meeting.

- 2.3 A minimum of four board members are required in order to provide a quorum for decision making purposes (at least one of whom must be the Managing Director or Statutory Chief Financial Officer together with at least two elected Members of the Council).
- 2.4 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.
- 2.5 It is anticipated that formal voting will not be required and decisions will be required to be unanimous. It may also be the case that decisions may be required during the periods intervening a formal Board meeting which may necessitate decisions being taken outside of a formal Board meeting. Such decisions shall be equally as valid as any decision taken during a Board meeting, however, the quorum detailed above shall still apply and the decision shall be formally ratified and recorded at the subsequent Board meeting.
- 2.6 The Managing Director, in consultation with the Board, (and in particular the Section 151 Officer in relation to viability decisions) may approve, in accordance with the powers delegated to him by Cabinet, the matters identified at Section 4.0 of these Terms of Reference.

### **3. Frequency of Meetings**

- 3.1 The Board shall meet quarterly for approximately 1.5 hours. More frequent meetings shall be scheduled when appropriate.

### **4. Purpose & Objectives/Role of the Board**

- 4.1 The Housing Investment Programme Board was established in order to:
- Provide a robust governance structure and appropriate levels for decision-making within the context of Cabinet and Council approvals
  - Engage with and obtain support from Senior Members and Officers in relation to the strategic direction of the HIP
  - Provide any approvals that were necessary to enable the programme to maintain momentum and meet critical programme timescales
  - Give direction to Nuplace and the HIP delivery team where appropriate
  - Approve the following, subject to these being in accordance with the Business Case, Nuplace's Business Plan and providing they can be delivered within the Council's approved level of investment:-

#### **Viability:**

- Parameters against which the viability of individual sites will be assessed
- Variations to these parameters where this will be of benefit to the overall programme.
- Individual site viability appraisals
- Commercial terms for funding (providing these are in accordance with the viability outcomes of the individual site appraisals), to include returns on equity invested on a project by project basis.
- Changes to the loan agreement including adjustments to the onward lending rate to Nuplace, subject to any adjustments being State Aid compliant, and with due regard to the overall collateralisation of the Company.
- The price for each piece of land transferred to Nuplace (to ensure best consideration is obtained)
- The principal and terms associated with the acquisition of and development on third party land, both within and outside of the Borough,
- The principal and terms associated with joint developments with third parties

## **Management**

- Use of Council resources to support Nuplace via the management agreements i.e. staff, IT, finance systems, accommodation
- Agreeing commercial terms for management agreements
- Agreeing terms for housing and operational management on specific sites (if not already covered by the overarching agreement)
- Agreeing variations to the management agreements, provided that these are in accordance with the Business Case
- Agreeing sensitive policy issues relating to the Project (e.g. rent setting, length of term, allocations, rental deposits, tenancy enforcement)

## **Monitoring & Compliance of Nuplace Ltd**

- Agreeing any changes to Nuplace's Business Plan (providing these are in accordance with the Business Case)
- General guidance and strategic direction to Nuplace Directors
- Attending the Annual General Meeting of Nuplace
- Agreeing the appointment of External Auditors to Nuplace
- Monitoring Nuplace's performance against the Business Case and Business Plan and taking intervening measures in the event of non-performance
- Monitoring compliance with conditions precedent contained within the Land Transfer Agreement
- Monitoring compliance with conditions precedent contained within the Facilities Agreement
- Receiving and considering reports from Nuplace including:
  - Quarterly reports on the progress of schemes against the approved Project Plan
  - Quarterly reports on Housing Management including monitoring of Key Performance Indicators identified within the Housing Management Agreement
  - Quarterly update on Management Accounts

## **5. Accountability of the Board**

- 5.1 The Board is accountable to Cabinet in relation to matters described above (which are executive functions). Should a decision be required which is not within these Terms of Reference this will be referred to Cabinet save for where that is a decision which is outside of the approved Budget and Policy Framework for the Council; in which case the matter shall be decided upon by Full Council.
- 5.2 As part of its role, and in order to demonstrate the appropriate level of probity and oversight, the HIP Board shall produce reports to the Cabinet at least once per year, providing the information and recommendations (if required):
- The performance of Nuplace and the Council's investment,
  - Significant changes to the Business Case and/or Business Plan that have occurred during the preceding 12 months
  - A general update as to the HIP's progress.
  - Proposals for future investment

## **6. Review**

- 6.1 The composition and terms of reference of the Board will be reviewed by the Board every 12 months or as appropriate if more frequently.

**7. Procedures**

- 7.1 An officer of the Council, appointed by the Chair, shall act as administrator for the Board and shall circulate an agenda, together with any supporting documentation at least 1 week prior to the Board meeting. If, for reasons of urgency, this is not possible papers shall be circulated as soon as practicable.
- 7.2 Minutes of the Board Meetings will be produced in draft within 2 weeks of the meeting and circulated to all members of the Board (whether they were in attendance or not). Any proposed changes to the minutes must be identified by Members of the Board within a further 2 weeks following circulation.

**8. Approvals**

Approved by the Board on xxx July 2017

.....  
Richard Partington – Managing Director  
Chair

## Appendix 3: Housing Investment Programme - Risk Register

## Risk Matrix

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

Risk Description		Consequences	Rating	Response Actions	Owner
	<b>Legal/Regulatory</b>				
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
<b>Financial/Economic/Legislative</b>					
006	Accounting and Tax Treatment - The accounting and tax treatment set out in the Business Case is challenged	Legal implications, programme delays, cost implications	5	External financial advice obtained and considered as part of the Business Case Ongoing advice on Corporation Tax sought	TWC
007	Financial Model - The assumptions in the financial model are not robust or the financial model is flawed.	Programme delays, cost implications	5	Financial; 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. Robust monitoring of management accounts performed to identify key business levers.	TWC
008	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
009	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
010	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	Programme and cost implications	5	Construction costs provided on an open book basis and account for inflation to provide cost certainty. Assumptions around rental increases under review. Rent setting and review policy being established. Rents reviewed on a plot by	TWC

	maintenance costs) than Business Plan assumptions then viability of Company is reduced			plot basis rather than programme wide and in response to local market conditions, supply, demand, property type etc. etc.	
011	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	2	Recent White Paper is supportive of Councils developing property for private and affordable rent assuming rights of occupiers of the latter are protected. May result in policy changes which Nuplace will need to respond to. 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.	TWC
012	Acquisition of third party land may impact on viability and programme	Cost and programme implications	2	Approval in principal from HCA to purchase land by way of a negotiated disposal and on an open book basis will mean land value is residual and what can be afforded by the programme. Viability will need to be proven to HIP Board before acquisition proceeds	TWC
013	Business Case for diversification into Supported Living is untested any may affect return on investment	Cost implications	2	Anecdotal evidence support requirement. In depth study of local market conditions commissioned to support decision making. Implementation will only be subject to robust feasibility work and viability appraisal HIP Board sign off prior to implementation	
<b>Strategic Governance</b>					
014	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
015	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
016	Decision Making - Conflicts of interest arise may arise between the Council and the Company and/or Company officers' primary	Legal and programme implications	4	Members and officers of the Council receive briefings from the Council's legal team on how to manage such conflicts and duties. Formal Terms of Reference in place alongside robust	TWC/Nu place

	duties to the Company cause operational issues.			governance procedures. Nuplace audit conducted in Q4 2016/17. Findings being implemented.	
017	Resources - The Council has inadequate resources to deliver the project.	Programme and cost implications	5	Resources, have and will continue to be reviewed as the programme progresses. Additional capacity has been built in to support the growing operational element of the business.	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
<b>Political</b>					
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	Affiliation of Nuplace to the Council is proving positive. Opportunities to maximise this are being explored. Occupancy and pre lets off plan continue to be positive. Opportunities to improve the customer experience are being explored (e.g. App)	TWC
<b>Resources</b>					
022	Management and administration resources - The Council is unable to support the overall management of the Company.	Programme and cost implications	2	Resource requirements continuously reviewed as programme moves from the purely development to the operational phase. Additional capacity has been built into restructures to support expansion of the programme.	TWC
023	Development resources -The Council has inadequate housing development resources to support the Company.	Programme and cost implications	2	Resource requirements continuously reviewed as programme moves from the purely development to the operational phase. Additional capacity has been built into restructures to support expansion of the programme.	Nuplace
024	Housing Management & Maintenance resources - The Council has inadequate housing management and maintenance resources to support the Company.	Programme and cost implications	5	Resource requirements continuously reviewed as programme moves from the purely development to the operational phase. Additional capacity has been built into restructures to support expansion of the programme. Reactive property maintenance is to some extent unknown as properties are released from the defects correction period with the Contractor. Planned maintenance requirements being established and market tested.	Nuplace
<b>Operational Management</b>					

025	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	Properties continuing to let well off plan. Void rates running at lower than modelled assumptions.	Nuplace
026	Initial Rental Values - Initial rental values are lower than forecast.	Cost implications	3	Initial rental values are currently in line with levels assumed at viability stage.	Nuplace
027	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
028	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
029	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
030	Repairs & Maintenance - Costs are not in line with Business Plan projections and/or quality is poor.	Cost implications	5	Assumptions being tested as houses are released from the defects correction process with the Contractor. A detailed proactive maintenance plan is under development. Restructures have facilitated greater focus on property maintenance.	Nuplace
031	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
032	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

033	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
034	Damage to dwellings is caused by usual commercial risks - Material damage to dwellings and consequent loss of rent.	Cost implications	3	Property owners and loss of rent insurance in place although Nuplace would still be exposed to uninsured excesses.	Nuplace
035	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
036	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