

# Report to Cabinet

**21 June 2023**

<b>Subject:</b>	Feasibility of establishing a Council Owned Housing company
<b>Cabinet Member:</b>	Cabinet Member – Regeneration and WMCA (Cllr Hughes)
<b>Director:</b>	Director of Regeneration and Growth Tony McGovern
<b>Key Decision:</b>	No
<b>Contact Officer:</b>	Housing Partnerships Business Manager Alan Martin <a href="mailto:Alan_Martin@sandwell.gov.uk">Alan_Martin@sandwell.gov.uk</a>

## 1 Recommendations

- 1.1 That approval be given to not proceed with the establishment of a Council owned Housing Company at this stage.
- 1.2 That approval be given to authorise the Director of Regeneration and Growth to discontinue any further works in relation to the development of a validated Business Plan for the creation of a new housing delivery vehicle as approved by Cabinet - Options to Develop a Council Wholly Owned Housing Delivery Vehicle - 23 February 2020 (minute no 53/20 refers) and to mutually terminate the consultant commission with Savills in accordance with the public procurement rules, the Council's procurement and contract procedure rules and financial regulations.
- 1.3 That a further report be submitted to the Cabinet in the event the option of establishing a Housing Company is considered necessary, if circumstances materially change.

## 2 Reasons for Recommendations



- 1.1 To safeguard the council's investment into any proposed vehicle or subsidiary, the council will need to ensure that the Business Plan is viable, achievable and affordable and that the cashflow does not create a potentially unreasonable risk to the council's treasury.
- 1.2 The initial Savills business model using cost/value assumptions to test out commercial viability (profitability) indicated that the viability of the business model was marginal in June 2022. Further changes in market conditions as examples in 4.1.7 have exacerbated the situation and further affected viability in an adverse way.
- 1.3 Due to the inability to deliver a validated business model with acceptable levels of risk it is considered prudent to discontinue with the Savills commission at this point, as to continue with the remaining areas of work as defined in 4.1.3 items 2f-2i would result in abortive works and costs.

### **3 How does this deliver objectives of the Corporate Plan?**

- 3.1 Whilst increasing the number of new homes in the Borough is a Corporate Plan priority, this report is a strategic report to establish the feasibility of a Council Owned Housing company as a housing delivery vehicle. The objectives of the corporate plan will be considered and met through alternative housing delivery options that are more cost effective.

## **4 Context and Key Issues**

### **4.1 Background**

- 4.1.1 Following a cabinet member briefing in August 2019, initial works were undertaken to look at the options available to the council, to deliver the housing ambitions sought by Cabinet. Savills were commissioned to provide an initial report into the issues and considerations for the council in creating a housing delivery vehicle, and to work with officers with a view to developing an Initial Business Case (Stage 1) for the Council's cabinet to consider before moving into the Detailed Business Case (Stage 2). Savills completed this work and reported that based on the initial assessment and modelling the creation of a Housing Development Company was a viable option at that point.



4.1.2 The next stage to move into Stage 2 Detailed Business Case to provide more detailed business plan for the next 3-5 years by challenging some of the assumptions within Phase 1 identifying potential risks and mitigating actions and providing recommendations on the constitution and governance of the company - this was approved by Cabinet 23 February 2020 (minute no 53/20 refers)

4.1.3 Stage 2 Detailed Business Case started March 2020. The main areas of this work were to include;

2a) Identify sites/potential acquisitions

2b) Research rental/ sales values, build costs, acquisition costs, management and maintenance costs

- Explore financial resourcing including debt, equity and grant subsidy
- Build business model using cost/value assumptions, test out commercial viability (profitability)
- Sensitivity testing to consider risk of variability in key assumptions (e.g. inflation)
- Evaluate and recommend suitable corporate legal form
- Evaluate and recommend a suitable governance structure.
- Draft a robust and detail Business Case and 3-5 year Business Plan.
- Report to Cabinet – Secure Political approval to proceed to Stage 3 implementation.

4.1.4 The project plan included gateways for the Savills to report progress to senior officers prior to moving to the next stage. Stages 2a-2e above were completed for a number of options. The initial focus was the delivery of homes on SMBC owned land (or where there was an interest) in order to diversify and intervene with the housing market through a Development Company (DevCo) and the potential to hold some of the properties long-



term and rent on the open market through a Local Housing Company (LHC). This option proved difficult to validate as the Council does not own an adequate pipeline of sites to provide the numbers of new build properties to give a program of 3-5 years which would be required to justify the set up/running costs of a company.

4.1.5 The secondary focus was centered on a business case for a Local Housing Company via one or a mixture of:

- a) Acquisition of homes from the open market or future private development for long-term holding and rented at Market levels
- b) Acquisition of vacant office blocks and redevelop as private accommodation for renting at either market or affordable levels
- c) Acquisition of large homes for the provision of specialist/supported housing and letting at appropriate rent levels (in addition to provision within the HRA)
- d) SMBC acquire properties and refurbish for long-term lease for renting at either market rent or affordable levels
- e) The opportunities that may be presented from regeneration sites such as Rolfe Street and Grove Lane

4.1.6 All of the options modelled were either borderline viable, provided only marginal gain or gave a negative overall impact to SMBC in early years. When a sensitivity analysis was applied to the modelled assumptions very small changes to items such as Public Works Loan Board (PWLB) borrowing rates, interest rates, management costs, open market values, development costs and rent levels further affected viability in an adverse way.

4.1.7 Since the modelling was completed Public Works Loan Board (PWLB) borrowing rates, interest rates, management costs and development costs have all increased considerably. Open market values have plateaued and are expected to fall as interest rates continue to rise and rent levels are not increasing in line with inflation because of the cost of living crisis which would now make the viability negative in most options.



4.1.8 In the period since February 2020 when the creation of a Housing Development Company was considered a commercially viable option there have been several factors that have had a considerable impact on the construction and housing sectors. The impact of Covid, Brexit, Global recession, the invasion of Ukraine, UK recession, Cost of Living Crisis and the energy crisis have placed unprecedented pressure on these sectors. Many housing developers and housing associations are now re-visiting their business plans and scaling back development activity due to the levels inflation and the volatility of uncertain market conditions. From a council perspective it is not considered prudent to enter this market as these market conditions are not conclusive to delivering a validated business plan with acceptable levels of risk.

## 5 Alternative Options

5.1 There is no alternative option, if the Council continues with the commission it is likely to result in abortive works and cost.

## 6 Implications

<p><b>Resources:</b></p>	<p>The project cost of delivering Stage 2 was approved by Cabinet 23 February 2020 (minute no 53/20 refers) This figure included the appointment of a lead consultant and all the professional consultant disciplines that would be required. The budget to fund the appointment of consultants and the preparation of the Detailed Business Case was allocated from the Land Development Fund.</p> <p>The required budget will now be less than already approved due to the reduced work stages within the commission.</p>
<p><b>Legal and Governance:</b></p>	<p>There are no specific immediate legal or statutory implications arising from the proposal outlined in this report.</p> <p>Advice will be taken from the Council's Procurement Strategy Officer and Legal Services to ensure that the Public Contracts Regulations and the council's procurement and contract rules are complied with.</p>



<b>Risk:</b>	The Corporate Risk Management Strategy (CRMS) will continue to be complied with throughout, in identifying and assessing the significant risks associated with this strategic proposal. This includes (but is not limited to) political, legislation, financial, environmental and reputation risks. A project risk register has not been compiled at this stage as no initial risks have been identified. This position will be reviewed and updated on a regular basis, but should any risks be identified, arrangements will be put in place to manage and mitigate these effectively.
<b>Equality:</b>	An Equality Impact Assessment screening exercise has been carried out and a full Equality Impact Assessment is not required.
<b>Health and Wellbeing:</b>	There are no implications of the recommendations on health and wellbeing of our communities contained within this report.
<b>Social Value:</b>	There are no implications Social Value contained within the report. Social Value will be considered as part any future alternative housing delivery options to ensure that as consequence of the construction, there will be demonstrable and measurable social value commitment. Creating employment and skills opportunities, engaging with the local supply chain and bringing a positive impact on the social, economic and environmental wellbeing for the local areas will be considered as a desired project outcome on all schemes.
<b>Climate Change:</b>	There are no implications for climate change outcomes and any potential impact on the environment contained within the report. The impact on emissions, resource use, or the natural environment of any future housing development will be considered as part any alternative housing delivery options.
<b>Corporate Parenting:</b>	There are no Corporate Parenting implications arising from the proposal outlined in this report.



## 7. Background Papers

- 8.1 Report to the Cabinet Member for Strategic Resources and Jobs and Economy, 29<sup>th</sup> October 2014 Changing the Housing Landscape in Sandwell (Key Decision Ref. No. C043) Minute no 75/14 refers
- 8.2 Report to The Cabinet, 6<sup>th</sup> April 2016 Changing the Housing Landscape in Sandwell Summary programme for Council House New Build (Key Decision Ref. No. REI021) Minute no 61/16 refers
- 8.3 Report to The Cabinet, 23<sup>rd</sup> February 2020 Options to Develop a Council Wholly Owned Housing Delivery Vehicle (minute no 53/20 refers)

