

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Portfolio Holder – Finance and the Executive Director – Commercialisation

To: Cabinet – 25th July 2017

Author: Christine Marshall – Executive Director – Commercialisation

Subject: Development at London Road, Long Sutton

Purpose: To put in place financial arrangements to enable Welland Homes Limited (Welland Homes) to purchase residential property at London Road, Long Sutton and to update the Welland Homes Business Plan.

Recommendations to Council:

- 1) That the Capital Programme, approved by Council on 22nd February 2017, be amended to reflect the amended programme set out in paragraph 5.2.
- 2) That this amendment to the Welland Homes Interim Business Case be approved.

1.0 PURPOSE OF REPORT

- 1.1 To approve the capitalisation and borrowing required in respect of the proposed purchase by Welland Homes of five houses at London Road, Long Sutton, and
- 1.2 To provide an update on the Welland Homes Business Case financial modelling.

2.0 BACKGROUND

- 2.1 On 22nd February 2017 the Council approved an updated financial model for Welland Homes Limited on the basis that a substantial component of the business activity of Welland Homes will be as a holding and investment vehicle for private rented housing.
- 2.2 This interim plan was approved to give immediate short term clarity around the sustainability of Welland Homes and to provide a basis for delivery of much needed private rented property which would also constitute revenue generating activity. This activity will be central to covering core costs and allowing the company to trade, in addition to providing a sustainable platform from which any other potential housing-related opportunities can be pursued. (e.g. housing development activity etc).
- 2.3 In order to determine the updated baseline business case, a revised financial model was developed based upon the core costs of the business and this was used to determine the level of activity required to generate the required returns. The investment proposed included the delivery of approximately 60 additional properties by 31st March 2022:

- Completion of Green Lane (15 units) in March 2017,
- Completion of Long Sutton (5 Units) by March 2018, and
- 4 additional schemes of 10 units each, with 1 completed each year up to 2021/22.

2.4 The financial modelling is based on a number of prudent assumptions designed to ensure a sustainable business and has been externally validated by KPMG to ensure compliance with State Aid, Corporation Tax and VAT Regulations. The financial model has been continually reviewed as schemes are completed and units let. This has led to a number of changes which will impact on the level of investment required and the return available and these changes now need to be reflected in the updated business plan to be agreed by the Council. These changes are set out in more detail in paragraph 5.1.

2.5 The initial development of 15 houses at Green Lane was completed in April 2017, the properties are all let and the Company is achieving it's current business plan targets. Approval is now required to proceed with the next buy to rent scheme, the acquisition of five properties at London Road, Long Sutton.

3.0 London Road, Long Sutton

3.1 The potential for Welland Homes to secure an investment opportunity at London Road, Long Sutton, was first presented to the Welland Homes Board in May 2016 and was included within the Welland Homes Business Plan approved by Council in February 2017.

3.2 The original timetable for the development anticipated the completion of the properties by March 2018 and, in March 2017 the developer submitted a full planning application for five dwellings on the site. This planning application was refused by the planning committee citing a number of issues with the proposal, including the treatment of one of the site's boundaries, the management of refuse, and the orientation of a proposed terrace block.

3.3 In response to this, the developer has sought to redraw the scheme in a way which seeks to address the matters raised by Planning Committee. However, the developer has stipulated that prior to resubmitting the scheme for consideration by the Local Planning Authority, the developer wishes to have secured a 'subject to planning' contract with Welland Homes concerning the purchase of the completed units. The developer has stipulated that he is seeking a contract to be in place by the end of August 2017, therefore enabling the developer to resubmit a planning application in September 2017. In return, the developer will commit to the practical completion of the dwellings within 12 months of obtaining planning consent.

3.4 At it's meeting on 18th July 2017 the Welland Homes Board considered a report on the proposed development and resolved:

- That, subject to due diligence, Welland Homes Ltd proceed with the proposed acquisition of five dwellings at London Road, Long Sutton, and
- That officers approach South Holland District Council in order to seek the necessary finance.

3.5 In order to enable Welland Homes to enter into contract, the company now needs to secure agreement from the Council that it is prepared to finance the company's purchase of the dwellings.

3.6 The financial modelling completed on the proposed development is attached at Confidential Appendix 1 together with a summary of the scheme evaluation risks and opportunities considered by the Welland Homes Board.

3.7 Part of the land required to facilitate the development of the five properties is owned by the Council. A previous decision was made by the Portfolio Holder for Housing on 15th August 2016 to sell to the developer the land required to enable the development. The sale is yet to complete, but it is proposed that the sale will complete in tandem with Welland Homes entering into contract on the purchase of the dwellings. The value that the council will achieve from the sale of the land to the developer has been determined by the District Valuer to reflect best value. This arrangement has been reviewed by specialist solicitors in public sector procurement legislation at Eversheds, who has confirmed that the arrangement is compliant with state aid and procurement rules.

4.0 Updated Welland Homes Business Plan

4.1 The projected impact on Welland Homes is set out in Confidential Appendix 2.

5.0 Council Impact

5.1 Confidential Appendix 3 sets out the impact on the Council based on current assumptions if the updated Welland Homes Business Plan is approved.

5.2 Key changes since the interim plan was approved in February 2017 summarised below:

- A number of assumptions have been updated in respect of revised prices and revenue returns following the completion of the Green Lane Scheme. In particular the assumed purchase price of future buy to rent schemes has increased. As a result the capital requirement for the overall Welland Homes Programme has risen by £402k.
- Rental returns at Green Lane are above those forecast and if similar assumptions are made for future schemes, the revenue return to the Council through Company Dividends, interest payments and recharges for staff time increases by £31k per annum. It should be noted that at this stage rental projections are based on an assumed 1% per annum increase, and
- The rephasing of the London Road, Long Sutton Scheme.

5.3 The total investment required to deliver six schemes (60 properties) is now estimated at £8.733m over the period 2016-17 to 2021-22 as follows:

	Commercial Loan	Equity Investment	Total
	£000	£000	£000
2016-17 (includes cashflow equity)	409	877	1,286
2017-18	963	17	980
2018-19	1,361	732	2,093
2019-20	938	505	1,443
2020-21	948	510	1,458
2021-22	957	516	1,473
	5,576	3,157	8,733
February 2017 Business Plan	5,324	3,007	8,331
Change	252	150	402

- 5.4** The current modelling assumes that the Council's Investment in Welland Homes will be funded through internal borrowing. While the base rate is so low this will mean that the Council can achieve a higher rate of interest from Welland Homes than by investing elsewhere. However, as this is a long term investment there is a risk that if the base rate increases the opportunity cost of this internal borrowing could increase.
- 5.5** To mitigate this risk the Council could choose to fund this investment through a long term PWLB loan. This would reduce annual savings to the Council through interest receipts but the major benefit, dividend on Company profits, would be unaffected. This would also free up internal borrowing resources for more short term investment opportunities.
- 5.6** In line with the delegated authority, granted by Council on 25th March 2015 and re-affirmed on 22nd February 2017, the Executive Director - Commercialisation (the S151 Officer) will approve the final mix of use of reserves and borrowing in line with the business plan and Council Treasury Management Strategy.
- 5.7** Forecast revenue savings of over £0.358m per year will be achieved by 2022-23 as a result of this investment. The Council will also receive indirect contributions through New Homes Bonus and as a result of an increased Council Tax Base.

6.0 OPTIONS

6.1 Do Nothing

This would mean that the London Road Scheme would now not proceed which would limit the delivery of housing from Welland Homes under the existing business plan and leave the Company unable to deliver forecast returns.

6.2 Agree that London Road should proceed

This has the advantage of securing the delivery of a key element of the Welland Homes Business Plan.

7.0 REASONS FOR RECOMMENDATION(S)

7.1 Completion of the London Road Scheme is a key element of the Welland Homes Business Plan.

8.0 EXPECTED BENEFITS

8.1 This update to the amended business case will support the delivery of 60 private rented properties by 2021/22 and support the delivery of savings targets set out in the Councils Medium Term Financial Plan.

9.0 IMPLICATIONS

9.1 Constitution & Legal

9.1.1 Whilst operational matters in respect of the company are executive functions, the changes proposed to the business plan result in a need to change the budget. As a result, the final decision is reserved to Council.

9.1.2 The key legal issues have been considered at each stage of the project, and have been reported to the Cabinet and Council previously. Bespoke advice has been taken on the state aid/procurement issues relating to the London road, Long Sutton proposals.

9.1.3 The proposed interim business plan is consistent with the agreed objectives of the development company.

9.2 Contracts

9.2.1 There are a number of contractual arrangements between the Council and the Company – examples being in terms of services delivered to the Company by the Council, to the Council by the Company and in terms of the loan agreement(s).

9.2.2 Furthermore, Welland Homes has confirmed that any arrangement between the company and the developer would be subject to the developer achieving planning consent, thus mitigating any financial risk to the company (and in turn, the council).

9.3 Corporate Priorities

9.3.1 This update to the interim business plan meets the council's medium term financial plan and commitment to housing and growth in the district.

9.4 Financial

9.4.1 This is a financial report with detailed financial implications set out in the body of the report.

9.5 Reputational

9.5.1 Successful delivery of properties through Welland Homes Limited is very important to the Council not only in terms of its corporate objectives, but also reputationally.

9.6 Risk Management

9.6.1 The approach set out in the interim business plan will be underpinned by strong risk management. The interim business plan provides reduced risk to the council that the original business plan by giving greater certainty and increased contributions to the council.

9.6.2 It should be noted that the value of the residential assets held may go up or down in line with market forces.

9.7 Stakeholders / Consultation / Timescales

9.7.1 All housing development will be subject to the appropriate consultation processes

10.0 WARDS/COMMUNITIES AFFECTED

10.1 All as the Growth agenda is extended

11.0 ACRONYMS

PWLB – Public Works Loan Board

GF – General Fund

NHB – New Homes Bonus

Background papers:-

Interim Business Case approved by Council – 22nd February 2017

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service and Discretionary Service

Confidential Appendices attached to this report:

(Please note that the following appendices are not for publication by virtue of Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information))).

Appendix 1 – London Road Financial Model & Scheme Evaluation
Appendix 2 – Updated Welland Homes Limited Business Plan
Appendix 3 - Financial impact on the Council