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| REPORT TO: | Cllr T Carter, Portfolio Holder for Communities and Operational Housing (Welland Homes Shareholder Representative) |
| REPORT OF: | Matthew Hogan, Assistant Director - Strategic Growth and Development |
| REPORT AUTHOR: | Caroline Hannon, Head of Delivery |
| SUBJECT: | Purchase of three houses in Crowland |
| PURPOSE: | To propose that Welland Homes Ltd acquires three market houses in Crowland from a developer and to seek shareholder approval for the acquisition. |
| KEY DECISION: | Yes |
| WARD(S) AFFECTED: | All |
| EXEMPT REPORT? | No. However, the appendices are exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 because it contains information relating to commercially sensitive information |

SUMMARY

Welland Homes has a Business Plan for the delivery of 60 market rented homes. The company currently has 46 homes in ownership and has approved the purchase of a further 8 properties. This business case relates to the acquisition of 3 further market dwellings in Crowland which have been approved by Welland Homes Board. An agreement has been reached with the developer regarding the price for an 'off the shelf' acquisition of completed dwellings.

RECOMMENDATIONS

- 1) To approve the business case for the acquisition, by Welland Homes Ltd, of three houses for the purposes of a market rental investment
- 2) That the refreshed business plan and budget is approved and included as an amendment in the next SHDC Quarterly report to members.
- 3) That delegated authority be granted to the Deputy Chief Executive (Corporate Development) and S151, to (i) approve the terms of any loan agreements required; (ii) approve the value and the profile of any periodic cash flow payments to be made to the Company, as required to support the Company in the acquisition of the proposed investment properties.
- 4) To reaffirm the delegated authority, granted by Council on 25th March 2015, to 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.

REASONS FOR RECOMMENDATIONS

The delivery of three additional homes, for Welland Homes will provide the following benefits:

- Support the delivery of the Corporate Plan 2019-23 objectives to deliver new homes for our residents and provide a dividend to Council through Welland Homes and to ensure that residents are enabled to live in high quality housing no matter the tenure.
- As a long term investment, it is likely that the properties will appreciate in value.
- The delivery of 3 additional homes will help to meet the Business Plan target to have 60 homes in ownership.
- The delivery of another scheme which provides a positive return on investment will have a positive effect on the amount of profit available to distribute as a dividend or charitable donation in the future.

OTHER OPTIONS CONSIDERED

Do nothing – In this event, the company would not acquire the houses and alternative schemes would be pursued. This would not enable the company or the shareholder to benefit from the indicative return on investment that this project will provide.

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 Company currently owns 46 market rented homes across 6 sites and has stock in Spalding, Long Sutton, Holbeach and Crowland. The Company has also approved the purchase of a further homes in Sutton St James and Moulton Chapel which are due to complete during 2023.
- 1.3 This report provides a business case for the purchase of 3 market dwellings in Crowland, from a developer. The company already owns 7 properties on this site in Crowland and they are performing well, accordingly, Welland Homes Board is seeking to purchase further dwellings.

2. BUSINESS CASE

- 2.1 A detailed business case relating to the acquisition of these 3 houses was presented to Welland Homes Board in July 2023. The board received detailed information regarding the specification of the dwellings, the location of the site, local housing demand data, property inspections and building warranty information. The Board also received and reviewed scheme specific financial evaluation and a revised company business plan.
- 2.2 Following consideration of the business case, the Board identified that the scheme met their objectives:
 - The scheme will make an appropriate return to Welland Homes to enable the loan from the shareholder to be serviced.
 - The size of the scheme is appropriate.

- The Board is satisfied, based on the current understanding of the rental market and advice from the current letting agent, and other market intelligence, that the properties in this location will be in demand for private rented accommodation.
- The scheme will provide good quality accommodation.
- The design and specification of the properties is acceptable.

2.3 The company was satisfied that that the purchase of these dwellings would have a positive impact on the company and would provide an appropriate return to the shareholder and accordingly were satisfied that the properties should be purchased, subject to shareholder approval.

2.4 An offer has been submitted to the developer and accepted, accordingly there is agreement around the purchase price. The offer is subject to formal approval and due diligence. A formal valuation has been obtained which identifies that the agreed purchase price provides a discount on open market value.

2.5 The site already has planning permission and the plots which the Board is interested in purchasing are under construction. Further details are provided in the table below.

| Property type | Parking | Size (m2) | Developer's anticipated completion date |
|------------------------------|------------------|-----------|---|
| 2-bedroom end terraced house | 2 parking spaces | 68.99 | October 2023 |
| 2-bedroom mid-terraced house | 2 parking spaces | 68.99 | October 2023 |
| 2-bedroom end-terraced house | 2 parking spaces | 68.99 | October 2023 |

2.6 The developer has advised that the homes will be inspected by SHDC's Building Control officers during construction. The developer has also advised that the homes will be handed over with the benefit of a 10-year warranty. This will be checked by officers as part of the due diligence process.

2.7 The developer has advised that estate roads leading to these plots will be adopted. A management company will be established for maintenance of open space. Both of these matters will be checked further as part of the due diligence process.

3. CONCLUSION

3.1 Welland Homes has a Business Plan to have 60 homes in ownership. The acquisition of these three houses will support the company to meet its target. The scheme will provide a return to the company and the shareholder. The company already has seven homes on this site which are currently performing well. The financial evaluation is based on assumptions and therefore the actual returns could be different to that set out in this report.

4. EXPECTED BENEFITS TO THE PARTNERSHIP

4.1 The benefits of delivering this project are set out above in the 'Reasons for Recommendations' section of this report.

5. IMPLICATIONS

5.1 SOUTH AND EAST LINCOLNSHIRE COUNCIL'S PARTNERSHIP

5.1.1 None

5.2 CORPORATE PRIORITIES

5.2.1 The SHDC Corporate Plan 2019-23 sets out the Council's vision for the district and its priorities for this period.

5.2.2 This project will support the agreed vision and priorities of the Plan, including:

- Providing good-quality housing that everyone in our community can call their home.
- Enable 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.
- Ensure that our residents are enabled to live in high quality housing no matter the tenure.
- Deliver new homes for our residents and provide a dividend to Council through our Welland Homes housing company.

5.3 STAFFING

5.3.1 None. A Service Level Agreement between Welland Homes and South Holland District Council established the arrangements and costs associated with officers providing services for Welland Homes Ltd.

5.4 CONSTITUTIONAL AND LEGAL IMPLICATIONS

5.4.1 In May 2022, the Welland Homes Housing Delivery Framework was adopted by Council. The framework relates to investment decisions for Welland Homes Ltd. All Welland Homes housing investment projects which require an amendment to the Company's Business Plan, and meet the criteria within the framework, can be approved by the Executive subject to a detailed business case. This proposal is considered to be within the criteria of the framework and accordingly it is an Executive decision for the Shareholder Representative.

5.4.2 As per previous acquisitions, legal support for the contract negotiations and purchase will be provided by an external firm who will prepare a Report on Title to ensure the dwellings have good and marketable title. The contract will set out all of the documentation which must be provided prior to completion of the dwellings.

5.4.3 Welland Homes may exchange contracts with the developer prior to completion of the dwellings. This will ensure that Welland Homes is able to purchase the homes, subject to all of the contractual arrangements being adhered to. On exchange of contracts, a deposit is likely to be paid, to be held by Welland Homes' solicitor until completion. However, as the properties are due to complete in 2 months it is possible that a simultaneous exchange and completion will take place.

5.4.4 Capital funding for this scheme will be financed through a mixture of loans and equity provide to the company, by the authority. In line with the delegated authority granted by Council on 25th March 2015 and re-affirmed within the recommendations within this report, the Deputy Chief Executive (Corporate Development) and S151 shall approve the final mix of reserves and borrowing in line with the Business Plan and Council Treasury Management Strategy. The element of funding that comprises a loan will be subject to a formal loan agreement 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.

5.5 DATA PROTECTION

5.5.1 None

5.6 FINANCIAL

5.6.1 The current Welland Homes Business Plan is based on the Company having 60 homes in management by July 2024. In March 2023, the authority's Capital Programme was approved by the Council and allocated sufficient funding, through internal borrowing, to enable the Business Plan target to be met.

5.6.2 Detailed information regarding the capital costs of delivering these houses is provided in Appendices A-F This information includes a financial evaluation of this project; a revised Welland Homes Business Plan; an assessment of the financial impact of the revised Welland Homes Business Plan on the Council; and a comparison of the financial return anticipated to be achieved on this scheme alongside forecasts for other approved Welland Homes projects. This information demonstrates that with the benefit of this scheme, there continues to be a beneficial financial return to the Council from Welland Homes activity. This is forecasted to be over £0.428m per year by 2024-25 comprising equity dividends/donations, loan interest and staff recharges. The key difference between this revised Business Plan, and the Business Plan approved in March 2023, is that *this* Business Plan assumes that three dwellings in this Scheme 6B will be in management by December 2023 and three units in Scheme 6C by June 2024, whereas the previous Business Plan assumed all six would be in management by July 2024.

5.6.3 The assumed rental income has been informed by intelligence from Welland Homes' appointed managing agent. Appendix F provides sensitivity analysis regarding the assumed rental levels and shows that if a higher rental level is achieved, as suggested by the Red Book valuation, the assumed return on investment will improve.

5.6.4 The Bank of England base interest rate has increased in recent months. Accordingly, to ensure compliance with Subsidy Control, advice has been obtained by Deputy Chief Executive (Corporate Development) and S151, regarding the appropriate loan interest rate to charge to Welland Homes. The fixed-rate loan interest is higher on this scheme than it has been on other schemes. Accordingly, the company's interest payments will be greater which will reduce the amount of profit which the company is able to distribute each year. However, as the company always distributes its profit each year to benefit the shareholder, this will not have a significant impact on the company. Similarly, whilst the shareholder will receive a lower return from its equity investment for this scheme, it will receive a greater return on its loan investment, and the net impact on the shareholder will be nil.

5.7 RISK MANAGEMENT

5.7.1 In order to mitigate risk, a robust risk management structure sits around 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. A risk register for the Company is reviewed by the board and a

separate risk register, from the perspective of the authority is reviewed by an internal project group.

5.7.2 Acquisition and development activity has within it inherent risks. Risks around acquisition activity are sought to be mitigated through regular review and the preparation of project risk registers which are reviewed and updated throughout the lifecycle of a project by the project team.

5.7.3 Officers will appoint professional expertise to support Welland Homes to achieve the most preferable outcomes. A solicitor will be appointed to undertake legal due diligence, contract drafting and a Report on Title. A RICS accredited valuation has been obtained to ensure value for money in terms of the purchase price and assumed rents. A Buyers Representative will be appointed to ensure the homes are delivered in accordance with an agreed specification and that all appropriate regulatory certification is in place. All key documents will be listed within the contract and will need to be provided prior to completion taking place and the Buyers Representative will be appointed to check compliance with the contract and act in the authority's best interests.

5.8 STAKEHOLDER / CONSULTATION / TIMESCALES

5.8.1 Ward members have been informed that Welland Homes is seeking to purchase these properties.

5.8.2 Welland Homes has an ambition to purchase the homes in October 2023. The financial evaluation assumes that rental income for all 3 properties will be generated by December 2023.

5.9 REPUTATION

5.9.1 In order to mitigate reputational risk, a robust risk management structure sits around 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.

5.10 CONTRACTS

5.10.1 An external legal representative will be appointed to act on behalf of Welland Homes in any contract negotiations relating to the acquisition of the dwellings. The contract will contain a list of requirements and the properties will not be purchased until these requirements have been met. Additionally, Welland Homes will appoint a Buyers Representative to provide quality assurance at handover.

5.10.2 South Holland District Council will fund this project via a mixture of loans and shares. A loan and equity agreement will act as a contract between the Council and Welland Homes in relation to the financial arrangement between the two parties.

5.11 CRIME AND DISORDER

5.11.1 None

5.12 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

5.12.1 The delivery of 3 high quality market rental properties in Crowland 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 This project 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 The homes will be delivered in accordance with the appropriate building regulations relating to sustainable construction. At handover, each property will have an energy performance certificate illustrating the energy efficiency of the property and the efficiency rating.

5.15 LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER

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| MISSIONS | |
| This paper contributes to the follow Missions outlined in the Government’s Levelling Up White paper. | |
| Housing | By 2030, renters will have a secure path to ownership with the number of first-time buyers increasing in all areas; and the government’s ambition is for the number of non-decent rented homes to have fallen by 50%, with the biggest improvements in the lowest performing areas. |

6. ACRONYMS

- 6.1 RICS – Royal Institute of Chartered Surveyors
SHDC – South Holland District Council

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| APPENDICES | |
| Appendices are listed below and attached to the back of the report: - | |
| APPENDIX A | Exempt - Financial Evaluation |
| APPENDIX B | Exempt - Welland Homes updated Business Plan |
| APPENDIX C | Exempt - Business Plan Key Assumptions |
| APPENDIX D | Exempt - Financial Impact on Council |
| APPENDIX E | Exempt - Comparison with approved Welland Homes returns on other acquisition and development projects |
| APPENDIX F | Exempt - Sensitivity analysis |

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| BACKGROUND PAPERS |
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No background papers as defined in Section 100D of the Local Government Act 1972 were used in the production of this report.

CHRONOLOGICAL HISTORY OF THIS REPORT

A report on this item has not been previously considered by a Council body.

REPORT APPROVAL

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| Report author: | Caroline Hannon, Head of Delivery Caroline.Hannon@sholland.gov.uk |
| Signed off by: | Matthew Hogan, Assistant Director - Strategic Growth and Development Matthew.Hogan@sholland.gov.uk |
| Approved for publication: | Cllr T Carter, Portfolio Holder for Communities and Operational Housing and Welland Homes Shareholder Representative |