



REPORT TO:	Policy Development Panel
DATE:	Tuesday, 26 April 2022
SUBJECT:	Welland Homes Housing Delivery Framework
PURPOSE:	To introduce a Housing Delivery Framework to inform future investment decisions for Welland Homes relating to housing developments.
KEY DECISION:	N
PORTFOLIO HOLDER:	Portfolio Holder for Assets & Planning
REPORT OF:	Assistant Director - Strategic Growth and Development
REPORT AUTHOR:	Caroline Hannon, Head of Delivery
WARD(S) AFFECTED:	All Wards
EXEMPT REPORT?	No

SUMMARY

SHDC has an approved capital budget for the delivery of 21 homes by Welland Homes, in accordance with the Company's business plan. This report seeks to establish a policy framework which allows Council to set criteria for how the Capital Programme budget is allocated. It enables the Executive to approve housing schemes which meet the criteria.

The framework sets out the preferred nature of schemes for future investment and will enable Welland Homes to continue to deliver new homes which provide housing solutions to meet local housing demand. It will support Welland Homes to achieve its business plan objectives.

RECOMMENDATIONS

Recommendation for Policy Development Panel:

1. To consider the draft Welland Homes Housing Delivery Framework and provide feedback for consideration by Cabinet and Council.

Recommendation for Cabinet:

2. That the proposal to amend the Policy Framework to include the Welland Homes Housing Delivery Framework is supported and recommended to Council for approval.

Recommendations for Council:

3. That the Welland Homes Housing Delivery Framework, at Appendix A to this report, which informs and guides future Executive decisions for the Capital Programme for Welland Homes housing delivery, be approved.
4. That the Welland Homes Housing Delivery Framework be included as a local choice policy in the Council's Policy Framework and that the Constitution, at Article 4.3, be amended accordingly.

REASONS FOR RECOMMENDATIONS

1. To identify the preferred nature of schemes for future investment.
2. To provide a framework within which the Executive can approve the delivery of Welland Homes housing projects.
3. To ensure that investment decisions are made which adhere to the framework.
4. To clarify that schemes which are outside of the framework will only be pursued if they have been referred to, and approved by, Council.

OTHER OPTIONS CONSIDERED

Do nothing. In this event, there would be no certainty around the preferred approach to delivering new housing schemes. This could delay schemes being approved. The Executive would continue to approve business cases for individual schemes without a framework being in place to guide such decisions.

1. BACKGROUND

- 1.1 Welland Homes was established by SHDC in 2015. The principal objectives for setting up the Company were to increase housing supply to address demand; to boost the local economy; to improve the quality of rented sector accommodation; to set standards for good housing design; and to generate income for the Council.
- 1.2 The Council is the sole shareholder of the Company. The Company has six nominated directors who are existing Councillors, who oversee the activity of the Company. The Portfolio Holder for Assets and Planning is the Shareholder Representative. The Shareholder Representative is invited to attend all Company board meetings to oversee the operations of the Company.
- 1.3 The Company's current adopted business plan is predicated on the Company owning 60 homes by October 2022. The Company currently owns 39 market rented homes across 5 sites. All properties are let and have low void rates which indicate that the properties are in demand. However, progress towards achieving the Company's business plan has been affected in a number of ways, as set out below.
- 1.4 In March 2020, at the start of the national lockdowns as a result of the Covid-19 pandemic, the Company was only 5 units short of its then business plan target (Target 40 / Delivered

35). The pandemic has had an impact on housing delivery nationally and this has had a knock-on effect for Welland Homes' delivery in a number of ways:

- A number of housing sites closed temporarily.
- Construction manufacturing halted or slowed down.
- When sites/companies reopened, materials were in short supply which increased demand and prices.

- 1.5 Some other factors have impacted on the ability to deliver the Company's business plan. At the time the Company was established, it was anticipated that the Company would develop homes on SHDC owned sites. At that time, the HRA was not as active in terms of its development activity. However, SHDC land sites are now considered for development both for Welland Homes and the HRA, depending on suitability. As well as some SHDC land sites being prioritised for the HRA, a number of other SHDC owned sites are not being pursued for housing delivery as a result of the feasibility assessments or because they are being prioritised for other purposes.
- 1.6 As an alternative to design and build projects on SHDC owned land, Welland Homes board has approved a number of market acquisitions. This has enabled Welland Homes to continue to meet a number of its principal objectives and to seek to meet the Company's business plan objectives. However, as a result of the current buoyant housing market, it is more challenging for Company to negotiate the purchase of market dwellings at a discounted price, for bulk purchase.
- 1.7 Despite the business plan targets not being achieved yet, the Company is still in a profitable position and in March 2021 and March 2022, the Company generated profits in excess of £100,000 each year. This profit could have been paid to the Shareholder as a dividend payment. However, instead, it has been donated to local charities to support the work they are doing supporting residents in the district.
- 1.8 The Capital Programme which was approved by Council in March 2022, allocated over £3 million to enable Welland Homes to meet its business plan target to deliver 60 homes. The budget relates to the 21 units which are yet to be provided.
- 1.9 It is commonplace for large capital budgets, approved by Council, to have a corresponding policy framework which sets the remit for spend by the authority's Executive. Until now, such a framework has not existed for the Welland Homes development budget. In the absence of a Welland Homes policy framework, the approach has been to seek Council approval for any scheme which Welland Homes board sought to deliver. This report seeks to establish a framework within which Executive decisions will be made to endorse the decisions of Welland Homes board. If the policy framework is established, decisions taken by Welland Homes board to pursue individual projects will be endorsed by the Executive in accordance with the framework and based on a robust business case. Executive decisions will be subject to member call-in.
- 1.10 If Welland Homes board and the Executive wanted to pursue any scheme which is outside of the remit of the framework, then Full Council approval would be required.
- 1.11 The introduction of a framework will create certainty and define the nature of schemes which can be approved. Officers will continue to liaise with developers, land-owners and agents (and others involved in housing delivery) to promote Welland Homes' delivery objectives and the introduction of a clear policy framework will enable the Company to act more commercially.

2. WELLAND HOMES' OPTIONS TO BUILD AND ACQUIRE NEW HOMES

2.1 There are a range of different housing delivery models which could be explored by Welland Homes. These come with a range of different advantages, risks and financial benefits. The Welland Homes Housing Delivery Framework identifies the delivery models which might be explored by Welland Homes, and identifies the appropriate decision-making authority for each model. The paragraphs below provide a summary of the nature of each model.

a) Design and Build projects on SHDC land

The authority may prefer for some of its land sites to be developed for housing by Welland Homes. Any such project would provide freedom to control the specific nature of the development, including layout, property types, property specification and construction method. Welland Homes, supported by SHDC officers, would appoint and manage professional services such as architects and contractors to design and build the preferred scheme. Design and build schemes are more intensive in terms of project management and contractual responsibilities, including staged payments, which can increase risk. Additionally, they can take longer to come to fruition. However, these projects can provide a greater level of return for the Company and the Shareholder than an acquisitions project.

b) Open market new-build dwelling acquisitions

Welland Homes can seek to negotiate with developers to acquire completed dwellings which would otherwise be sold on the open market. The Company has already successfully delivered a number of homes through this route. It may be possible to secure a discount on marketing value for bulk purchase. The contractual arrangements for this type of acquisition usually include that Welland Homes would only be obliged to buy the homes once satisfied that the dwellings have been constructed to a satisfactory, agreed standard. The negotiation to purchase the homes could occur at any stage of the build process (including prior to construction commencing or following completion). This means that on some sites, the homes could be acquired and occupied immediately following contracts being exchanged. Welland Homes is likely to have little control over the property specification as they will usually be buying plots which are already designed and have planning consent.

c) Second-hand property acquisitions from the open market

Acquisitions would be available at full market value. The costs of acquiring individual properties would not provide the economies of scale which is sometimes available for a bulk purchase from a developer. Whilst there can be appropriate strategic reasons why it may be beneficial to purchase second-hand properties, generally they may be poorer quality than newbuild homes and would not come with a warranty. However, the properties would be easy to identify as they would be advertised for sale and could be acquired quickly.

d) Land purchase

Private land which is suitable for housing delivery could be purchased. This would allow the Company to deliver more design and build projects. This would enable the Company to meet many of its principal objectives including to increase housing supply; to boost the local economy; to improve the quality of rented sector accommodation; and to set standards for good housing design. Whilst the land acquisition price is likely to be higher for land which is being sold with the benefit of Planning consent for housing development, the homes could potentially be provided sooner.

e) Joint ventures

Welland Homes could enter into a joint venture with another entity, such as a developer or a Registered Provider, to deliver housing. This could leverage long-term investment from the private sector into development projects or the Company could benefit from private sector assets/expertise. The basic premise of the model could be that the Company would enter into a partnership with a private body with both parties adding value to the portfolio. The partnership uses these joint assets as collateral to raise finance for regeneration or development projects. Development profits are then split appropriately between the parties. The benefit is that it allows equal control over the development and an appropriate balance of risk and reward. It can also enable the Company to access skills and expertise that it may not have in house. The establishment of a joint venture can take some time and therefore it would be unlikely to deliver new homes in the short-term. There would be costs associated with establishing a joint venture company and the process can be resource intensive and would require a full procurement process.

- 2.2 The Welland Homes Housing Delivery Framework also provides a number of property requirements for future schemes including:
- a) Tenure
 - b) Property mix
 - c) Specification
 - d) Location
 - e) Building Control inspections
- 2.3 A proposed Welland Homes Housing Delivery Framework is provided at Appendix A. The framework sets out those delivery models which it is proposed should be pursued for Welland Homes utilising the approved Capital Programme for Welland Homes' development activity. A detailed business case will set out how each scheme meets the criteria of the framework. The scheme will be approved by Welland Homes board and the Executive. Any scheme which does not meet the criteria would require Council approval.

3. CONCLUSION

- 3.1 The introduction of a Welland Homes Housing Delivery Framework allows Council to set criteria for how the Capital Programme budget is allocated. It will create certainty and define the nature of schemes which can be approved by the Executive. It will support Welland Homes to meet its business plan objectives and ensure that the Company's principal objectives continue to be met.

4. EXPECTED BENEFITS TO THE PARTNERSHIP

- 4.1 The adoption of the Welland Homes Housing Delivery Framework will align with the SHDC ambition to deliver new homes for residents and provide a dividend to the Council through Welland Homes housing company.
- 4.2 The framework will sit alongside the approved Capital Programme and provide a policy framework within which the Executive can approve the delivery of Welland Homes housing projects.
- 4.3 The framework will define the nature of schemes which can be approved based on a robust business case for each housing scheme, setting out the return on investment which it will provide for the Company and the Shareholder.
- 4.4 It allows Council to set criteria for how the Capital Programme budget is allocated.

4.5 It allows Welland Homes to act more commercially and to make investment decisions in line with agreed criteria, in a timely manner.

5. IMPLICATIONS

5.1 SOUTH AND EAST LINCOLNSHIRE COUNCIL'S PARTNERSHIP

5.1.1 None

5.2 CORPORATE PRIORITIES

5.2.1 The adoption of a Welland Homes Housing Delivery Framework will support delivery of a number of ambitions in the SHDC Corporate Plan 2019-23, including:

- Delivering new homes for residents and providing a dividend to the Council through Welland Homes housing company.
- Enabling effective planning and delivery of housing solutions to meet local needs and aspirations to ensure that our residents have access to a range of housing options in the district.
- Ensuring that our residents are enabled to live in high quality housing no matter the tenure.

5.3 STAFFING

5.3.1 SHDC's Housing Delivery team currently provide project management services to Welland Homes and this will not change with the adoption of a Welland Homes Housing Delivery Framework.

5.3.2 SHDC procurement team will be consulted to ensure that, where relevant, schemes are delivered in accordance with public procurement rules.

5.4 CONSTITUTIONAL AND LEGAL IMPLICATIONS

5.4.1 Council will continue to set the Welland Homes development budget annually. The adoption of a Welland Homes Housing Delivery Framework will establish the parameters for how the budget is spent. This will be reflected in the Council's Constitution and in particular, Article 4 (Policy Framework).

5.4.2 Under Standing Order 25, the Cabinet is responsible for making recommendations to the Council in respect of changes to the Policy Framework. Prior to making such recommendations, the Policy Development Panel must be consulted. If the Council objects to any change to the Policy Framework proposed by the Cabinet, it must refer the matter back to Cabinet for further consideration and it must consider the response of the Cabinet before making any final decision on the proposed changes.

5.4.3 A detailed business case will be prepared for any new housing scheme. The Constitution already provides for the Executive to approve business cases for new housing schemes.

5.4.4 Schedule 1 of the Welland Homes Articles of Association confirms that the Company's business plan is subject to Shareholder approval. This report sets out that future iterations of the Welland Homes business plan, to include approval of new housing schemes based on a robust business case, will be approved by the Executive (within the constraints of the Welland Homes Housing Delivery Framework) on behalf of the Shareholder.

5.5 DATA PROTECTION

5.5.1 None

5.6 FINANCIAL

- 5.6.1 The Council will continue to establish the Welland Homes development budget each year.
- 5.6.2 The adoption of a Welland Homes Housing Delivery Framework will identify the parameters for spending the Welland Homes development budget.
- 5.6.3 Each new housing scheme will be approved on the basis of a robust business case which will set out the return on investment it is anticipated to achieve for the Company and the Shareholder.

5.7 RISK MANAGEMENT

- 5.7.1 The development process comes with inherent risk. Certain types of development activity come with greater levels of risk.
- 5.7.2 All funding decisions will be based on a robust business case to ensure that development risks are managed and mitigated.
- 5.7.3 Where possible, Building Control inspections will be undertaken by SHDC Building Control officers during the construction phase to provide an additional layer of certainty around the quality of the product.

5.8 STAKEHOLDER / CONSULTATION / TIMESCALES

- 5.8.1 Housing Development Officers will continue to liaise with developers, land-owners and agents to promote SHDC's and Welland Homes' delivery objectives.
- 5.8.2 In accordance with section 5.4.2 above, Policy Development Panel will be consulted on the draft Welland Homes Delivery Framework. The framework will be updated to reflect the feedback from the panel. A summary of the feedback from the panel will be included in any report to Cabinet/Council.

5.9 REPUTATION

- 5.9.1 None

5.10 CONTRACTS

- 5.10.1 None

5.11 CRIME AND DISORDER

- 5.11.1 None

5.12 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

- 5.12.1 The adoption of the Welland Homes Housing Delivery Framework and the continued delivery of new homes by Welland Homes will enhance equality within the district and support the Corporate Plan ambition to ensure that residents are enabled to live in high quality housing no matter the tenure.

5.13 HEALTH AND WELL BEING

- 5.13.1 The adoption of the Welland Homes Housing Delivery Framework and the continued delivery of new homes by Welland Homes will deliver housing solutions to meet local needs and aspirations. This will contribute towards improving health and wellbeing in the district

by ensuring that residents have access to a range of housing options in the district and are enabled to live in high quality housing .

5.14 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

5.14.1 None

6. ACRONYMS

6.1 SHDC – South Holland District Council

HRA – Housing Revenue Account

APPENDICES

Appendices are listed below and attached to the back of the report: -

APPENDIX A

Welland Homes Housing Delivery Framework

REPORT APPROVAL

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Appendix A

Welland Homes Housing Delivery Framework

This framework identifies potential housing delivery models and the appropriate decision-making authority for future investment decisions.

This framework relates to any investment decisions utilising the Capital Programme budget for Welland Homes housing delivery. The Welland Homes Housing Delivery Framework will apply to all new housing schemes proposed by Welland Homes for Shareholder consent..

Scheme approval, including the allocation of funds within the approved Capital Programme for Welland Homes delivery, will be in accordance with the following criteria.

Housing Delivery Models

Except in a case where the Full Council has given specific approval to a scheme that falls outside of this framework, any individual scheme approved by the Executive shall have an anticipated cost of less than £3 Million and shall comprise one or more of the following models:

Design and Build projects on SHDC land – The development of properties on sites in SHDC’s ownership, following consideration of a feasibility study prepared for that purpose.

Open market new-build dwelling acquisitions – The purchase of open market new-build dwellings where the business case evidences that those properties will meet a demand for market rented housing.

Second-hand property acquisitions from the open market – The purchase of second-hand open market properties where there is considered to be a strategic reason for the acquisition.

Land purchase for design and build projects – The purchase of land which is deemed suitable for the delivery of new homes.

‘De Minimis’ development or acquisition activity - Any development or acquisition activity not exceeding £250,000. Examples of such ‘De Minimis’ activity include minor activity which might be necessary to support potential housing sites to progress; the purchase of small parcels of land (such a grass verges, access points, private gardens, garage plots) to improve the nature of potential housing sites; and the purchase of individual properties where there is considered to be a strategic reason for the acquisition (such as to provide access to an adjoining potential housing development site).

Property requirements

The following property requirements will apply to any schemes to be approved.

Tenure – The scheme will provide homes suitable for market rent tenure.

Property type – Schemes will provide appropriate property type(s) as evidenced by local housing demand data. Property types could include a house, flat, bungalow or specialist housing unit.

Location – New homes will be provided in appropriate locations where there is evidence of demand for market rent homes. This could include areas close to employment sites and/or which are serviced by local amenities (such as shops, schools, doctors, public transport links etc).

Specification/Quality – The specification of any new homes approved will ensure that quality housing is provided which enhances Welland Homes’ stock portfolio. Legal representatives will review all contracts with developers, prior to Welland Homes entering into them. This will ensure contracts provide mechanisms to protect the company in the event that the quality of the homes is not as agreed. The acquisition of second-hand properties will be informed by appropriate property surveys.

Land ownership – Due diligence will be undertaken on all new homes to understand and minimise exposure to management company costs and to ensure there is clarity around land ownership and responsibilities.

Building Control – New homes delivered will be inspected by the Council’s Building Control officers unless there is a specific reason for delivering homes which have instead been inspected by an approved assessor. This could include delivery of homes where, at the point of entering into contract with the developer, the building inspections have already been undertaken by an approved assessor.

Housing delivery models outside of this framework

Any Welland Homes housing delivery project which does not meet the criteria set out above shall require Council approval.