

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Christine Marshall, Director of Commercialisation and Councillor Peter Coupland, Portfolio Holder for Finance

To: Cabinet Tuesday, 13 February 2018, Council 28th February 2018

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Subject Welland Homes Business Plan Update

Purpose: To update the Welland Homes Business Plan, and to put in place the necessary arrangements for Welland Homes to commence delivery of a housing development at Parkside Crescent, Spalding.

Recommendation(s):

- 1) That subject to business plan and subsequent changes to budget being approved, the council agrees to the sale of the land at Parkside Crescent
- 2) That subject to business plan and subsequent changes to budget being approved, that delegated authority be granted to the Executive Director - Commercialisation (the S151 Officer), to approve the terms of any loan agreements required and the value of any periodic cash flow payments to be made to the company.

Recommendation(s) to Council:

- 3) That this amendment to the Welland Homes Business Plan be approved, and that the Capital Programme, included as Appendix E to the draft Budget, Medium Term Plan and Capital Strategy Report to Council on 28th February 2018, considered as Item 7 on this agenda, be amended to reflect the amended programme set out in paragraph 1.18.
- 4) To reaffirm the delegated authority, granted by Council on 25th March 2015, to the Executive Director – Commercialisation (the S151 Officer), to approve the final mix of use of reserves and borrowing in line with the business plan and Council Treasury Management Strategy.

1.0 BACKGROUND

- 1.1 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.
- 1.2 This business plan was approved to give immediate short term clarity around the sustainability of Welland Homes and to provide a basis for revenue generating activity which 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.).

- 1.3 Since the adoption of the updated financial model for the company back in February 2017, the company has completed the acquisition of its first investment properties; a 15 unit acquisition at Green Lane, Spalding. These units have been let by the company as market rented housing, and are now providing the company with a revenue stream.
- 1.4 On 26th July 2017 the Council approved an update to the Company's Business Plan to include the acquisition of a further 5 units at London Road, Long Sutton. A 'heads of terms' for the contractual arrangements between the company and the site developer has been prepared and approved by Welland Homes Board at its' meeting on 19th December 2017. At the current rate of progress, 'start on site' for the London Road scheme is anticipated in April 2018, with practical completion within the first quarter of 2019.
- 1.5 In addition to pursuing investment activity such as the units at Green Lane and London Road, the company has also been exploring opportunities relating to the development of housing for the purposes of market rent. The company has developed a detailed development proposal in relation to council-owned land at Parkside Crescent, Spalding. The company has secured planning consent for a 10 unit development of two bed houses, and has utilised a competitive procurement process to identify a building contractor with whom to work in partnership with in order to develop the scheme. Full details concerning the detail of the development proposal for Parkside Crescent are set out below.
- 1.6 The development proposal at Parkside Crescent relates to a 0.35ha former garage site adjacent to an existing council-owned housing scheme on Parkside Crescent, west of the Peterborough to Sleaford railway line in central Spalding. The site is currently owned by the Council, and following a recent appropriation process is now accounted for within the council's General Fund. The access to the site is presently served by an adopted highway. However, in order to develop the site there is a need to extend this access into the site, in addition to connecting the site to neighbouring services such as electricity and water.
- 1.7 The potential for Welland Homes to pursue a development opportunity at Parkside Crescent, Spalding was first presented to the Welland Homes Board in May 2016
- 1.8 In March 2017 Welland Homes sought and obtained planning consent for the development during 2017 (Planning Reference: H16-1245-16). Full detailed consent is in place for 10 two bed dwellings. It is Welland Home's intentions to make the properties available for market rent, and to hold the properties as a long term investment asset.
- 1.9 In order to obtain a firm cost and delivery proposal for the development, a procurement exercise for a building contract to deliver the Parkside Crescent scheme has now been completed. The full tender assessment process has now been concluded based on quality and price, and the process of relaying the outcome of that process to those who tendered for the scheme has commenced.
- 1.10 Revised financial modelling and scheme evaluation have now been completed based on the anticipated winning tender. Confidential Appendix 1 summarises the financial impact of the Parkside Crescent Scheme and the changes to assumed cost and revenue following the completion of the contract tender process.
- 1.11 It should be noted that the financial summary within the appendix includes financial information in relation to the build cost of the development (e.g. the physical development of the 10 units, the development of the necessary road infrastructure, the connections to

services, and the site preparation work which includes an element of remediation) alongside the wider project costs associated with the development (e.g. development period loan, professional fees and an allowance for internal project management costs).

- 1.12 The projected impact on the overall Welland Homes Business Plan is set out in Confidential Appendix 2.
- 1.13 At its meeting of 23rd January 2018, the Welland Homes Board considered a report on the proposed development. Following extensive consideration of the business case associated with the development, including a detailed consideration of the costings associated with the scheme, the board resolved to agree the following:
- That, subject to due diligence, Welland Homes Ltd will proceed to contract for the proposed development of ten dwellings at Parkside Crescent, Spalding.
 - That the company agrees to approach the Council in order to put in place the necessary arrangements to enable the company to proceed towards contract.
- 1.14 Consequently, in order to enable Welland Homes to proceed with this project, the company is seeking approval from the shareholder to put into place all of the necessary arrangements to enable the company to deliver the project. These arrangements include Council approval of the company's updated business plan (in its capacity as sole shareholder), approval from the council to make available all necessary finance to enable the company to deliver the project, and agreement from the council to sell the land at Parkside Crescent to the company in order to enable the development to commence.
- 1.15 In terms of the sale of the land to Welland Homes, the Council has sought professional valuation advice as a means of determining an appropriate sale price for the land which represents the market value of the site. This valuation process was undertaken in January 2018 as a means of ensuring that any sale of land to Welland Homes is based on the latest valuation of the site within the context of the local market. The necessary transfer document has been prepared to enable the sale of the land to complete, subject to Council agreeing to the recommendations set out within this report.
- 1.16 The detailed projected financial impact on the Council is set out in Confidential Appendix 3
- 1.17 The key changes since the Welland Homes Business Plan was last approved in July 2017 are summarised below:
- An increase in the total scheme costs for London Road, Long Sutton of £11k due to an increase in the estimated Stamp Duty cost and provision for a Clerk of Works to monitor and scrutinise the build on behalf of the company in order to protect its interests during the build period.
 - Parkside Crescent has now been included within the business plan and the capital cost of the scheme is approximately £36k lower than the indicative scheme 10 unit included in the earlier plan.
- 1.18 The total investment required to deliver six schemes (60 properties) is now estimated at £8.708m over the period 2016-17 to 2021-22 as follows:

	Development Loan	Commercial Loan	Equity Investment	Total
	£000	£000	£000	£000
2016-17 (includes cashflow equity)	-	409	877	1,286
2017-18	184	933	-	1,117
2018-19	986	469	253	1,708
2019-20	(1,170)	1,844	993	1,667
2020-21	-	948	510	1,458
2021-22	-	957	516	1,473
	-	5,560	3,148	8,708
July 2017 Business Plan	-	5,576	3,157	8,733
Change		(16)	(9)	(25)

- 1.19 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.
- 1.20 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.
- 1.21 In line with the delegated authority, granted by Council on 25th March 2015 and re-affirmed within the recommendations within this report, 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.
- 1.22 During the construction phase a development period loan will be required, with the properties then re-financed through the Council on a long term basis upon completion. Further details on this loan are set out in Confidential Appendix 4 including arrangements to deal with any costs arising from abnormal unforeseen construction challenges.
- 1.23 The element of funding that comprises a loan or loans will be subject to a formal loan agreement or agreements which may be protected by way of a charge against the

company's assets generally (a floating charge) or against specific assets. Delegation to the Section 151 Officer is sought to approve the terms of any such agreements.

- 1.24 Delegation to the Section 151 Officer is also sought to approve the process required for the Company to draw down periodic cash flow payments under the development period loan. This will include arrangements to address the cashflow implications of any significant abnormal construction challenge which may occur.

2.0 **OPTIONS**

- 2.1 **Do Nothing** - This would mean that Welland Homes would be unable to proceed with the proposed development at Parkside Crescent, Spalding. This in turn would limit the delivery of housing from Welland Homes under the existing business plan and leave the company unable to deliver forecast returns.

- 2.2 **Proceed as per the report recommendations** – Under this option, the council will agree to put in place the necessary arrangements to enable the company to move towards contract stage. Those necessary arrangements include approval of the company's updated business plan, approval from the shareholder to make available all necessary finance to enable the company to deliver the project, and agreement from the council to sell the land at Parkside Crescent to the company.

3.0 **REASONS FOR RECOMMENDATION(S)**

- 3.1 To enable Welland Homes to proceed to contract stage for the proposed development at Parkside Crescent, Spalding.

4.0 **EXPECTED BENEFITS**

- 4.1 The delivery of the Parkside Crescent development scheme will support the delivery of the wider Welland Homes Business Plan, which will in turn support the delivery of savings targets set out in the Council's Medium Term Financial Plan.

5.0 **IMPLICATIONS**

5.1 **Constitutional & Legal**

- 5.1.1 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.

- 5.1.2 The key legal issues have been considered at each stage of the project, and have been reported to the Cabinet and Council previously.

- 5.1.3 The proposed revisions to the business plan are consistent with the agreed objectives of the company.

5.2 **Contracts**

- 5.2.1 In capitalising Welland Homes as a means to enable the company to deliver the project, the Council will utilise a loan and equity agreement, prepared by external legal advisors. This

loan and equity agreement will act as a contract between the council and Welland Homes in relation to the financing arrangement between the two parties.

5.3 Corporate Priorities

5.3.1 The recommendations contained within the report will make a notable contribution to the realisation of a number of the Council's corporate priorities, including to 'encourage the local economy to be vibrant with continued growth'. The recommendations also support council objectives in terms of increasing housing supply, making effective use of council assets, and generating commercial opportunities to maximise income into the authority.

5.4 Financial

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

5.5 Reputation

5.5.1 In order to mitigate reputational risk, a robust risk management structure sits around both the delivery of the Parkside Crescent project, and the administration of Welland Homes as a company. Reputational risk is a key consideration within this structure, and is being proactively managed by the project team.

5.6 Risk Management

5.6.1 In order to mitigate risk, a robust risk management structure sits around both the delivery of the Parkside Crescent project, and the administration of Welland Homes as a company. This risk management structure has been created to manage the financial, legal, delivery, strategic and reputation risks associated with the activity of the company.

5.6.2 In terms of construction risk, the construction contract for the Parkside Crescent development has been procured through a 'design and build' route. The 'design and build' approach also serves to pass the majority of the day-to-day construction risks to the contractor, and serves to provide the company with a greater degree of certainty around the construction costs of the project. Furthermore, a number of site surveys have been undertaken in order to understand as much as practicably possible concerning the ground conditions associated with the site, and these surveys have been made available to the contractor in order to enable them to arrive at a view as to the level of construction risk associated with the delivery of the scheme.

5.6.3 Whereas reasonable steps have been taken to identify any potential construction risks associated with the Parkside Crescent development, it should be noted that any development activity carries with it a degree of risk, not matter how unlikely that risk is to occur.

5.7 Stakeholders / Constitution / Timescales

5.7.1 Welland Homes has an ambition to enter into a building contract for the development at Parkside Crescent in March 2018. Any delays to entering into contract may have an adverse impact upon the contract price provided by the winning contractor. Consequently, the decisions and recommendations within this report are time sensitive to the delivery of Welland Homes' business plan.

5.8 Transformation Programme

5.8.1 Detailed revenue savings arising from the investment in Welland Homes are set out as part of Confidential Appendix 3. Forecast revenue savings of over £0.325m per year will be achieved by 2022-23 as a result of this investment in line with the savings targets set as part of the Council's Moving Forward Programme. In addition the Council will also receive indirect contributions through New Homes Bonus and as a result of an increased Council Tax Base.

6.0 WARDS/COMMUNITIES AFFECTED

6.1 All

7.0 ACRONYMS

7.1 None

Background papers:- Council Report dated 22 Feb 2017 – Welland Homes Business Plan
Council Report dated 26 July 2017 – Development at London Road

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Key Decision: Y

Exempt Decision: Partially exempt

This report refers to a 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 Parkside Crescent Financial Evaluation

Appendix 2 Updated Welland Homes Limited Business Plan

Appendix 3 Financial Impact on the Council

Appendix 4 Development Period Loan