

Extraordinary Informal Joint Overview and Scrutiny Committee



Forest Heath
District Council

Title of Report:	Business Case for Establishing a Housing Development Company	
Report No:	OAS/FH/15/012	
Report to and dates:	Extraordinary Overview and Scrutiny Committee	15 October 2015
	Extraordinary Cabinet	27 October 2015
	Extraordinary Council	17 November 2015
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Purpose of report:	To present to members the business case for establishing a commercial company limited by shares for the purpose of developing housing, including homes for sale, private rent, affordable rent and shared ownership. The company would be wholly-owned by Forest Heath District Council (25% of shares), St Edmundsbury Borough Council (25%) and Suffolk County Council (50%) and will provide a revenue income to all Councils.	
Recommendation:	<p>It is <u>RECOMMENDED</u> that the Overview and Scrutiny Committee:</p> <p>(1) Considers the business case to establish a Housing Development Company; and</p> <p>(2) Proposes any amendments and recommends the business case to Cabinet.</p>	
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>	

Consultation:	<ul style="list-style-type: none"> • Homes and Communities Agency • Internal – Finance, Legal, HR • Suffolk County Council
Alternative option(s):	<p>The alternatives explored were:</p> <ul style="list-style-type: none"> • ‘do nothing’ beyond supporting new housing through traditional means, including disposing of land and/or providing financial grants to housing associations. REJECTED – the development company approach affords a better use of limited financial resources and is in line with the Councils’ commercial approach • the Councils to build directly. REJECTED – local authorities do not have powers to directly undertake commercial activity but can do so through a company • joint venture model with a private developer. REJECTED – this option would take significant time to establish, the structure would compromise flexibility, notably the Councils and partner would have to reach a mutual agreement to dissolve the company, and revenue income would have to be shared.
Implications:	
<i>Are there any financial implications? If yes, please give details</i>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Refer to section 2.</p> <p>Refer to section 3 of Appendix A to the draft Cabinet report.</p>
<i>Are there any staffing implications? If yes, please give details</i>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>Refer to section 3 of Appendix A to the draft Cabinet report.</p>
<i>Are there any ICT implications? If yes, please give details</i>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>None arising from this report.</p>
<i>Are there any legal and/or policy implications? If yes, please give details</i>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Refer to section 5 of Appendix A to the draft Cabinet report.</p>
<i>Are there any equality implications? If yes, please give details</i>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Refer to section 6 of Appendix A to the draft Cabinet report.</p>

Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High		Low/Medium/ High*
Business case insufficiently robust / not tested	Medium	<p>Employment of specialist financial consultants</p> <p>Sensitivity analysis carried to test impact of negative movement on key assumptions</p> <p>Scrutiny of external modelling by Finance staff</p>	Low
Insufficient expertise to ensure achievement of best value in property construction	Medium/High	<p>Include within the business modelling of the costs of an Employer's Agent to oversee the development process</p> <p>Provision for recruiting Company directors with background in development</p> <p>Use of Homes and Communities Agency's framework agreements for technical consultants and construction</p>	Low/Medium
Adverse movements in the housing market, such as property sales and/or rental price deflation, higher than anticipated building cost inflation leading, leaving the Company committed to unviable schemes	Medium	<p>Consideration of viability on a site-by-site basis so that if a scheme is not modelled to be viable, commencement is delayed or cancelled</p> <p>With assistance of the Employer's Agent, keep up-to-date with building costs and the like</p>	Low
Ward(s) affected:		Potentially all wards	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		None	

Documents attached:

Draft Cabinet Report - Full Business Case for the Establishment of a Housing Development Company

Appendices to the draft Cabinet Report:

Appendix A – Full Business Case for the Establishment of a Housing Development Company wholly-owned by Forest Heath District Council, St Edmundsbury Borough Council and Suffolk County Council

Appendix B – **EXEMPT** First ten years' profit and loss for the Company based on the four exemplar sites

Appendix C – **EXEMPT** Estimated Company expenditure in its first year – requirement for working capital

Appendix D – **EXEMPT** GVA's full report and modelling covering each exemplar scheme

Appendix E – Equalities Impact Assessment

1. Key issues and reasons for recommendations

1.1 Strategic Case

- 1.1.1 Forest Heath District Council and St Edmundsbury Borough Council are both facing significant reductions in government grant funding and so are looking to be more innovative and behave in more commercial ways to address revenue shortfalls while addressing local issues. Establishing a housing development company would contribute toward generating revenue and capital income at a greater level than simply selling the land assets.
- 1.1.2 The proposal is to establish a company would be wholly-owned by Forest Heath District Council (25% of shares), St Edmundsbury Borough Council (25%) and Suffolk County Council (50%) which developing housing, including homes for sale, private rent, affordable rent and shared ownership, and provide financial returns.
- 1.1.3 Attached to this report is the draft Cabinet report which makes the business case for the establishment of a housing development company. There is considerable detail contained in the draft Cabinet report, based on advice from GVA Consulting, covering the financial aspects, and Trowers and Hamlins, covering the legal aspects. The draft Cabinet report contains a series of recommendations, approval of which would enable the Company to be incorporated. Allocation of capital resources by the Councils to the Company, apart from the granting of a working capital loan, is not being sought in this Cabinet Report and will be the subject of future reports to Cabinet and Council. The Overview and Scrutiny Committee is asked to consider this business case prior to presentation to Cabinet.
- 1.1.4 The West Suffolk Housing Strategy 2015-18 identified the potential of a housing development company to meet key housing objectives in the West Suffolk.
- 1.1.5 The Company would make a significant contribution to West Suffolk's three key priorities in the following ways:
- *Homes for our communities.* The Company will provide new homes for sale, private rent, affordable rent and low cost home ownership. Adherence to planning policies will ensure the affordable homes meet the specific needs of local people, including provision of specialist accommodation. In addition, providing certain accommodation, for example specialist housing, is likely to stimulate movement within the housing market, freeing up larger homes in all tenures.
 - *Increased opportunities for economic growth.* Most notably the construction of new homes will provide (a) direct employment in construction, (b) employment through the supply chain, (c) skills development , for example training and apprenticeships
 - *Resilient families and communities that are healthy and active.* Most notably access to high quality homes will improve the well-being, both mental and physical health of local residents who currently struggle to secure suitable accommodation or live in accommodation that is unsuitable for their needs

2. **Financial viability**

- 2.1 Four exemplar sites have been considered. Detailed financial modelling by GVA Consulting indicates that for all four exemplar development sites considered, a financially viable housing development scheme is possible. Sensitivity testing carried out by GVA further indicates that the four exemplar schemes would all remain viable even with higher building cost inflation and lower rent inflation, among other key variables.
- 2.2 See Section 5 of **Appendix A** to the draft Cabinet report for further details.

3. **Governance**

- 3.1 As noted above, Trowers and Hamlins solicitors are providing detailed legal advice. The proposed governance structure would see Forest Heath District Council's and St Edmundsbury Borough Council's (along with Suffolk County Council's Cabinet) fulfilling the shareholder role, notably considering and agreeing the Company's Annual Business and Delivery Plan each year.
- 3.2 Refer to Section 3 of **Appendix A** to the draft Cabinet report for full details of the proposed governance arrangements.