

CABINET MEETING

Date of Meeting	Tuesday, 13 th October 2015
Report Subject	NEW Homes Business Plan 2015/20
Portfolio Holder	Cabinet Member for Housing
Report Author	Chief Officer Community and Enterprise
Type of Report	Strategic Planning

EXECUTIVE SUMMARY

This report seeks Cabinet approval of the NEW Homes Business Plan 2015/20. The plan sets out key elements of the company's proposed growth plan to increase the number of properties managed and owned as affordable housing over the next five years.

The business plan has been approved by NEW Homes Board as a strategic planning document; subject to ongoing scheme by scheme final approval and validation of financial appraisals by the company's board and the council's cabinet. This includes any new homes to be developed via the SHARP programme, and any property acquired through borrowing against existing assets.

Twice yearly monitoring of NEW Homes progress against its business plan is undertaken by the Community and Enterprise scrutiny Committee.

RECOMMENDATION

- | | |
|----|--|
| 1. | Cabinet is asked to approve the NEW Homes Business Plan 2015/20; noting that any proposed developments requiring capital funding will be brought to cabinet for specific scheme by scheme approval following approval by NEW Homes board |
|----|--|

REPORT DETAILS

1.00	EXPLAINING THE NEW HOMES BUSINESS PLAN
1.01	<u>BACKGROUND</u>
1.02	North East Wales Homes, (NEW Homes) is a Housing company based in Flintshire and owned by Flintshire County Council. NEW Homes owns, leases and manages properties across Flintshire. The company was established to increase the quantity and quality of affordable housing available across the county; increasing housing choice for those who may not qualify for social housing but for whom market housing is unaffordable or difficult to access. In addition NEW Homes provides a professional service to landlords as a managing agent as a means to increase the supply of quality affordable housing.
1.03	In its first year of operation the company has generated a surplus of £18k. The draft business plan identifies ongoing annual surpluses and these will be held and returned to the council at agreed intervals for reinvestment in council priorities. The next two years expect similar surpluses to year 1 rising to £0.180m in year three following the growth of the SHARP development.
1.04	The Board of NEW Homes met in January 2015 to review the development of the company to date and progress against the original business plan objectives and targets. A range of ideas and plans emerged from this session and after further analysis and development work over a six month period this was developed into a revised business plan for NEW Homes.
1.05	This work has been supported by independent expertise and challenge; and after detailed consideration and risk analysis has been approved by NEW Homes board as an achievable, moderate plan for growth over the next five years.
1.06	As part of this process, the Board reviewed progress of the three main portfolio areas against the projections made in the original Business Plan.
1.07	New build units transferred to NEW Homes under Section 106 Planning Agreement
1.08	NEW Homes received 15 new build properties in 2014/15 from developers meeting their affordable housing provision obligations through Section 106 Agreements. These units were transferred into the company as unencumbered assets to be let as affordable housing and form a profitable element of the company's stock portfolio.

<p>1.09</p> <p>1.10</p> <p>1.11</p>	<p>Management Offer</p> <p>NEW Homes manages and lets property on behalf of landlords who own property, through a management agreement. The product enables the company to take on all the functions of the landlord in return for a one off £195 sign-up fee and a 10% of rental income monthly management fee which is subject to annual review. NEW Homes currently has 26 properties within its management portfolio.</p> <p>The relative costs of running this service, as compared to the company's other business activities and the level of competition that is being faced have raised questions about continued investment in this service. The company's experience of operating in this area is relatively short however and therefore it has been agreed that further analysis should be undertaken so that an informed decision on the future of this service can be made.</p> <p>Over 55 Lease Scheme</p> <p>The Over 55 Lease Scheme is the third portfolio area which enables an elderly home owner to lease their property to NEW Homes and access more suitable council accommodation. The development of this package has developed more slowly due to legal complexities initially and agreeing processes relating to the allocation of Flintshire Council properties. These are now resolved and there is an expectation that home owners will want to take advantage of this opportunity.</p>
<p>1.12</p> <p>1.13</p>	<p><u>CONSIDERATIONS</u></p> <p>Proposals for the growth of the company has also considered the findings of the recent Flintshire and Wrexham Local Housing Market Assessment (LHMA) which has identified:</p> <ul style="list-style-type: none"> • An annual shortfall of 246 affordable dwellings across Flintshire; • The suggested affordable housing tenure split for Flintshire identified by the assessment is for 56% social/affordable rent and 44% intermediate tenure. • The LHMA identifies a clear need for smaller two bedroom properties for under and over 65s; • Around one third of all households in Flintshire can afford an intermediate affordable house priced at £100,000 or less (or the equivalent total housing costs). <p>Based on the key findings of the LHMA, it is clear that NEW Homes has an important play to play alongside the Council (through the SHARP programme) local housing associations and the private rented sector to address the identified housing need in Flintshire during future years. Through its strategic housing role, the Council will develop a robust delivery framework for different housing providers to work together across Flintshire which offer a number of different housing products and tenures which meet the housing needs and aspirations of local communities.</p>

1.14 There are three key elements of the company's proposed growth plan in terms of increasing the number of new, affordable units within NEW Homes housing portfolio. These are as follows:

1.15 **Strategic Housing And Regeneration Programme (SHARP)**

1.16 For the period February 2016 – December 2019 it is projected that 300 homes will be delivered to NEW Homes through Phase 1 of the SHARP.

1.17 The NEW Homes Board approved in principle (subject to detailed final financial appraisals) the first proposed scheme on The Walks, Flint at its Board meeting on the 10th September 2015. This scheme will provide 50 new properties; 50 to be let at affordable rents and 10 available for Low-Cost Home ownership. The property mix will be as follows:

	Rent	Low-Cost Home Ownership
Property Type	No.	
1 Bed Apartment	5	
2 Bed Apartment	16	
2 Bed House	21	5
3 Bed House	8	5
Sub Total	50	10
Total	60	

1.18 These homes are planned to be funded through 30 year leasing arrangements, which will see NEW Homes receive a management and maintenance fee, plus allowances for voids and bad debts, with the remaining income meeting leasing finance costs. A final report will be submitted to Cabinet in November (following NEW Homes board approval) seeking approval for the funding arrangements for the first homes to be developed as part of the SHARP programme. Current modelling makes very prudent assumptions about rental income and management and maintenance costs providing comfort that there is minimal risk in meeting leasing finance costs. At the end of the lease homes would revert to NEW Homes for a fee of £1 per property.

1.19 **New build units transferred to NEW Homes under Section 106 Planning Agreement**

1.20 A further 13 new build units are due to be transferred to NEW Homes during 2015/16 from 3 schemes across the county, with 3 final properties in 2016/17, providing a total of 31 homes.

Borrowing against existing assets

1.21 NEW Homes aims to borrow against its existing assets to secure new affordable housing units. Initial plans included in the financial modelling will see NEW Homes acquire 8 properties to let at affordable rents. This is a

	<p>prudent level of borrowing against assets owned, and early indications are that private markets would be interested in lending to NEW Homes for this purpose. Prior to commencement of this area of the company's growth plans detailed financial appraisals will be approved by the NEW Homes board and the council's cabinet.</p>
1.22	<p>Management Offer The company will continue to grow slowly through the management of homes owned by private landlords.</p>
1.23	<p>The business plan is attached to this report as Appendix A.</p>

2.00	RESOURCE IMPLICATIONS
	Private Borrowing
2.01	<p>NEW Homes is exploring the opportunities available to borrow. This could be from the private market directly, either through borrowing secured against its own housing stock or through unsecured borrowing, with the Council potentially acting as a guarantor. Research has commenced and the company has taken advice from Warrington Borough Council which has been funding housing development for some time. It is possible that the Council may be able to follow Warrington's example and lend to NEW Homes, at the same time creating a return for the Council and a boost to the local economy whilst also providing NEW Homes with the capacity to grow and meet local need.</p>
2.02	<p>In terms of the affordable housing delivered through the SHARP, the leaseback model of funding has been identified as the most suitable private financing model available to the Council. As outlined in the Cabinet report of September 2014, within this model the Council provide the land for development; the developer then builds the units and leases these back to the Council. The units then revert back to the Council at the end of the lease period for a nominal sum.</p>
2.03	<p>NEW Homes will seek independent financial and legal advice prior to approval of new developments to be delivered as part of the SHARP programme and prior to undertaking any borrowing against existing assets. The council has already procured independent legal and financial advice to support delivery of the SHARP programme. The council's legal and financial teams will consider each development individually prior to recommendation to cabinet for approval. In addition as a wholly owned subsidiary of the council, the council's treasury team will consider any accounting and/or financial impact and risk for the council for any new developments.</p>
2.04	<p>NEW Homes does not currently directly employ staff to undertake its key business activities, and delivers its services through an agreement with Flintshire County Council or by using external providers. A new proposed management and staffing structure is projected to be in place by 30th November 2015 which will continue to be provided by Flintshire County Council and recharged to NEW Homes.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>On-going community consultation has been undertaken during the inception of the vision for The Walks scheme in Flint, with the latest event being held in St Mary's Church on the 9th October 2015.</p> <p>The Community and Enterprise Scrutiny Committee reviewed the NEW Homes Business plan at their meeting on 7th October and the outcome of this will be reported to Cabinet ahead of consideration of the recommendations in this paper.</p>

4.00	RISK MANAGEMENT
4.01	The SHARP is underpinned by a Risk Register which is regularly reviewed at two-weekly SHARP Project Team meetings. These are also reported to the SHARP Project Partnership Board and Housing Revenue Account Programme (HRA Programme Board).
4.02	In respect of funding solutions for affordable homes to rent, the most accessible (and cost effective) options are obtained by a Council provision of a repayment guarantee (in much the same way as if the Council financed through public finance routes i.e. prudential borrowing): repayments would be funded from rental incomes. The funding model for each scheme makes prudent allowances for vacant units and bad debt to ensure that there is sufficient headroom within the funding model to minimise the potential of any shortfall of income over expenditure; therefore providing a high level of assurance that arrangements will be self-financing from rental incomes.
4.03	In order to ensure both the Council and NEW Homes realise value for money for both the scheme build costs and the proposed funding option adopted will be independently verified by a Cost Consultant.

5.00	APPENDICES
5.01	Appendix A - NEW Homes Business Plan and Growth Strategy 2015/20.
6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None.</p> <p>Contact Officer: Clare Budden Chief Officer (Community & Enterprise)</p> <p>Telephone: 01352 703800</p> <p>E-mail: clare.budden@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<i>NEW Homes- wholly owned company of the council SHARP- The council's Strategic Housing and Regeneration Programme</i>