

WMCA Housing & Land Delivery Board

Date	3 rd March 2021
Report title	Strategic Outline Business Case for an Affordable Housing Delivery Vehicle
Portfolio Lead	Councillor Mike Bird, Leader, Walsall MBC
Accountable Employee	Gareth Bradford, Director of Housing & Regeneration (Accountable Director) Pat Willoughby, Head of Policy (Housing & Regeneration) (Accountable SRO) Rob Lamond – Strategic Planning Manager (Report Author)
Report has been considered by	The Affordable Housing Delivery Vehicle has been the subject of several reports to WMCA Housing & Land Delivery Board– these are listed under Section 12 below, and Delivery Steering Group and the relevant meetings of the West Midlands Housing Association Partnership throughout its ongoing development

Recommendation(s) for action or decision:

The Housing & Land Delivery Board is recommended to:

- 1) **Consider and endorse this Outline Business Case**, which sets out the background, strategic context and rationale for the development of a Full Business Case between WMCA and West Midlands Housing Association Partnership Investments (WMHAPI) for the establishment of a new regional collaborative Affordable Housing Delivery Vehicle to address the pressing housing affordability challenge of the West Midlands.
- 2) **Agree, subject to conditions, the principles of establishing an Affordable Housing Delivery Vehicle (AHDV) and endorse the work underway to develop a comprehensive Full Business Case with supporting detailed financial and legal due diligence for consideration later in 2021.**
- 3) **Note** that any WMCA investment into the proposed Affordable Housing Delivery Vehicle (of land/grant/loan) would be subject to Investment Board consideration and approval and the robust gateway approval and assurance processes for all investments made via the WMCA's Single Commissioning Framework and Single Assurance Framework and approval by the WMCA Board of the Full Business Case setting out the legal, financial

and risk implications arising from the proposal to establish a new Delivery vehicle structure

The above recommendations are subject to

- 1) The completion of detailed financial and legal due diligence which is feeding in to a Full Business Case for the establishment of the AHDV to the satisfaction and approval of the WMCA Director of Housing and Regeneration, WMCA Head of Governance, and WMCA Finance Director.
- 2) Confirmation of the first tranche of sites to be brought forward by the vehicle.
- 3) The identification and assessment of any WMCA funding based on appraisals and approvals that are fully compliant with the Single Commissioning Framework, Single Assurance Framework and the associated assurance and gateway process.

1. Purpose

- 1.1 The purpose of this report is to set out the Outline Business Case (OBC) for the proposal to establish a new regional Affordable Housing Delivery Vehicle (AHDV). This proposal, for a joint venture between the WMCA and housing association partners in the region, has been the subject of robust and detailed assurance and due diligence work and its purpose, success criteria and operation has been considered by the Housing & Land Delivery Board on many occasions over the previous two years.
- 1.2 The January 2021 meeting of the Housing & Land Delivery Board received a further paper containing an easily accessible summary of its previous decisions on the context, rationale and potential benefits of the proposed vehicle, the context for affordable housing in the region, and the pressing housing affordability challenge the new vehicle seeks to address and proposed next steps. **The January 2021 Housing & Land Delivery Board agreed a recommendation to work up an outline business case for a proposed WMHAPI/WMCA vehicle for further discussion and endorsement at March's Housing & Land Board – hence this report.**
- 1.3 It is important to note that this report recommends the agreement of the Housing & Land Delivery Board only to the *strategic case for establishing* an AHDV.
- 1.4 This report does not recommend or seek to recommend any investment by WMCA into the proposed vehicle. Investment into a proposed vehicle would be subject to the approval of a Full Business Case to WMCA Investment Board, in line with the established robust governance and approval process for consideration of all other investments of devolved housing and land funds made by WMCA via its Single Commissioning Framework. As it involves the creation of a new vehicle it would also need to be ratified by a full WMCA Board.

2. Background and timeline

- 2.1 The Housing Deal, agreed by the WMCA and Government in March 2018, set out a range of measures to support the delivery of new homes. It included ambitious targets to deliver 215,000 new homes by 2031, increasing the annual delivery rate from 10,000 to 16,500.

WMCA stated that increasing the supply of affordable and social housing is critical to delivering these overall targets. Whilst specific commitments to affordable housing policy and investment were not detailed in the Deal, WMCA made it clear, during negotiations, that this would be a matter to which the Authority would return in due course.

- 2.2 Discussions have been ongoing with Homes England, the West Midlands Housing Association Partnership (WMHAP) and the National Housing Federation (NHF) ever since the Housing Deal was signed in March 2018 to support increased affordable housing provision and investment across the region. WMHAP is a partnership of circa 30 housing associations across the West Midlands and has represented the sector as a member of the Housing & Land Delivery Board since its formation in 2017.

- 2.3 A detailed summary of the ongoing proposals was included in the January 2021 report to Housing & Land Delivery Board. It is important to note that from the inception of discussions, **a key requirement was that delivery of any new homes should be above and beyond those already planned within the committed and approved business plans of the housing associations.** From the outset, the focus was on a regional proposition to help address regional conditions and provide additionality.

3.0 The Proposed ADHV

- 3.1 As noted in Section 2 above, the development of a proposal for a joint delivery vehicle with housing associations has been the subject of many reports to the Housing & Land Delivery Board since 2018 and its grounded in the pressing need to address the well understood housing affordability challenges in our region. Importantly, it seeks to provide a mechanism to deliver additional affordable homes which will sit alongside (rather than replicate) those which are supplied by housing associations individually – **providing genuine additional affordable homes.**
- 3.2 The concept, agreed in principle by Housing & Land Delivery Board in November 2019, looks to bring together the combined expertise and resources of several of the largest housing associations within the region who are forming a dedicated Limited Liability Partnership known as West Midlands Housing Association Partnership Investments (WMHAPI). The affordable homes developed by the Limited Liability Partnership will be available for “offtake” by any of the WMHAP members, not solely the investing partners. Therefore, the vehicle would demonstrate genuine collective delivery across the region and help to secure wider inclusive growth benefits and community partnerships.
- 3.3 The AHDV will utilise the resources and expertise of the WMCA and WMHAPI to directly deliver new homes in the West Midlands by:

- WMCA investing land and grant/loan investment, following approval through the SCF, as equity in the AHDV (in line with similar investments made by WMCA);
- WMCA, may, if necessary, also make grant funding available – for example, to remediate or clear a challenging brownfield site for the vehicle to develop affordable homes on - subject to full compliance with the SCF framework and single assurance framework;
- WMCA may also make available loans to the AHDV, which will be repayable with commensurate interest and terms, reflecting the risk of the development;
- The Registered providers will invest risk capital and potentially land for equity in the vehicle.

3.4 Initially, the AHDV will focus on land controlled by the WMCA (the first tranche). A portfolio of sites would be included to enable brownfield developments that would not ordinarily be delivered commercially in the marketplace.3.5 A review has been undertaken of WMCA owned land identified as surplus including operational land and sites recently purchased using Housing and Land programme funding. A long list of sites has been appraised against criteria agreed with WMHAPI, including ownership, capacity to deliver at least 20% affordable housing and a mix of unit types. This has resulted in six sites being identified as potential for inclusion in the first tranche (**NB these sites are at this stage being identified for potential assessment only. No decision on disposal of these sites is being sought: that would be a decision to be made under the WMCA’s established constitutional arrangements for the acquisition and disposal of land**).

Table 3.1 sets out summary details of the potential first tranche sites.

Table 3.1: Potential Tranche 1 Sites	
Number of sites	6
Total size (ha)	4.5
Housing Capacity (units)	400+
Average unit size and range	69 (24 – 158) units
Locations	Wolverhampton Birmingham Coventry Dudley Sandwell (2)

- 3.6 Based on advice from Trowers and Hamblins, it is proposed that the AHDV will be a Limited Liability Partnership owned between the WMCA and the WMHAPI. However, other options will continue to be assessed in completing the FBC.
- 3.7 In line with the direction of travel indicated by the Housing & Land Delivery Board in 2019 and 2020, the proposed model ensures that WMCA is an **equal partner** in the joint venture and therefore shares equally in financial returns of the vehicle whilst also sharing the development risk. Accordingly, the WMCA would nominate 50% of the Board members of the proposed vehicle and would have equal voting rights on decisions made.
- 3.8 The draft Heads of Terms for the establishment of the proposed new vehicle include sections on the proposed:
- AHDV LLP membership structure
 - The Business of the AHDV
 - Decision making and governance
 - Proposed Board composition and reporting to WMCA Board
 - Investment principles and returns
 - Warranties etc

The draft Heads of Terms also include provisions for parties to exit the agreement at the conclusion of each tranche, in the event of deadlock, and on dissolution of the AHDV.

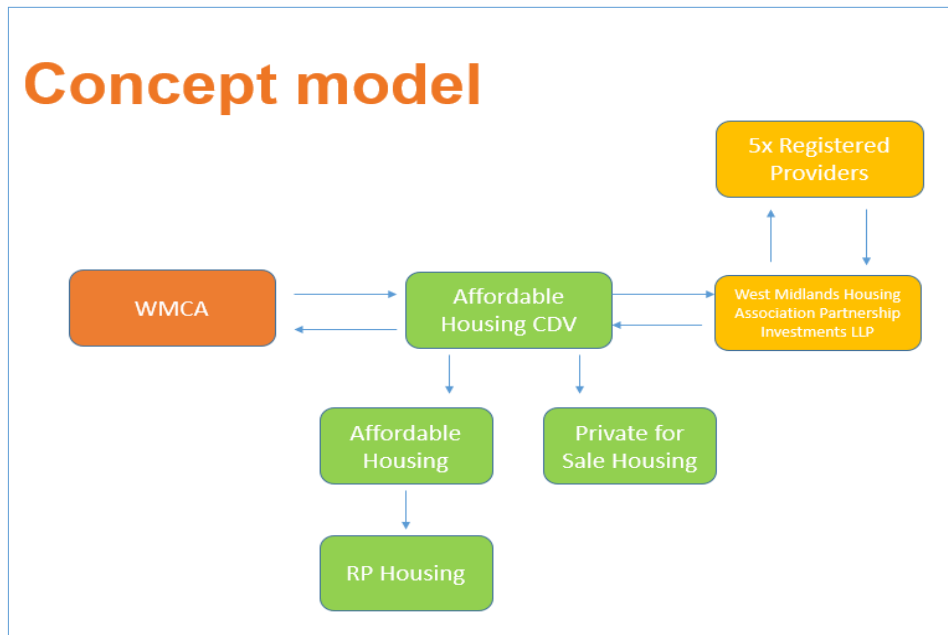
- 3.9 The Full Business Case will include and reflect the key criteria of the WMCA Single Commissioning Framework and Single Assurance Framework in order to ensure compliance with WMCA governance arrangements.
- 3.10 The AHDV would report to the WMCA Board, Investment Board and Housing & Land Delivery Board in line with governance arrangements for similar proposals. Any arrangements would be open to accountability and scrutiny by the WMCA Overview and Scrutiny and Audit Committees in line with the Constitution.

4.0 Strategic Fit

- 4.1 The proposed vehicle provides a delivery mechanism whereby WMCA establishes multiple benefits including:
- it maintains influence over the quality, delivery and community benefits of developments through the proposed vehicle;
 - it recycles investment into further schemes that deliver additional affordable housing and brownfield regeneration;
 - it aligns with the strategic housing needs identified by local authorities and contributes additionality; and
 - it implements policy objectives centred on design, construction, brownfield development, affordable housing, zero carbon and promoting inclusive growth.

It is important to note that the proposed approach is expected to generate revenue for further investment into future housing schemes in our region, thus maximising and multiplying the public investment into any site. This approach is in line with steers from the Housing and Land Board and exemplifies the WMCA's strategy for delivery of high quality, additional affordable homes and wider community outcomes.

- 4.2 This vehicle will seek to harness the resources and expertise of the largest housing associations (which would be investing their own funds in the vehicle) to establish a direct delivery vehicle capable of intervening across the West Midlands with the objective of creating new homes and communities to contribute towards the region's social and economic growth.
- 4.3 Through leveraging significant investment and expertise from the investor partners in the West Midlands Housing Association Partnership, in combination with assets and/or investment from the WMCA, the proposed Affordable Housing Delivery Vehicle has the potential to play a significant role in the delivery of more affordable and high quality homes in the region, which will then be "off taken" by Registered Providers. ***It is important to note that the AHDV business model does not propose that the vehicle maintains or owns any housing stock itself following completion of development.***
- 4.5 All properties developed will be disposed either on the open market to the general public or targeted households or to principal Registered Providers and other members of the West Midlands Housing Association Partnership to secure additional affordable housing. This will ensure that local housing associations with a relevant presence in the area are able to participate in, and benefit from, the outcomes of the proposal. The criterion of a minimum of 20% affordable homes (including social rent, affordable rent and shared ownership) included within the SCF will be applied to all schemes delivered by the vehicle, in accordance with local planning policies regarding tenure, housing mix etc. **NB in areas where local planning conditions set a higher than 20% threshold for affordable homes, the vehicle will work within the local policy requirements.**



5 Financial Implications

- 5.1 There are no financial implications from this paper, as no vehicle or legal entity is to be created, no land put forward or financial investment made at this stage. A detailed financial appraisal of the Affordable Housing Collaborative Delivery Vehicle is on-going and will need to be completed to fully understand all financial and tax implications to the WMCA. This appraisal will be completed as part of the Full Business Case and any subsequent Investment Board process.
- 5.2 The work to date on the AHDV has been carried out using internal resource and external advice. The total cost to bring forward the Full Business Case and ultimately create the vehicle is estimated to be between £150,000 - £200,000. This is all funded by Housing and Land grants previously secured from MHCLG.
- 5.3 WMCA investment in any proposed Affordable Housing Collaborative Delivery Vehicle and subsequent projects, due diligence, feasibility or studies would be governed and administered through the Single Commissioning Framework, WMCA Single Assurance Framework, Commission Pathway and in line with the accounting and taxation policies of the WMCA and HMRC.

6. Legal Implications (*)

- 6.1 Section 113A(1)(a) of the Local Democracy, Economic Development and Construction Act 2009 gives WMCA a power of competence appropriate for the purposes of carrying-out any of its functions. Part 4 of The West Midlands Combined Authority Order 2016 (2016 No 653) confers that the functions relating to any economic development and regeneration in the constituent councils are exercisable by WMCA. Part 3 of The West Midlands

Combined Authority (Functions and Amendment) Order 2017 confers functions corresponding to the functions of the Homes and Communities Agency has in relation to the combined area. Paragraph 10 (2) (a) of the 2017 Order confers the function of improving the supply and quality of housing to the Combined Authority, 10 (2) (b) to secure the regeneration or development of land or infrastructure in the combined area, 10 (2)(c) to support in other ways the creation, regeneration or development of communities in the combined area or their continued well-being and 10 (2)(d) confers the function of contributing to the achievement of sustainable development and good design.

6.2 It is noted that the development of the business case and the formation of a new Affordable Housing Delivery Vehicle is being supported with additional external legal support and at this stage no significant legal barriers have been identified. Legal input will continue to be required at the relevant stages involving putting in place appropriate governance structures and legal processes and agreements. Any co-investments including grant and/or loan funding from WMCA will need to comply with the criteria and governance systems set out in the WMCA Single Commissioning Framework and will need to be considered on a case by case basis.

7.0 Options Appraisal

7.1 The OBC has considered several alternative options, as follows:

- Do nothing - continued level of delivery of affordable homes in region via existing delivery and funding models
- Preferred option – the proposed AHDV provides a delivery mechanism to achieve additionality and regional scope in order to make a significant contribution to delivery of more affordable homes in future
- Alternative structures – during the development of the AHDV proposal a number of alternative models and delivery structures have been considered, including Special Purpose Vehicles and individual site disposal agreements. However, these options provide a more piecemeal and less co-ordinated approach to delivery and the additional inclusive growth benefits available via the AHDV.
- Site disposals and grants to the private sector – the financial analyses indicate that public sector gap funding requirement would be greater under this approach than the proposed AHDV option. Furthermore, it is uncertain whether the private sector would be interested in taking on the more difficult brownfield sites without substantial grant support.

7.2 At this OBC stage the preferred AHDV option is identified as meeting a clear need in terms of bringing forward brownfield land for additional homes in particular affordable homes, with the opportunity for the WMCA to influence the design and nature of the schemes and reinvest any returns into further land and development projects to bring forward more affordable housing and brownfield regeneration in the region.

8.0 Risk Assessment

8.1 The key risks and mitigations are summarised in Table 16.1. Overall, the level of risk is assessed to be medium-high, which is to be expected for a pilot of a new affordable housing delivery vehicle at the OBC stage.

Table 16.1: Risk assessment			
Risk	Management / Mitigation	Residual	
		Impact	Likelihood
Financial returns – key assumptions such as land value	The financial model, assumptions and potential returns on investment have been subject to considerable analysis to date and will be subject to further due diligence, peer review and stress testing as part of the FBC development. Identification of sites suitable for AHDV development will be key to the Full Business Case.	High	Medium
Exit if not working	Heads of Terms include provision for exit strategies should the vehicle not deliver its objectives or should partners wish to dissolve the agreement	High	Medium
Debt	Securing appropriate debt terms for the vehicle will be key to delivery. If the appropriate terms cannot be negotiated, then the vehicle could not continue and the additional affordable homes would not be delivered	High	Medium
RP delivery track record	The RPs forming the investment partners for the proposed vehicle are all significant and recognised £multi-million enterprises with considerable footprint in the West Midlands region. Individually they have considerable delivery records. The risks of provider failure and financial/economic stability will be included in the FBC and mitigated via the business planning process.	High	Low
Reputational risks	Due diligence, options appraisal and collaborative approach with the RPs and wider WMHAP partnership has mitigated reputational risks, however any high-profile collaboration with commercial partners to deliver affordable homes carries a residual level of risk. Agreed partnership communications, stakeholder engagement and governance arrangements will play a critical role in mitigating and reducing reputational risk. Arrangements to monitor and manage these processes will be included in the FBC.	Medium	Medium
Delivery of strategic objectives	The principles, objectives and outcomes for the proposed AHDV have been refined and articulated throughout several reports to Housing and Land Board. In order to assure WMCA Board and other stakeholders that the vehicle is delivering its purpose and objectives, robust reporting and management	High	Low

Table 16.1: Risk assessment

Risk	Management / Mitigation	Residual	
		Impact	Likelihood
	procedures will need to be in place to provide the necessary governance and assurance.		

9.0 Next steps

- 9.1 Subject to endorsement from Housing and Land Delivery Board for the Outline Business Case proposed establishment of the vehicle, all parties will collaborate on the development of a Full Business Case and detailed investment proposals to subsequent Boards for approval.
- 9.2 The proposed FBC will be based upon detailed strategic, economic, financial, commercial and management assessment and appraisal of the development model, in line with the due diligence and governance processes for all investment cases made to Investment Board. It will need to achieve all the “success criteria” set out by the Housing and Land Board and full compliance with the Single Commissioning Framework, and WMCA Single Assurance Framework as noted above in this report in order to progress further for any investment, subject to Investment Board governance processes.

10. Impact on Delivery of Strategic Transport Plan

N/A

11. Equalities Implications (*)

- 11.1 A full Equalities Impact Assessment is being completed in parallel with the development of the Full Business Case for the AHDV. This will assess the potential impacts of the proposed AHDV and any mitigations required.

12. Inclusive Growth Implications

- 12.1 The proposed Delivery Vehicle would operate via the WMCA’s Single Commissioning Framework which includes Inclusive Growth outcomes including affordable housing, use of local labour and suppliers, and quality of design and placemaking as part of the key criteria for investment of Combined Authority funds.
The proposed Vehicle will establish key outcomes and measures relating to Inclusive Growth as part of the business case.

13. Geographical Area of Report’s Implications

- 13.1 The report covers the whole of the WMCA area.

14. Schedule of Background Papers

- 14.1 06.09.2018 Housing & Land Delivery Board - Social Housing Green Paper Update and Response
- 14.2 21.02.2019 Housing & Land Delivery Board – Housing Affordability: Update and Proposal to HM Government
- 14.3 04.11.2019 Housing & Land Delivery Board – Affordable Delivery Vehicle: Update
- 14.4 27.04.2020 Housing & Land Delivery Board – Affordable Housing Delivery Vehicle Update
- 14.5 06.07.2020 Housing & Land Delivery Board – Affordable Housing Delivery Vehicle Update
- 14.6 04.11.2020 Housing & Land Delivery Board - Affordable Housing Collaborative Delivery Vehicle: Progress Update
- 14.7 13.01.2021 Housing & Land Delivery Board - Affordable Housing Delivery Vehicle

Note; (*) denotes mandatory field