



<u>Committee and Date</u>	<u>Item</u>
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Cornovii Developments Limited: Shareholder Update

Responsible Officer

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1 Synopsis

This report updates on the activities of the Housing Supervisory Board and the operations of Cornovii Developments Limited (CDL) in accordance with the Housing Supervisory Board's Terms of Reference. The report presents detail of the activity of the Company since it entered delivery stage.

2 Executive Summary

- 2.1 This report provides Cabinet with an update on the activities of the Housing Supervisory Board (HSB) and the operations of Cornovii Developments Limited. The Housing Supervisory Board's Terms of Reference requires that there will be regular reporting to the Council on the activities of the HSB and operations of the Company, in accordance with its responsibilities.
- 2.2 The Council has reserved certain functions to itself, as shareholder of CDL, in the articles of association and the shareholder agreement, delegating some of these functions to the Housing Supervisory Board. This report sets out how the Housing Supervisory Board is exercising these functions in accordance with its Terms of Reference and the Shareholder Agreement.
- 2.3 To date CDL has developed 33 new homes at its development, The Frith and has a further 58 homes under construction at its Ellesmere and Ifton schemes. Over the next twelve months the company anticipates that it will be on site at a further three schemes, which will bring forward 192 new homes
- 2.4 In March 2022 the Housing Supervisory Board approved CDL's 10-year Business Plan. The Plan aims to deliver of 728 new homes, 590 market sale and 138 affordable homes. According to CDL's Business

Plan the company anticipates that during the plan period it will return to the Shareholder £33m, made up of dividend, capital receipt, interest payments and traded services. This estimate is based on the development of the sites currently identified in the Business Plan, some of which are subject to acquisition by CDL. It should also be noted that dividends comprise the profit distribution made by a company to its shareholder, their amount is therefore determined by actual profits achieved and any amount approved for distribution.

- 2.5 Through engagement with the Senior Management Team at Cornovii Developments and its Board of Directors, the Housing Supervisory Board continues to perform its responsibilities to monitor the performance of the Company in delivering its Business Plan in order to ensure compliance with the Council's corporate objectives and progress in meeting unmet housing need.

3 Recommendations

- 3.1 To receive the report and raise any issues as appropriate on the activities of the Housing Supervisory Board and the operations of Cornovii Developments Limited in accordance with the Housing Supervisory Boards Terms of Reference.

REPORT

4 Risk Assessment and Opportunities Appraisal

- 4.1 The Housing Supervisory Board monitors the progress and performance of CDL, at a minimum of quarterly intervals, through monitoring reports presented by CDL to Housing Supervisory Board. The Managing Director of CDL attends all Housing Supervisory Board meetings to give account of the Company's activities and its progress in meeting unmet housing need. At the request of the Housing Supervisory Board, the Chair of the CDL Board will also attend meetings.
- 4.2 The performance of the Company in delivering against its approved Business Plan is also monitored by the CDL's Board of Directors and is the subject of a comprehensive risk register which is reviewed by the CDL Board on a quarterly basis. Sensitivity analysis is undertaken by CDL on its Business Plan to understand the level of risk in relation to build cost and income, the two major cost categories in the plan, most exposed to wider economic forces. This process is repeated regularly with outcomes reported to the Housing Supervisory Board.

- 4.3 Further to the monitoring of the Company by its Board and the Housing Supervisory Board, the CDL Monitoring Board, made up of officers from departments across the Council, meets on a quarterly basis to review the activity of CDL, supported with further oversight by the Homes and Communities Team. A Risk Register, which covers risk to the Council in its role as Company Shareholder, is monitored by the CDL Monitoring Board and the Assistant Director of Homes and Communities and the Client and Commissioning Manager.

5 Financial Implications

- 5.1 There are no specific financial implications that relate to the decision contained within this report.

6 Climate Change Appraisal

- 6.1 CDL understands the importance of its role in helping the Council reach its net zero targets. The Company's 2022 Business Plan encompasses 15 carbon zero homes, which will operate using air source heat pumps, not only reducing carbon footprint but also addressing energy usage, having a positive impact on future residents' energy bills. Within the 2022 Business Plan CDL has set out its intention to be at least 31% more energy efficient when compared to current UK building regulations standards. The approaches CDL will take to become more energy efficient and to mitigate against climate change are set out below. These intentions will be monitored by the HSB through the analysis of quarterly reports received from the Company.
- 6.2 *Energy and fuel consumption.* In order to facilitate carbon reduction and energy efficiency, the projects delivered by CDL will capitalise on sustainable design solutions, use processes and material that are not detrimental to the environment and ensure that post construction operations are environmentally friendly. Carbon savings from design measures will be quantified wherever possible. All homes at the Company's Frith, Ifton and Ellesmere developments will have an EPC rating of A. Carbon savings from these properties are anticipated to fall within the predicted energy assessment and will be confirmed at completion of the homes. It is estimated that the homes at these developments will produce 0.34 tonnes of carbon per year, which, when considered against a typical EPC rated property which produces 3.2 tonnes of carbon per year, represents a saving of 2.86 tonnes of carbon per year.
- 6.3 *Renewable Energy Generation.* There are a range of opportunities for the generation and storage of renewable energy from building mounted solar panels and battery energy storage, which are to be incorporated into the design of homes where possible. Solar panels are being fitted to the homes at The Frith, Ifton and Ellesmere. The

installation of the solar panels will not allow the homes to be 100% self-sufficient and there will still be a need to rely on feed from the grid.

- 6.4 *Carbon offsetting or mitigation.* Designs of schemes within the CDL programme will incorporate tree planting and landscaping to support carbon capture and storage, biodiversity, natural flood management and urban cooling. It is the intention of CDL to deliver a biodiversity net gain across the development programme. Neither the homes at the Frith nor Ellesmere Wharf benefit from any additional off-setting measures over and above the landscaping measures approved at planning. The Ifton site will however benefit from the planting of additional trees.
- 6.5 *Climate Change Adaptation.* It is anticipated that CDL homes will be designed in a way which is sympathetic to the climate using materials and construction methodologies that reduce the emission of carbon into the atmosphere and ensure homes are protected from overheating. The flood risk assessments for the Frith, Ellesmere and Ifton demonstrated that there is no risk of a 1 in 100 + 30-year flood event, which was also demonstrated by the Engineer's drainage calculations. Rainwater goods have been sized by the Architects to capacities required by Building Regulations. The homes at the Frith and Ellesmere schemes are generally situated on NE/SW axis, with principal rooms situated on that axis, to prevent extreme heating and extreme cooling. Ifton plots 1-17 are situated on a NW/SE axis, with principal rooms situated on that axis. All other plots are on a NE/SW axis, with all principal rooms position to limit solar gain and heat loss.

7 Background

- 7.1 CDL was incorporated in 2019 by Shropshire Council to meet unmet housing need across the County and to provide income to support the Council to become more financially self-sufficient. Since its establishment CDL has successfully developed a pipeline of sites for delivery of homes and is currently on site with three schemes, recently completing homes at its first scheme, The Frith, where all homes have now been sold or reserved.
- 7.2 The Council has delegated certain Shareholder functions to the Housing Supervisory Board. The Housing Supervisory Board, which meets quarterly is responsible for approving all Shareholder Consent matters, as set out in the Shareholder Agreement, to include approving the Company Business Plan and appointing, removing or dismissing any director. CDL is obligated under the terms of the Shareholder Agreement to report to the Housing Supervisory Board at quarterly intervals on the operations and performance of the Company, its progress in meeting unmet

housing need and on the objectives contained within the Business Plan. The Company is also required to report to the Housing Supervisory Board any matters which may adversely impact on performance, internal audit reports of the Company and borrowing reports for all lending of the Company.

- 7.3 The 2022 Business Plan was presented to and approved by the Housing Supervisory Board at its March 2022 meeting. This Business Plan demonstrated the growth and ambition of the Company as it moves to a period of direct delivery, which during the Plan period will see the development of 728 new homes, 590 market sale and 138 affordable homes.
- 7.4 In 2020/21 private developers working across 16 sites delivered affordable housing averaging 11% on each site. In 2021/22 private developers working across 10 sites delivered affordable housing averaging 12.5% on each site. The Housing Strategy 2020-25 anticipates the delivery of 300 affordable homes from private developers through planning gain (excluding CDL). CDL's aim to deliver 138 affordable homes represents 19% of its overall delivery across the programme.
- 7.5 Benchmarking of CDL delivery of affordable homes against delivery by other private developers operating within Shropshire will take place throughout the life of the business plan. Benchmarking against delivery by other Local Authority Housing Companies is problematic as each has a different set of objectives and have been set up to address issues specific to their local area, for example, some are building only private rented homes, some are building just affordable homes, whilst others operate with a clear aim of providing only financial return.

8 Housing Supervisory Board Activities

- 8.1 In accordance with its Terms of Reference the HSB is required to report to the Council on the activities of the HSB and operation of the Company in accordance with its responsibilities. This section of the report sets out each of these responsibilities and reports on the activities undertaken in connection with each responsibility.
- 8.2 The giving of consent for the Shareholder Consent Matters set out in Schedule 1 of the Shareholder Agreement
- 8.2.1 From time to time the Housing Supervisory Board is requested, by CDL, to approve Shareholder Consent Matters as stated within the Shareholder Agreement. Such Consent Matters, to date, have included, approval of the Company Business Plan, the latest of which was approved in March 2022. CDL's Business Plan sets out the Company's programme to deliver 728 new homes over the 10-year plan period. The Company has delivered 33 homes at its

development, The Frith, of which 12 are affordable homes, purchased by the Council into the Housing Revenue Account. A further 58 homes are under construction at the Company's Ifton Heath and Ellesmere sites, which will deliver 35 and 23 new homes respectively. In April 2022 CDL achieved planning for 135 new homes, to include 15 Carbon Zero homes, at London Road. Starts on site, to include London Road, are expected at a further three schemes within the next 12 months, which will bring forward another 192 (inclusive of London Road).

8.2.2 Further consent matters have included approvals for the appointment of directors to the CDL Board.

8.3 *Monitoring the operations and performance of the Company through the receipt and analysis of quarterly reports prepared and presented by officer of the Company*

8.3.1 The Housing Supervisory Board receives quarterly monitoring reports from CDL to show progress against the objectives of the Business Plan. The reports feature data on process to completions in accordance with the approved business plan; sales forecast; homes by tenure type and bedroom size; completions; borrowing reports; financial position against the business plan and risk and opportunities. These reports are presented by the Managing Directors of CDL. The reports received demonstrate that progress against the Business Plan remains satisfactory.

8.4 *Ensuring compliance with the Council's corporate objectives as set out in the Council's corporate plan*

8.4.1 The HSB ensures compliance with the Council's objectives through the scrutiny of monitoring reports presented at its quarterly meetings. Notably the HSB ensured compliance with its climate change objectives by asking CDL to reconsider its original specifications for its Ellesmere scheme and including within the design solar panels.

8.5 *Receiving internal audit reports from directors and officers of the Company*

8.5.1 To date no internal audit reports have been presented to the HSB from the Company.

8.6 *Receiving quarterly reports on the Company's progress in meeting unmet housing need in the Council's administrative area, including information on land disposals, developments appraisals, housing numbers and types*

8.6.1 Quarterly reports on the Company's progress in meeting unmet housing need are presented to the HSB at each meeting. CDL's

Business Plan aims to deliver 138 affordable homes across 9 sites during the 10-year plan period, progress in meeting this target is being monitored by the HSB. All of the sites identified within the business plan are currently within Shropshire Council's ownership and are unused and or derelict. Subject to approval to dispose of these sites to CDL, the Company will develop these sites bringing forward much needed housing whilst contributing to the local economy.

8.7 *Receiving quarterly borrowing reports for secured and unsecured lending of the Company*

8.7.1 The CDL Business Plan is financed by loan facilities (in addition to the Council's equity investment) provided by Shropshire Council on commercial terms. The performance of the company against the terms of the loan are monitored by Shropshire Council's Finance Department, with quarterly meetings scheduled.

8.7.2 All requests for loan drawdowns are approved by the Executive Director of Resources and subject to a viable Development Appraisal, approved first by CDL's Board of Directors. The Housing Supervisory Board receives quarterly borrowing reports for all lending of the Company. The current drawdowns are in line with expectations and in accordance with this stage of the Business Plan.

8.7.3 Negotiations and approvals are proceeding on the collapse of the two existing loans, £14m and £35m into a single revolving facility for the full £49m. It is expected that the approvals for the restatement of the loan agreement will be concluded by late Summer. This restatement will allow more financial capacity (due to the terms of the loans) to deliver the approved business plan.

8.7.4 CDL anticipates that during the life of the current 10-year Business Plan, it will return to the Shareholder £33m made up of dividend, capital receipts and traded services. The Company expects that each project is anticipated to exceed the Shareholder return margin, with a total programme return of 14%. The Council has not undertaken to independently assess the income the Company is likely to return to it as Shareholder. CDL's anticipated return to the Council is based upon the successful delivery of all sites identified within the Business Plan, it should be noted that negotiations for the purchase of these sites by CDL have not yet been concluded.

9 **Additional Information**

9.1 A feature of the CDL Board and Housing Supervisory Board Forward Plan is a joint Away Day. The purpose of the Away Day is to review the progress of the Company in meeting unmet housing need and in delivering the objectives of the Business Plan. Furthermore, the Away Day seeks to ensure that there is continued alignment

between the strategic direction of the Company and the Council.
The Housing Supervisory Board members are also invited to attend an annual tour of the CDL sites.

10 Conclusions

- 10.1 Cabinet is asked to receive the CDL Shareholder update and to note the performance of the Company in achieving the objectives of its business plan and in meeting the strategic housing needs of Shropshire Council.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Cabinet Member (Portfolio Holder)

Cllr Robert Gittins Portfolio Holder Digital, Data & Insight and Built Housing

Local Member

Appendices

[Please list the titles of Appendices]