

# **STRATEGIC CASE STUDY**

## **Strategic stage**

### **ADVANCE MATERIAL AND EXAM DAY MATERIAL**

**07 December 2021**

#### **Time allowed: 3 Hours 30 minutes**

All questions must be answered. The weightings for each question are indicated. The examination has been prepared on the assumption that candidates will not have any detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.

Notes: **\*\*\* This revised version of the Advance Material should be the one used for the Strategic Case Study examination on 7 December 2021. In this revised version, the Statement of Financial Position for Buena Casa Housing Association has been removed and should be assumed to be unavailable. The contents of the originally published version of the Advance Material should therefore be disregarded in the examination.**

# STRATEGIC CASE STUDY

## Strategic stage

### NOTES TO CANDIDATES

- i) Answers to be prepared as on 7 December 2021 by Jan Nowak a newly qualified accountant employed by Buena Casa housing association.
- ii) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

### QUESTIONS

<b>1</b>	Prepare a briefing paper for Buena Casa's Chief Executive which assesses the possibility of Buena Casa acting as the lead organisation for a <i>Four Walls First</i> pilot scheme in Haven.	48%
<b>2</b>	Prepare a briefing paper for Buena Casa's Chief Executive which includes an initial appraisal of the development proposals currently available to Buena Casa and analyses the organisation's risk appetite statement.	52%

## Country of Paradiso

Paradiso is a country with a population of 50 million, covering an area of 200 000 km<sup>2</sup>. It is a parliamentary democracy, with national elections every 4 years. As a developed country, its citizens have enjoyed a relatively high standard of living for many decades.

The global financial crisis of 2008 had a significant impact on Paradiso's economy and led to a period of sustained cuts to public expenditure. Its economy was beginning to recover when the global COVID-19 pandemic hit Paradiso in October 2020. Although the pandemic is now receding as a consequence of an extensive vaccination programme, the Paradiso economy was hit very hard. During a series of "lockdowns" all non-essential shops and services were closed with areas such as hospitality, entertainment, culture and travel being particularly impacted. Unemployment is now at 12% of the working age population.

During the pandemic it was necessary for the national government to increase public expenditure considerably, and the fiscal deficit is now at a record peacetime high. The government recently started a fundamental review of public expenditure plans and most commentators expect there to be major cuts in expenditure across most areas of government activity. The government is pinning its hopes for economic recovery on the transition of the economy from fossil fuels to renewables. It has recently announced a *Green Deal* strategy with plans to achieve a zero-carbon economy by 2036.

Paradiso's currency is the Paradiso £ which is equivalent to the UK £ sterling. Public services are funded through national and local government taxation and some user charges. Some services such as defence and healthcare are the responsibility of central government. Other services such as education and social care are devolved to local areas and delivered through a range of public and private sector organisations.

All cities in Paradiso have seen a downturn in the activities that previously attracted people to their city centres: work, shopping and entertainment. The pandemic has significantly increased working from home and online shopping, and this appears to be making city centre living less attractive, particularly for younger people. In light of this loss of footfall and associated revenue, some local administrations are beginning to question the future role of city centres. Ideas such as converting shopping centres into urban parks and communal areas are being discussed.

### The City of Haven

The city of Haven, with a population of 300 000, is in the north of Paradiso. Haven City Council (HCC) is the local authority responsible for delivery of local services including planning for the local built environment, housing and homelessness, education and social care. Although some of these services are commissioned from the private sector, most are commissioned from the not-for-profit sector.

Haven has a significant heritage in coal mining, steelmaking and pottery. It went into long term decline from the 1970s as Paradiso became more of a service-based economy. Before the pandemic, Haven had been starting to recover from post-industrial decline due to HCC's economic regeneration strategy, which included the development of business parks where small and medium-sized businesses were becoming established. In addition, a number of major international corporations were setting up large scale warehousing and distribution services locally. There was also an emerging tourist industry, capitalising on the area's industrial past and extensive network of canals and heritage buildings.

Work has recently started on construction of a new high speed rail line connecting Haven to Eden, Paradise's capital, 200 km away, and this project is due to be completed by 2030. This has provided a welcome post-pandemic boost to Haven and its environs in terms of immediate job creation on the construction project. Additionally, many international companies are reportedly now looking for sites to relocate to in the area. House prices in Haven are increasing faster than national average house prices due to the new rail line and the release of suppressed demand for housing during the pandemic.

The need for public spending cuts over many years has been a continuing challenge for HCC. However, it has made good progress through delivering efficiencies, driving greater value from procurement, redesigning services and rationalising the council's buildings and land. Despite this, HCC's recently published Medium Term Financial Strategy (MTFS) highlights the need to identify significant further savings over the next five years. The strategy will need to be underpinned by some fundamental changes to service delivery.

### **Housing issues in Paradise**

Housing is a major social and political issue in Paradise. Successive governments have set targets for private sector house building which have not been achieved, resulting in a failure to provide sufficient homes for purchase or rental to meet demand. Government policy has encouraged home ownership for 40 years, not allowing local authorities to build publicly owned housing and relying on the private sector to provide a solution. Since 2000, there has been significant house price inflation in Paradise. In 2000, average house prices were 3.5 times average annual household income levels. However, by 2020, average house prices had risen to 7 times average annual household income levels.

The percentage of the population in insecure housing or homeless was a major and growing issue prior to the pandemic. Official statistics recorded 30 000 homeless people at the end of 2019, but this was considered by homelessness charities to be a significant underestimate. During the pandemic, there was a significant increase in the numbers of defaults on mortgages and people in rental properties falling into arrears.

### **Housing Associations in Paradise**

Housing associations (HAs) are major providers of rented property in Paradise. They deliver a mix of accommodation types to people, ranging from those in receipt of social security benefits, whose rent is paid by central government, to people who can afford a full market rent from their own income sources. HAs are not-for-profit organisations whereby rental income (including housing benefits, paid by central government, for tenants whose income does not cover the rent) is ploughed back into the acquisition and maintenance of property. There are 1 000 HAs in Paradise, which in total provide 4 million homes to over 10 million people. The remainder of the housing rental market is provided by private landlords. HAs may or may not be registered charities, and they may or may not specialise in assisting particular social groups with accommodation – for instance, older or disabled people. Many HAs have become key providers of specialist accommodation, developing expertise in the delivery of services which include

housing and care and support to vulnerable groups who require this.

HAs first appeared in the late 19th century as part of a growth in philanthropic and voluntary organisations in Paradise. In recent years, HAs have been under increased pressure to be accountable and to provide value for taxpayer's money, in particular funds derived from housing benefits. HAs have increasingly found it necessary to become more commercial and increase the number of market rent properties provided. This has happened at the expense of providing so many rental properties for those people receiving housing benefit. HAs were originally developed with the aim of making accommodation available and affordable for all, and, until recently, were perceived entirely as an option for those in the lower-income brackets or in particular need. However, as housing becomes more expensive, HA rentals increasingly also provide the best opportunity for younger people in higher-income brackets to find a home in a desirable area.

Each HA is overseen by its board, which comprises volunteer non-executive trustees. HAs are regulated by the Homes Inspectorate, a governmental body that sets housing standards, inspects and reports on the quality of housing, and reviews the governance and financial viability of HAs.

#### **Government Policy affecting Housing in Paradise**

#### Milton Heights tower block disaster

In 2017 the Milton Heights tower block, a property owned and managed by Bruck HA, collapsed causing many fatalities and serious injuries. The structure was built in 1963 using an engineering system that was used extensively in the construction of tower blocks, until it became known that the system was defective and its use in new constructions was stopped in 1970. Though its lack of efficacy was known there was no requirement for other buildings using the same system to be condemned. In the aftermath of the Milton Heights disaster, it also became clear that the building was not fitted with appropriate fire safety measures. Bruck HA was prosecuted and heavily fined for its negligence, and that, together with the reputational damage, led to it being taken over by another, larger HA.

Following a long public campaign, the government ordered a public enquiry, the recommendations from which became law in January 2020, including:

- New safety standards to apply to the material used in constructing and renovating buildings over four storeys in height
- All communal buildings with shared common indoor spaces, such as stairways and canteen areas, to have industry approved fire doors, sprinklers and alarms fitted
- All landlords to have a robust risk management policy and risk appetite statement, which will be assessed through the industry's inspection regime.

#### Changes to planning permission with new environmental standards

As part of its *Green Deal* strategy, the government has started to legislate on various aspects relevant to housing developments. For example, it is now a legal requirement that all new buildings are properly insulated and constructed to a carbon neutral standard, meaning that construction must use sustainable materials and be powered using non-fossil fuel sources. The government, though, recognises that many buildings were constructed when carbon neutrality was not a consideration. For many years grants have been available to businesses and individuals to defray the costs of insulating buildings. Legislation also now requires that any replacement windows must be triple-glazed, and that more robust insulation, such as filling cavity walls with foam and lofts with fibre glass, must be used in renovation schemes and future building works. Further detail on requirements emanating from the *Green Deal* strategy are due in the coming months.

The government has also in recent years incentivised the purchase of solar panels with the guarantee of an element of “free” electricity and payment for any excess generated for the national grid. Plans to extend this scheme to include mini-windmills and ground heat pumps for buildings over four storeys high are due to be released in June 2022.

Also, the government has announced a review of housebuilding on land at the highest risk of flooding (flood plains) following a series of storms and an unprecedented number of rivers bursting their banks. Since 2013, 10% of all new homes in Paradise have been built on flood plains. This has had a big impact on the cost of insuring such property, leaving many residents feeling trapped in homes they can no longer afford to protect.

#### Off the Streets and Four Walls First

The growing problem of homelessness in Paradise during the last ten years led to calls for more to be done to address the problem, including a sustained social media campaign and a petition signed by 200 000 people in June 2018. It was thought that temporary hostel accommodation, the only alternative to living on the streets, was insufficient. Attitudes among the public range from wanting police to arrest homeless people to calls to allocate housing and provide better support services to the homeless. There was a manifesto promise by the incoming government in September 2018 to find a resolution. However, despite appointing a Homelessness Champion to develop policy proposals, no policy had been published before the onset of the pandemic.

As many homeless people typically suffer from a range of illnesses, due in part to poverty, and sometimes because of drug and alcohol addiction, they were particularly vulnerable to COVID-19. Emergency legislation was passed to create the *Off the Streets* (OTS) initiative, funded by central government, whereby 36 000 homeless people were provided accommodation in hotels which would have otherwise been closed during the “lockdown” periods. Support services delivered by HAs, local authorities, health organisations and the voluntary sector were relocated to the hotels. These services offered health advice, help to register with a doctor, referral to specialist health and addiction services, counselling, and advice on education, employment and housing. This meant that homeless people, fewer than 20% of whom have mobile phones, could access the support services they needed more easily. OTS was very successful in public health terms; a study estimated that it prevented more than 15 000 COVID-related infections and 200 deaths. However, most local agencies could not sustain this support as the pandemic subsided and the emergency government funding was withdrawn.

It is too early to evaluate the long term impact of OTS as nobody has yet held a tenancy for longer than 6 months. However, 50% of the homeless people accommodated under the initiative nationally, many of whom had been without a proper home for several years, have now been

accommodated in the private rental sector or another form of settled accommodation with a proper tenancy agreement. 20% of the original cohort of 36 000 are still in hotel accommodation, partly due to the lack of available tenancies and ongoing support, and the remaining 30% have returned to their previous lifestyles. These early results have been confirmed by a parliamentary scrutiny committee tasked to review the value for money of emergency pandemic-related expenditure.

The OTS initiative was heavily influenced by an approach to resolving homelessness developed by a group of academic researchers and homelessness charities. Known as *Four Walls First* (FWF), the approach is based on the principle that people with multiple problems need a secure place to live before any other issues in their lives can be tackled. A policy proposal based on this approach was being considered by civil servants before the pandemic. Advocates of FWF argue that being allocated accommodation should not be dependent on a person's prior engagement with other agencies, but all agencies should work together to offer 24 hour a day support to people in or from their home. They also emphasise the need for homeless people to have access to mobile technology and advocate the distribution of smartphones as part of the package of support. They predict that FWF could reduce the need for hostel accommodation beds by up to 85%.

Due to the success of OTS, the government has decided to pilot FWF in Paradise as a potential long term solution to homelessness. It is asking local authorities, including HCC, to develop schemes to establish partnerships (led by an independent or not-for-profit sector body) and to act as the accountable body for the government grant for the pilot projects. As the accountable body, HCC would be responsible for overseeing the proper administration of public funds and financial affairs within the partnership. An accountable body does not have to be a partner in any specific project and does not become the lead body by undertaking this role, but will distribute funding to other partners.

The FWF pilot projects will need to demonstrate a partnership approach to local system change through which all agencies work together to address the problem. On a practical level this will mean housing being allocated through one lead agency unconditionally and personalised support being provided by a mix of agencies to each tenant to address issues such as mental health and addiction. The pilot projects will be funded by central government grant but will be expected to demonstrate how, over a period of time, the local system change will release sufficient resources to make the projects self-sustaining financially. The government also sees this as a way of forcing agencies to share data, which in the past they have been unwilling to do.

#### **Homelessness in Haven**

Currently in Haven anyone becoming homeless has to register with HCC or another statutory agency such as the police and the health service. These agencies have a duty to try to find accommodation, including placement in a temporary hostel, and can refer direct to accommodation providers, such as private landlords who may be willing to offer short term arrangements. These landlords expect the rent to be guaranteed by the local authority through the payment of housing benefits. In recent years there has been a steady rise in homelessness in Haven, with the numbers doubling from 2017 to 2019. The pandemic exacerbated this issue and associated inequalities and had a severe impact on the most deprived communities within Haven.

#### **Partnership Working in Haven**

For many years before 2010, partnerships between voluntary organisations (including HAs) and statutory agencies in Haven worked well. Planning for services for the area was co-ordinated by the Local Strategic Forum (LSF), led by HCC but with a number of influential members from other sectors. The LSF and its approach ensured that Haven was regarded highly by central

government.

Since a major re-organisation of the health service in 2010, which split its one commissioning body into several commissioning agencies based on community doctors' practices, the health sector's approach to strategic planning has been more fragmented. There are also rumours that a further re-organisation of the health sector is imminent.

Over the same period, local authorities, including HCC, have increasingly focused on being commissioning organisations, divesting themselves of most direct service provision, with services now delivered primarily by the private or voluntary sectors. Cuts in public expenditure also led to reduced commissioning budgets. One upshot of these developments is that voluntary organisations that previously worked in partnership with each other are increasingly having to compete for resources to run services.

HCC's current chief executive is on record as saying that his staff do not have time to develop and design services, and that their primary job is to let and monitor contracts. Although HCC is politically controlled by the party that is in opposition at national government level, the chief executive feels that his time is better spent trying to influence national government politicians and civil servants, rather than investing time in developing partnerships with agencies in Haven. However, there are some good examples of partnership working in Haven; for example, early years' services for vulnerable children and vocational training for teenagers and adults. Their success is generally seen as being due to these services being run by inspirational leaders, who are able to bring others together by the force of their personality to transcend organisational barriers.

#### **Buena Casa Housing Association**

##### History

Buena Casa is a HA in Haven primarily providing general needs housing for those families, single people and couples without additional needs such as support for disabilities. It can accommodate 1 500 such people in the 450 houses and flats that it owns. It also owns 200 single person purpose-built flats providing specialist services for people with learning disabilities or mental health problems; these people receive care services which are commissioned by HCC and health agencies. Buena Casa derives income from property rental and from commissioned services delivered under contracts with HCC and health agencies. The rental income received is affected at any one time by the number of void properties (those that are vacant without a tenant).

In 2012, Buena Casa was asked by HCC to take over the management of a 25-bed hostel for homeless people on a 10-year contract. As part of the agreement, Buena Casa was gifted the city centre building and took on the responsibility for 40 members of staff who run the service 24 hours per day, 7 days per week, most of whom still work at the hostel. This service continues to be commissioned by HCC, although the contract is to be retendered in 2022. The contract is structured on a payment per occupied bed basis. To date occupancy has been at 100% with the waiting list often up to 4 weeks, during which time the people on it remain homeless except on the rare occasion alternative accommodation is sourced.

Buena Casa was established in 1947 by Brigadier Neville Nolan (Nev). While being independently wealthy, Nev was also a highly decorated soldier, and considered by many to be a national hero. A resident of Haven, Nev was appalled by the condition of the privately rented housing available to working class people who served their country in World War Two. His vision, '*to provide decent rented housing within strong communities for local people*', has become enshrined as Buena Casa's mission. Nev began with the construction of 50 three-bedroom houses

on land he owned in Haven. The charitable trust formed to manage that enterprise evolved to become Buena Casa and 2022 marks the 75<sup>th</sup> anniversary of Nev founding Buena Casa.

Nev retired as managing director of Buena Casa in 1980, and was made honorary president for life. He retained an active interest in Buena Casa until his death in 1992 and had an enduring impact on the organisation in many ways, including its values. One tangible example of Nev's legacy is that, unlike most HA's, Buena Casa tenants only pay rent for 50 weeks a year; Nev believed that hard working families deserved to be rewarded and saw two weeks' saved rent as paying towards holidays, recreation and leisure activities. Buena Casa's Director of Resources has encouraged trustees to reconsider the sustainability of this policy, and increasing numbers of trustees are believed to be sympathetic to revisiting the policy.

From 1980 until 2019 Buena Casa was led by its charismatic Chief Executive, Dame Janet Green. She was very good at forming relationships, including playing an active role on the LSF. Her approach led to agencies, such as HCC, asking Buena Casa to take on projects that others would not, because they knew from Nev's legacy that Buena Casa is innovative and keen to support local people. One example of this was in 2000, when new legislation led to the closure of many long term medical establishments that had for many decades housed people with mental health problems and learning disabilities. HCC commissioned Buena Casa to take on a new specialist service providing housing and support for 150 people with learning disabilities who were moved from such establishments into their own accommodation. In the following year, the local health authority commissioned Buena Casa to manage a similar service for 50 people with mental health problems.

#### Current situation

After Dame Janet retired in March 2019, she was replaced by current Chief Executive Thomasina Moore, previously a senior manager for the Homes Inspectorate. She reports to a board chaired by Laurie Singer who has been a Buena Casa trustee for eight years. Laurie, a retired finance director with a background in pottery manufacturing, had a reputation in his organisation for being challenging, innovative and forthright. Laurie believes that Buena Casa should take more risks within its limited scope. He sees himself as having a firm grip on the organisation's finances and, despite his self-proclaimed reputation for innovation, he will not agree to any developments unless he is convinced of their financial viability. This style of decision making is confusing to some trustees and there are tensions in the working relationship between Thomasina and Laurie. Thomasina feels that Laurie does not understand the divide between the non-executive governance role and that of management, particularly around the area of business development.

Laurie was instrumental in ensuring that Buena Casa was commissioned to lead the OTS initiative in Haven, for which Buena Casa received emergency grant income, but this did not stop him publicly stating that he thought the policy was badly thought out, implemented too hurriedly and was forced upon local communities without any clear long term objectives. Laurie has also expressed similar concerns about the FWF policy initiative and is known to be sceptical about Buena Casa being involved in it from the outset. He is, though, very proud of many of the outcomes associated with OTS in Haven, including, much lower than usual death, hospitalisation and crime rates, and that 50% of the cohort is now in a job or on a structured training programme.

After her appointment, one of Thomasina's first jobs was to review Buena Casa's strategic plan, partly because she was concerned about the organisation's long term financial viability. She believes this can only be achieved by becoming less financially dependent on commissioned services and maintaining a commitment to a strong reserves position. Thomasina believes that Buena Casa's longer term financial health requires it to procure more houses and broaden its

asset base so that more income is derived from rents. She is concerned that the organisation has grown by maintaining a very flexible workforce, allowing it take on opportunities as they were presented, with insufficient consideration of the risks, rather than having a clear coherent strategic plan. She is concerned about the effect of the board not agreeing to a rent rise in 2021 because of trustees' worries about its affordability for many tenants due to the impact of the pandemic. However, due to the operational demands of managing the impact of the pandemic, Thomasina was unable to implement the outcomes of the strategy review. Summary information on Buena Casa's financial performance from its audited financial statements for 2019/20 and 2020/21 is in Appendix 1.

Thomasina's concerns have recently been exacerbated by the reduction in funding for a number of long running commissioned services provided by Buena Casa, and the likelihood of further cuts as a result of the council's MTFS. This has necessitated reductions in Buena Casa's staffing in its finance, IT and human resources departments, which were managed by redeployments, voluntary redundancies and early retirements. In addition, the organisation was unable to grant the usual cost of living pay rise to staff in 2021 and there is pressure from staff to revisit this decision.

The new strategy, *Building the Future – Buena Casa's Next Five Years*, was agreed by the board in September 2021. The mission, 'to provide decent rented housing within strong communities for local people', remains and is still underpinned by its values, which are to:

- reduce/reuse/recycle;
- innovate; and
- serve others.

Buena Casa recognises its corporate social responsibilities and believes these are reflected within its values.

The board also agreed a risk appetite statement to support the strategy, as follows:

'Buena Casa is prepared to take measured and considered risks in line with its mission. It will consider each risk and opportunity that presents itself in order to achieve its strategy and accept some risk providing there is also an acceptable level of reward'.

The strategy consists of four strands:

Strand 1 - look for opportunities to expand the portfolio of general needs housing within Haven city boundaries

Strand 2 - while maintaining current commissioned services until at least the end of their contracts, review the organisation's position as one that tenders for services

Strand 3 - continue to pursue other business growth opportunities which offer the chance to innovate but only if these are consistent with the rest of the strategy

Strand 4 - provide local leadership to address national housing problems.

Some trustees were quite critical of the strategy, in particular:

- Nadine Nolan: Nadine is Nev's granddaughter. While she supported the move towards more general needs housing, she felt that the whole strategy was too cautious and not in keeping with Nev's original vision. She referred to the housing estates developed to support local mining communities which were built to a good standard when Nev was active but are now falling into disrepair. She believes that the increasing number of empty houses on estates is due to the lack of investment in maintenance such as modern insulation, and that poorly maintained outside public spaces add to the undesirability of neighbourhoods.
- Dave French: Dave is an award-winning architect for sustainable housing design working for a Haven-based

firm. He criticised the strategy for being insufficiently entrepreneurial, saying that innovation is vital for an organisation to survive and that it had to be prepared to fail sometimes in order to succeed in the long term.

- Judith Bellows: Judith is a former resident of the hostel run by Buena Casa. She considers the hostel to be Buena Casa's key asset, and stated that Buena Casa should avoid, as far as possible, shifting resources from one client group to another, as that has the potential to cause harm to individuals or groups. In her view, people are more important than profit and the first priority for Buena Casa's resources should be providing services. She was concerned about expanding general needs housing because it may make Buena Casa too focused on profit.

The final strategy, whilst approved by the board, reflects some of the compromises that had to be made.

### **Haven Local Development Plan (LDP)**

As a statutory duty, HCC publishes an LDP, a 20-year plan for future development of the local area produced in consultation with its community, with three overarching elements:

- identifying locations for development which are in line with the council's economic regeneration strategy;
- enhancing the environment, which concerns the way homes are built and includes design principles such as street character, building type and façade, commitment to sustainable developments in line with the national government's *Green Deal* strategy, and green spaces to provide the opportunity for outdoor recreation and enhanced wellbeing; and
- an assessment of likely housing needs in the area, taking account of demographic changes and the impact of developments in the job market.

LDPs are the starting point as to whether planning applications for developments and building should be approved by councils. In addition, buildings which have been registered as being of special historic or architectural significance cannot have alterations and building work carried out without written consent from national government.

HCC's LDP was refreshed and published in October 2021. It identifies as priorities the need for housing for single people, couples and families with children, and that only multi-bedded properties provided by a HA would be suitable for families with children. A further priority is to regenerate the run-down housing estates that ring the city. The LDP aims to encourage private sector developers and HAs to invest in these estates to improve the quality of houses and green spaces.

The LDP also emphasises the need to use former industrial land and buildings, in part for housing and in part for recreation. It became apparent during the pandemic that places for outdoor exercise and recreation were used extensively by Haven's citizens, and this trend has continued post-pandemic. The LDP acknowledges that there may be some challenges and costs involved in making some of these areas environmentally sustainable, due to a legacy of contamination through industrial processes.

The LDP also references the impact of the pandemic in accentuating social changes regarding working from home, recreation and shopping habits. The LDP seeks to encourage developers to enhance the city centre with innovative ideas for living and recreation, and refers to HCC's keenness to support opportunities to develop the area's cultural offer as tourism picks up again.

The LDP refers to the new high speed rail link bringing different types of job opportunities to the area in industries such as construction, technology and logistics, and that this will require a more diverse range of housing as younger professionally qualified people, some with families, relocate to Haven in search of well paid, permanent jobs.

The LDP also recognises that a significant proportion of the population will still require rental accommodation, either through choice or due to other factors, such as having to move location

with employment, being a student or due to personal life changes such as relationship breakdown.

### **Buena Casa Development Proposals**

As part of its strategy to increase general needs housing, Buena Casa has negotiated a bank loan of up to £5m at a fixed annual rate of 2.25% over a 25-year period. This loan is seen as a good offer, as most comparable loans available have interest rates in excess of 3%, and it follows a recent cut in the central bank interest rate to 3% to encourage organisations to borrow and stimulate the economy. Buena Casa is currently receiving less than 0.5% interest on its cash balances. The loan can be drawn down in increments, but any portion not drawn down by 30 June 2022 will be lost and require further negotiations around the amount, interest rate and term. There are concerns that interest rates will increase in 2022 as the economy recovers from the pandemic. None of the loans has yet been drawn down.

Three development proposals have so far been identified in relation to Strand 1 of Buena Casa's strategy regarding general needs housing development. Details about two of them are provided below. Detailed information about a third proposal, to refurbish the Old Plate Warehouse to turn it into apartments, is awaited.

At Appendix 2, for the first two proposals, is information showing the number and type of dwellings and the purchase, renovation and service connection costs. The costings take account of the impact of current safety legislation and known requirements emanating from the government's *Green Deal* strategy. The amount of rent per week is assumed to be over a 50-week rent year. For each option it is assumed that 7.5% of rental income will contribute to Buena Casa's maintenance costs and 5% of rental income contributes to management overheads. The management team requires that these contributions are clearly identified following the significant call on the Property Maintenance Reserve in 2020/21 and the growing challenges of being able to recover management overheads through commissioned services.

#### Proposal A: buying houses on estates

Situated around the city, in rundown housing estates with areas of green space and parks maintained by HCC, there are 35 two-storey properties for sale, all needing renovation. These properties are currently reasonably priced and vacant. The houses are on different estates, each with high levels of anti-social behaviour and crime. These estates were originally built to serve the coal mining communities. The coal mining industry no longer exists in Haven, however, a recent geological survey of the area revealed that the extent of mining works was much greater than previously thought and old tunnels run directly under the estates. Services on these estates are generally not good. Local schools have poor reputations, and there is a shortage of other amenities such as local shops and primary healthcare facilities.

#### Proposal B: use of modular build - prefabricated construction

This concept is that portable metal shipping containers are converted into relocatable housing units, fitted out with bathrooms, kitchens and space for living and sleeping and then brought to the site. Suppliers state that the timeframe from order being placed to delivery to site would be eight weeks, and that containers have a life of 60 years.

The units can be stacked one upon the other, or placed side by side. They are built to environmental standards that meet new legislative requirements. Services, such as water, sewage disposal, gas and electricity are laid on at the site before the housing units arrive; compared to traditional brick constructions, this means they can be ready for occupation more quickly.

The first two development projects of this kind in Paradiso, ten years ago, were failures, as

people would not live in the containers and investors lost money. However, the concept has gained in popularity in recent years due to their ease of construction and low cost.

Although these units are described as “temporary”, planning permission is required in Paradise for such developments. There is, however, nothing within current planning guidance to preclude their construction. Land has been identified where these could be located in Haven; the site concerned previously had planning permission for up to 10 houses to be built there and is on a flood plain.

**The candidate**

The candidate is Jan Nowak, a newly qualified accountant in the Finance team who reports to the Director of Resources, Chris Calvin. Chris, in turn, reports to the Chief Executive, Thomasina Moore.

## APPENDIX 1

## BUENA CASA OPERATING SURPLUS

	2020/21	2020/21	2020/21	2019/20	2019/20	2019/20
	SHL	CS	Total	SHL	CS	Total
	£	£	£	£	£	£
Income	4 203 831	2 903 743	7 107 574	4 177 475	2 756 583	6 934 058
Expenditure	3 059 577	3 140 962	6 200 539	3 042 855	2 813 994	5 856 849
Operating Surplus	1 144 254	-237 219	907 035	1 134 620	-57 411	1 077 209

Note:

SHL = Social housing lettings

CS = Commissioned services

## SOCIAL HOUSING LETTINGS – INCOME AND EXPENDITURE

	2020/21	2019/20
	£	£
<b>Income from social housing lettings</b>		
Rents receivable	4 360 829	4 317 652
Rent losses from voids	(156 998)	(140 177)
Total income from social housing lettings	<b>4 203 831</b>	<b>4 177 475</b>
<b>Expenditure on social housing lettings</b>		
Direct staff costs	2 601 821	2 588 877
Maintenance costs	280 831	255 301
Management overheads	176 925	198 677
Total expenditure on social housing lettings	<b>3 059 577</b>	<b>3 042 855</b>
Operating surplus on social housing lettings	<b>1 144 254</b>	<b>1 134 620</b>

Proposal A - Buying houses on estates

	Number of dwellings	Average purchase price each	Refurbishment costs each	Total Cost	Total number of bedrooms	Cost per bedroom	Weekly rent each dwelling	Total annual rent income
		£000	£000	£000		£000	£	£
<b>Estate 1</b>								
2 Bedroom	5	120	10	650	10	65	175	43 750
3 Bedroom	8	150	15	1 320	24	55	200	80 000
<b>Estate 2</b>								
2 Bedroom	6	115	12	762	12	64	175	52 500
3 Bedroom	4	145	25	680	12	57	200	40 000
<b>Estate 3</b>								
2 Bedroom	9	125	20	1 305	18	73	175	78 750
3 Bedroom	3	160	15	525	9	58	200	30 000
<b>Total</b>	<b>35</b>			<b>5 242</b>	<b>85</b>			<b>325,000</b>
<b>Average</b>				<b>150</b>	<b>2.43</b>	<b>62</b>	<b>186</b>	
					LESS contributions to:			
					Maintenance	7.5%	(24 375)	
					Management Overhead	5.0%	(16 250)	
					<b>Net Rental Income</b>		<b>284 375</b>	

Proposal B - use of modular build - prefabricated construction

	<b>Number of dwellings</b>	<b>Average purchase price each</b>	<b>Connection to services each</b>	<b>Total cost</b>	<b>Total number of bedrooms</b>	<b>Cost per bedroom</b>	<b>Weekly rent each dwelling</b>	<b>Total Annual Rent income</b>
		£000	£000	£000		£000	£	£
1 Bedroom	25	65	20	2 125	25	85	100	125 000
2 Bedroom	25	90	25	2 875	50	58	115	143 750
<b>Total</b>	<b>50</b>			<b>5 000</b>	<b>75</b>			<b>268 750</b>
<b>Average</b>				<b>100</b>	<b>1.5</b>	<b>67</b>	<b>108</b>	
					LESS contributions to:			
					Maintenance		7.5%	(20 156)
					Management Overhead		5.0%	(13 438)
					<b>Net Rental Income</b>			<b>235 156</b>

Loan repayments

Calculation of the annual loan repayments using the equation below to compare affordability against rental income:

$P = R(Pv) / [1 - (1 + R)^{-n}]$  where:

**P** = Annual loan repayment

**Pv** = Present value (starting value of the loan)

**R** = Annual percentage interest rate (2.25%)

**n** = Total number of interest periods (i.e., number of years)

	<b>Proposal A</b>	<b>Proposal B</b>
Loan required	£5 242 000	£5 000 000
Annual repayments at 2.25% pa over 25 years	£276 442	£263 680
Gross Annual Rent Income	£325 000	£268 750
Gross Surplus/(deficit)	£48 558	£5 070
Net Rental Income	£284 375	£235 156
Surplus/(Deficit)	£7 933	(£28 524)

### Question 1 Requirements (1/3)

The Chief Executive is to present to the next meeting of the Buena Casa board a report assessing the viability of Buena Casa being the lead organisation for a *Four Walls First* (FWF) pilot scheme in Haven. Beforehand, the Chief Executive requires a briefing paper to be considered by Buena Casa's management team, covering the following areas:

		Marks
i)	Applying the PESTLE framework to Buena Casa's external environment, present an assessment of factors that may be of relevance to its decision on whether to act as the lead organisation for the FWF pilot scheme in Haven.	15
ii)	Assess each stage of the development of the FWF policy to determine any areas of concern that the board may wish to consider.	12
iii)	Assess the degree to which participation in the FWF pilot scheme would align with the four strands of Buena Casa's strategy and discuss any other factors to be taken into account when assessing Buena Casa's capacity to lead the partnership.	14
iv)	If Buena Casa decides to participate in the FWF pilot scheme, discuss the possible implications for its decision-making concerning the hostel that it currently operates.	7
		48

## Question 1 (2/3) Four Walls First – further information

### Email

To: Jan Nowak, Accountant  
From: Chris Calvin, Director of Resources  
Date: 6 December 2021  
Subject: Four Walls First – further information

Jan,

Here is further information on FWF from the central government Housing Ministry:

- The government want pilot schemes to explore innovative ways to resolve homelessness, including testing different partnership arrangements, ranging from informal groupings to the creation of legal entities
- Multi-disciplinary teams are to be drawn from key agencies, i.e., housing providers, mental health trusts, employment and training organisations and local authorities
- Teams will be between six and ten people, consisting of a manager, housing management staff, support workers, a mental health practitioner and employment/training advisers
- Other support agencies who will not provide staff for the teams but will provide services, are primary healthcare practices, the police and social care
- The pilot schemes should develop a single referral system so that access to accommodation is managed centrally
- Pilot schemes should work towards a position where organisations pool their budgets to make best use of resources
- The work will be overseen by a partnership board made up of representatives from the key agencies identified above, with the expectation that the lead agency will take overall responsibility for management of the pilot
- A grant is available to fund a small project team which will set up the partnership and establish the FWF team. The costs of seconding staff to form the multi-disciplinary team, where necessary, will also be covered by the grant. Partners will have to contribute their own management resources to the pilot scheme
- Support from central government will be available in the form of advisers and seminars as they expect all pilot schemes to share their learning.

It is not yet clear how the impact of the pilot schemes is to be measured or how the government plans to hold pilot scheme participants to account and how the outcomes from the pilot may lead into subsequent policy decisions.

Thanks,

Chris

## Question 1 (3/3) Chief Executive email

### Email

To: Jan Nowak, Accountant  
Cc: Chris Calvin, Director of Resources  
From: Thomasina Moore, Chief Executive  
Date: 6 December 2021  
Subject: Four Walls First – strategic fit?

Jan,

At the last board meeting, it was clear that some trustees are very concerned about Buena Casa's strategic direction and have concerns about the soundness of FWF as a policy concept. For the next board meeting, therefore, I want to present trustees with some analysis that will stimulate discussion and hopefully lead to a coherent view about whether it makes sense for us to apply to lead a FWF pilot scheme in Haven.

Though we have recently agreed our strategic aims, I am conscious that the environmental analysis was completed some years ago. The pandemic has exacerbated the pace and scale of change already in evidence when I joined Buena Casa. So, it would be appropriate to use a PESTLE framework to assess any factors that may be relevant to the Board's deliberations on the FWF pilot.

I am conscious that some trustees are sceptical about the FWF policy. Consequently, I want an analysis using the standard policy making cycle - initiation, formulation, scrutiny, implementation and accountability - of its development to date and any issues that might arise in future. I acknowledge that this initiative is a pilot and it is yet to start, but it is important to consider any potential issues going forward.

I am sure some trustees will also query how the pilot may impact on Buena Casa's hostel, so please outline the potential implications in your paper.

Thanks,

Thomasina

## Question 2 (1/5) Requirements

At its next meeting, the board will receive a report on an initial appraisal of three proposals put forward as part of Strand 1 of Buena Casa's strategy to expand its general needs housing. It will also consider the organisation's risk appetite. The management team meets next week to discuss these issues and the Chief Executive requires a briefing paper covering the following areas:

		Marks
i)	For the Old Plate Warehouse (OPW) proposal, calculate the <ul style="list-style-type: none"> <li>• Total cost</li> <li>• Total cost per dwelling</li> <li>• Total cost per bedroom</li> <li>• Total annual gross rental income</li> <li>• Total annual net rental income</li> <li>• Annual loan repayment</li> <li>• Annual gross and net surplus or deficit over the 25-year loan repayment period.</li> </ul>	8
ii)	Critically evaluate the financial implications of each of the three development proposals.	15
iii)	In advance of a more detailed evaluation at a later date, provide an initial assessment of the three development proposals in terms of their: <ul style="list-style-type: none"> <li>• consistency with the requirements of the Local Development Plan (LDP), and</li> <li>• alignment with Buena Casa's mission and values.</li> </ul>	16
iv)	Discuss the practical implications of the risk appetite statement agreed by trustees, specifically addressing the requirements detailed in the Chief Executive's email of 6 December.	13
		52

## Question 2 (2/5) Development proposal C details

### Email

To: Jan Nowak, Accountant  
From: Chris Calvin, Director of Resources  
Date: 6 December 2021  
Subject: Development proposal C - details

Jan,

You are aware of two development proposals, and details of a third are now available, so your paper should cover all three, as follows:

- Proposal A – buying houses on estates
- Proposal B - use of modular build - prefabricated construction
- Proposal C - refurbish the OPW

The OPW is a five-storey former pottery warehouse built in the 1950s near the centre of Haven, by the canal in the Cultural Quarter which is being developed as part of the council's leisure and tourism offer. It is almost derelict, having been unused for 30 years, during which time an adjacent site was used for landfill waste disposal. After the company that ran the waste disposal facility went bankrupt the site was landscaped by the council. Such sites are notorious for methane emissions which can cause explosions; no incidents have been reported but no tests have been carried out. It is not clear who owns this adjacent site and therefore who would be responsible for any remedial works.

Here are some further details:

- The OPW is on a national list as it is of architectural significance, and therefore planning permission would be needed from central government
- Initial estimates suggest that 15 one-bedroom apartments and 20 two-bedroom apartments could be developed on the site, though there is some flexibility to have a different mix, and overall volume, of dwellings on the site
- There is no green space as part of the OPW site
- In previous LDPs, the land was earmarked for employment purposes, such as offices or business units.

I will send you the financial information separately.

Regards,

Chris

## Question 2 (3/5) Development proposal C financial information

### Email

To: Jan Nowak, Accountant  
From: Chris Calvin, Director of Resources  
Date: 6 December 2021  
Subject: Development proposal C – financial information

Jan,

The OPW is on the market for a purchase price of £4m. We are assuming, for costing purposes, that this equates to £100 000 per one bedroom apartment and £125 000 per two-bedroom apartment. It is assumed that the amounts shown below for renovation are sufficient to meet current safety and environmental standards; in summary:

	<b>Number of dwellings</b>	<b>Average purchase price each</b>	<b>Renovation/ connection to services each</b>	<b>Weekly rent each dwelling</b>
		£000	£000	£
1 Bedroom	15	100	30	160
2 Bedroom	20	125	40	190

Please complete the costings, and analysis of the loan repayment, to assess for affordability. Please use the same approach to determine proposal C's costs as was used for proposals A and B, including the allowance for contributions towards maintenance (7.5%) and management overhead costs (5%), and assume a 50-week rent year.

I also attach my notes of last week's away day when trustees shared their initial views following a high-level presentation of the key features of the three proposals.

Regards,

Chris

## Question 2 (4/5) Away day notes

### Notes

Key: Laurie Singer (LS); Nadine Nolan (NN); Dave French (DF) and Judith Bellows (JB).

#### Proposal A - buying houses for sale on estates

LS – very keen on the concept; believes these types of properties were built to a good standard, making good assets, but is concerned at the cost of refurbishment.

NN – strongly welcomes these estates being brought back into better use for hardworking families; would prefer to buy whole streets rather than dispersed houses. Surprised the council appears unconcerned about the geological survey. She knows of houses of similar age and location that have been damaged by subsidence and questioned if the council had a duty to investigate further.

DF – argued that these houses are old fashioned and will require a lot of future maintenance; not prepared to agree to a significant level of investment.

JB – only supports if also includes some provision for supported living such as another hostel.

#### Proposal B - use of modular build - prefabricated construction

LS – believes that sited away from other housing, this initiative might be suitable.

NN – struggles to see any quality aspects to the initiative; can see the practical case and believes they could be a good starting point for single people and young families, but not sure they are right for Haven.

DF – has seen award-winning developments using modular buildings; likes the fact that if they do not meet planning regulations in one area, they are flexible enough to be moved to another area.

JB – very supportive; they are affordable, quick and easy to erect in substantial numbers.

#### Proposal C – refurbish the OPW

LS – thinks it is a good idea, subject to the detailed financial analysis.

NN – said Nev would have approved, but is conflicted as they are not really family homes in her opinion; would want the development named in Nev's honour in line with Buena Casa's 75th year in 2022.

DF – costs seem substantial but could be converted to an award-winning building of great architectural merit.

JB – concerned that disused warehouses attract drug crime and therefore have a bad reputation. Sees it as gentrification with no provision for the most in need in the community.

## Question 2 (5/5) Risk appetite email

### Email

To: Jan Nowak, Accountant  
Copy: Chris Calvin, Director of Resources  
From: Thomasina Moore, Chief Executive  
Date: 6 December 2021  
Subject: Risk appetite

Jan,

In developing the new strategy, as you know, trustees agreed a high-level risk appetite statement. It was quite difficult to even get to that point, but I know that it could be even more difficult to apply it in practice. I need you to help trustees to think through how to apply the risk appetite statement by considering the following risk categories:

- Risks to Buena Casa's reputation
- Risks to Buena Casa's financial sustainability

In your paper, therefore, I need your analysis of the available information, including financial performance information, and a discussion of realistic scenarios that could constitute risks within each of the above categories. As trustees will also be considering the three development proposals, for each of these risk categories, please include some examples of potential risks associated with the development proposals.

Thanks,

Thomasina