

Appendix B

Local Housing Company

Full Business Case



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Introduction

This Full Business Case (FBC) has been prepared in relation to proposals to create a Local Housing Company (LHC) to help address Shropshire's unmet housing and development needs and deliver two developments, one in Ifton Heath and the other in Monkmoor, Shrewsbury.

The FBC has been prepared using the principles of Five Cases Model as recommended by the Treasury. These are that the business case in support of a new policy, new strategy, new programme or new project must evidence:

- That the intervention is supported by a compelling **case for change** that provides holistic fit with other parts of the organisation and public sector– the “strategic case”;
- That the intervention represents best **public value** – the “economic case”;
- That the proposed Deal is attractive to the market place, can be procured and is **commercially viable** – the “commercial case”;
- That the proposed spend is **affordable** – the “financial case”;
- That what is required from all parties is **achievable** – “the management case”.

It also meets the business case requirements of the ‘Trading Order’ – The Local Government (Best Value Authorities) Power to Trade (England) Order 2009, ensuring the objectives of the business are identified; the risks involved (Appendix H - Risk Assessment); and the expected financial outcomes (Appendix C - Business Plan) and any other outcomes the business is expected to achieve.

1. Strategic case

Shropshire housing market

The Local Plan Review of 2017 identified the need to build 28,750 new homes by 2036. Whilst in 2016/17 1,910 new homes were built, private sector developers are focussed on profit maximisation in the 3-5 bed ‘for sale’ market. The evidence is that the market is not, and will not, build the housing needed to meet the broad future needs of communities.

By way of illustration, roughly one third of new household formation is due to the growth in older population. By 2030, Shropshire will comprise of almost 33% people aged over 65.

There is a wealth of research that demonstrates how developing purpose designed housing promotes longer and more productive independent living which is better for residents and helps offset growing pressures in local health and care systems.

Local Authority led property development can target where the market is under-performing or failing to provide sufficient housing supply to meet demand. The local context can be evidenced from the sub-regional Strategic Housing Market Assessment which summarises projected levels of housing need and demand, including the required mix between property sizes, bedroom numbers, tenure types and rent levels versus incomes.

As well as helping to meet housing need in Shropshire, Council intervention in the market is likely to increase overall economic activity, supporting the delivery of investment in new homes. This has a multiplier effect in the local economy, with residents working in local businesses and spending in local shops and on local services. It also provides an opportunity to adopt key worker policies to encourage key workers in health, education, social care and other public services to remain or move to the County.

Any housing development solution considered by Shropshire Council would need to address market failure, increase the availability of affordable rented and for-sale housing and to develop housing types that the private sector developers are not building.

Fit with other Council objectives and priorities

The quality of housing greatly affects the health and wellbeing of residents. Inadequate housing can cause many preventable diseases and injuries, including respiratory diseases such as asthma and bronchitis, nervous system and cardiovascular diseases and cancer.

Over 25,000 people die each year in the UK because of living in cold temperatures and much of this is due to living in poorly heated homes. Living in cold homes can worsen arthritis and increase risk of falls and other accidents through stiffening and

tightening of the joints. It can also have a detrimental impact on mental health. Overcrowded homes can contribute to mental stress and reduce general wellbeing. Poor housing is estimated to cost the NHS at least £2.5 billion a year in treating people with illnesses directly linked to living in cold, damp and dangerous homes.

The link between housing and healthcare costs is now well established, with sizeable savings achievable in the costs of hospital beds and residential care through the provision of suitable housing. This would be likely to include delivering housing to support and empower independence. For example; younger and older people, disabled people, wheelchair users, people with a learning disability, people with a mental health condition, and people with an impairment.

Examples of types of housing which may help to address the needs of Shropshire include:

- Housing for Health / Social Care Clients - Step-Down Beds
- More Affordable Housing (to buy, rent or shared ownership)
- Later Living
- Key Worker Housing in Proximity to Workplace
- Housing to support potential growth in Student Numbers
- Shared ownership (varying %)

The initial two sites chosen to base this business case upon are in Ifton Heath and Monkmoor, Shrewsbury (Appendix C – Business Plan). They are both considered relatively straight forward to deliver; are on Council-owned land; able to provide a mix of development to help address local housing need; would otherwise be unlikely to be developed by the market; will enable a significantly increased percentage of affordable housing from a mandatory 10% and 20% respectively to over 40% for each; and will generate a modest profit as detailed within the Business Plan.

2. Economic case

The likely benefits of the delivery of more housing of the right type to address Shropshire's rural and urban housing and development needs are outlined above.

Having established that the current tenure and type of housing developed largely by the private sector is not delivering the mix and diversity of housing required to create a balanced market, and that intervention in the market by the Council in the delivery of new housing is likely to provide benefits, the next question is – what options exist to generate these benefits?

Council delivery without a separate vehicle

The Council has the ability and has previously funded the development of new social housing through its arms-length management organisation STaRH. The housing market needs across Shropshire identify demand of a range of house types, tenures and affordability levels.

Based on their understanding of the circumstances of the Council, Savills and Trowers & Hamlin have recommended that a separate vehicle is created, and that a wholly owned company limited by shares would be most appropriate.

Wider Benefit

There is no change to the findings of the Outline Business Case in respect of the overall economic benefits to this initiative. The Royal Institution of Chartered Surveyors research in 2010 revealed that for every £1 spent on construction there is a £2.84 induced or indirect effect on the local economy. In broad terms for every £10m the SLHC spends on construction there will be a £28.4m effect on the wider economy.

3. Commercial case

There are a number of legal considerations in the business case for a new vehicle. A high-level summary is set out below and should be read in conjunction with Trowers & Hamlins' detailed legal report.

Establishing a local housing company

The Council has the ability to establish a Local Housing Company to both develop new housing on land acquired or owned by the Council, for sale or rent. As set out in the Legal advice, the Council may utilise Section 1 of the Localism Act 2011 to do so - using the "General Power of Competence". If the Council is using this power for a commercial purpose, then it can only exercise this power using a company - but it is not precluded from using one otherwise.

Development

Once the vehicle had been established, the Council would need to consider its powers in relation to disposing of land to the vehicle, whether this is General Fund or Housing Revenue Account.

It should be noted that the Council has powers to undertake development itself, for example it may rely on Section 2 of the Local Authorities (Land) Act 1963 (the 1963 Act) to erect any building and construct or carry out works on land. However, this power may only be used where the development of buildings/works is objectively for the benefit or improvement of the Council's area (and not- for example - simply to provide a financial return to the Council).

Whilst the Council is potentially able to develop itself, the Council needs to be mindful of the fact that it would need to ensure that it was acting in accordance with its powers for each development.

Establishing a development company within a 'for profit' context will enable the development of a mixed portfolio of property providing the facility for profitable house types or developments to create enough value to enable otherwise uneconomic developments to be brought forward.

The key objectives of the company are to address unmet housing need, but also provide a mechanism for a financial dividend to the Council to support wider services for communities across Shropshire.

Rental properties for investment purposes

The LHC, if established, could also provide properties for rental purpose with any surplus being returned to the Council by way of dividend. The LHC would not be restricted in the types of tenancies that it provided.

If the Council were to hold properties itself for rent the tenancies would have limited flexibility as they would automatically be secure tenancies in accordance with Section 80 of the Housing Act 1985.

Set up and governance arrangements

The company will be set up in accordance with the Companies Act 2006, including the appointment to the Board of the company. The Memorandum and Articles of Association and other documentation required will be written under professional advisement from Savills and Trowers & Hamblins. The Council will hold 100% of the shares in the Company and have full ownership. This provides the Council with full control.

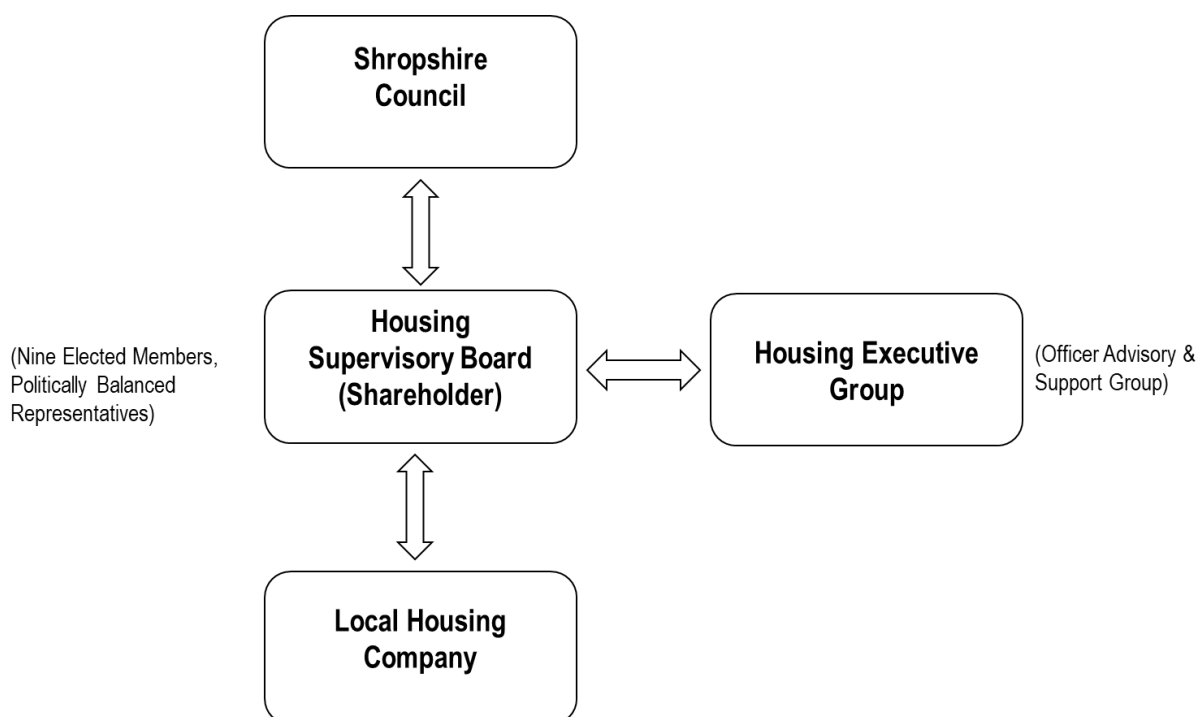
The Council and Company will ensure that appropriate governance arrangements (as below) are put in place to enable the Council, as the sole shareholder to set and oversee the strategic direction of the company whilst allowing the Directors of the company discretion to carry out the operational management effectively, efficiently and with clear targets and milestones. This will require a clear decision-making framework to ensure the Council as sole shareholder makes the appropriate decisions reserved for them; and give sufficient authority to the Directors to make decisions in relation to the day to day activities of the company.

Costs to establish the company are minimal. Ongoing operating costs will be determined by its ambition and scope of development.

It should be noted that establishment of the company in itself, does not create risks or commit the Council / LHC to undertake any development projects.

Governance structure

This Governance structure shown below ensures Members have oversight of the company's actions and performance as members of the Supervisory Board (supported by the Housing Executive Group) whilst being removed from day to day decision making and limiting the risk of a conflict of interest.



The operational management of the company will be carried out by Company Directors. It is suggested there are initially three Directors. As the Local Housing Company grows, it is expected that the Company Director structure will be reviewed, and additional Directors added, including two independent non-executive Directors.

4. Financial case

The outline business case (“OBC”) included high level illustrations of three developments in different parts of Shropshire. These were based on theoretical sites which were assumed to be of a good quality and ready for development, and incorporated very high level cost and value assumptions. The purpose of this presentation was to illustrate how the use of a separate company would work.

The FBC is now based on a business plan which uses more specific local data, with the benefit of modelled development appraisals for two sites, one in Ifton Heath and one in Monkmoor, Shrewsbury. As such, it takes into account a more detailed estimate of property values, land values, construction costs and other development costs which would be likely to apply in these areas.

Based on this data, the working assumption is that these two sites would have negligible land value and that they would generate insufficient profit to be delivered by the market. The business plan is based on the Local Housing Company taking forward two sites and delivering a much higher level of affordable housing than would be required.

As well as showing the financial position of the Local Housing Company, the business plan addresses its funding requirements and the resultant financial impact on the Council.

In summary, the business plan uses the development of two sites which would otherwise likely not be undertaken if left to the market, could be delivered by the Local Housing Company, providing a positive financial return and with increased affordable housing.

Retention of properties to rent

The business plan financial illustrations are based on development of properties for sale – either private sales, or affordable sales to an RP. As an alternative, some of the properties which would have been sold privately could be retained for rent by the LHC.

Such a decision would provide the Council with an option to make an additional financial return in a number of different ways, such as:

- A regular direct revenue return from the rental income generated by the properties.
- Based on the future capital growth of the properties, either a revenue or capital return, or re-investment into future property development/investment.
- An indirect revenue return through development and letting of properties which would produce revenue savings to existing Council budgets such as Adult Social Care.
- Options for securing a return in these ways are illustrated in the business plan.

Council financial implications

The Business Plan (Appendix C) shows the way in which Council funding for the LHC could be provided, so that development funding is capable of being repaid and that the Council would secure revenue receipts in excess of its revenue costs.

5. Management case

Many councils wishing to have greater place shaping control, and in response to financial pressures, have in recent years sought an alternative solution by creating Local Housing Companies. In effect to attempt to take the best operational elements from the private and public sectors and integrate them. It is currently estimated that over half of all local authorities have either set up or are in the process of creating their own Local Housing Company (LHC).

Whilst council companies have existed for many years, with trading powers set out in Section 93 of the Local Government Act 2003, the recent diversification of new companies was prompted by the General Power of Competence introduced in the Localism Act 2011.

Whereas councils could previously only trade their existing activities, this legislation enables a local council to undertake any commercial activity that an individual or private company can lawfully undertake, provided this activity is not explicitly ruled out or constrained for councils by another piece of legislation. This provides for purely commercial trading in services not previously provided by councils, such as building homes for market sale and rent.

Savills and Trowers & Hamlin have, in the past few years, been involved in the establishment of more than 50 local authority housing companies. Whilst many of the issues which arise were new several years ago, they have now been successfully addressed by these and many other local authorities, so that the risks of not being able to set up a LHC to provide benefits to the Council are now very low.

In establishing the company it is expected that in time a small number of additional staff will be recruited to give it capacity, development expertise, and sufficient focus to ensure successful delivery and benefit realisation.

