CAB2616(HSG)
FOR DECISION
WARD(S): ALL

CABINET (HOUSING) COMMITTEE

1 OCTOBER 2014

OPTIONS FOR INCREASING THE SUPPLY OF AFFORDABLE HOUSING

REPORT OF HEAD OF NEW HOMES DELIVERY

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RECENT REFERENCES:

CAB2573(HSG) - Options for increasing the supply of affordable housing - 26 March 2014

EXECUTIVE SUMMARY:

The report advises Members on the initial findings with regard to the potential delivery vehicles to increase the supply of affordable housing in the Winchester District and makes a series of recommendations for consideration if the Council wishes to explore the matter further.

RECOMMENDATIONS

1. That the Committee confirms its interest in exploring in more detail the establishment of a Housing Company.

2. That the Head of Legal and Democratic Services, in conjunction with the Chief Finance Officer, commission the appropriate legal and financial advice to develop the proposals set out in the Report, with this being funded from the HRA revenue new build feasibility budget.

3. That a further report be prepared outlining the business case for the establishment of a Housing Company covering the appropriate company structure, set up costs and potential benefits.

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1. Background

1.1 The provision of affordable housing is a key priority of the Council in the Active Communities theme. Whilst the Council has a new build programme and local Registered Providers (RPs) have developed over 1000 new homes in the last 10 years, there still remain over 2000 households on the waiting list (which grows by 100 new applicants every month). On average, applicants on the Hampshire Home Choice list in priority wait over 6 years for a suitable vacancy.

1.2 The Council's own new build programme will provide an average of 30 new homes per year over the next 10 years. There are limited options to increase the debt headroom within the Housing Revenue Account to borrow the funds required to build new council housing, with the Government being clear that a relaxation of the debt cap is unlikely. Some additional money may be available through the proceeds of Right to Buy sales and developer contributions from S106 sites, but they will have a marginal effect on the whole programme. The Council therefore has very limited opportunities to increase the supply of (affordable) housing through the use of the powers under the Housing Act 1985.

1.3 Investigations to date have confirmed that a number of local authorities have created alternative housing delivery models through the establishment of subsidiary housing companies. The numbers are relatively low (under 10) and analysis has revealed that every company has been established to meet a particular local reason, examples including re-starting stalled housing markets, providing market rented housing, enabling large scale estate regeneration with mixed tenure housing or generating income for the Council's General Fund.

2 Initial Analysis of Alternative Housing Delivery Options

2.1 A number of alternative options to increase the supply of affordable housing were outlined in CAB2573(HSG). The advantages and disadvantages are detailed below:

- Land Disposal - disposal of General Fund(GF) and Housing Revenue Account (HRA) assets to RPs, possibly at less than best consideration to enable affordable housing without grant. The advantage of this approach is that it is tried and trusted and covered by General

Consents. However, it generates no income or long term gain for the Council.

- Build through HRA – This requires additional capital resources to be generated. This could come from selling vacant HRA assets (land or buildings) and using the capital receipts to fund additional housing. Other options would include bidding for an increase in the debt cap and more generally supporting organisations like the LGA in their attempts to get the debt cap removed. Building new homes through the HRA is now a well-established route, but the debt cap is unlikely to be increased to enable a significant increase in supply (over and above that already in the Council's New Homes Programme).
- Housing Company - This involves the Council establishing a wholly-owned company, whose role is to develop new housing for affordable rent, market rent and sale. Further work is needed to establish the impact of a housing company on the HRA and GF. Within the GF, the Council could secure funding for this company using its prudential borrowing powers. Within the HRA, total borrowing is constrained by the HRA debt cap. Potentially, the set up costs are high, as specialist legal and financial advice would be required, and therefore the Council would need to be confident about future development opportunities were this route to be chosen.
- Joint Venture – The Council would enter into an arrangement with a private sector partner to develop housing on identified Council or private sites. This model is often used for area regeneration schemes. Whilst this is a possibility, the scale of any development would need to be large, in order to attract institutional investors. Previous experience based on discussions with institutional investors suggested a minimum investment figure of at least £30M.
- Sale and Leaseback – The Council would sell land (HRA or General Fund) and lease back completed dwellings from the developer or the institutional investor. The Council would manage the properties and collect the rent, a proportion of which would cover the cost of the lease. Again, the scale of the programme would need to be large in order to justify the set-up costs of this arrangement and there is some doubt as to whether this arrangement of sale and lease back would count against the HRA debt cap.

2.2 The most flexible option that fits the Council's aspirations seems to be the establishment of a housing company. Its purposes could include:

- Maximising the housing development potential of assets held in both the HRA and General Fund;
- Generating an asset stream for the General Fund;
- Enabling the Council to develop mixed tenure sites incorporating affordable and market rent and properties for sale;
- Regeneration of existing Council estates where insufficient resources are available within the HRA.

2.3 If Cabinet wished to investigate the establishment of a Housing Company it would need to consider:

- Purpose of the Company - will the Company operate as a business or social entity? How will surpluses be used?
- Form of Company – All companies are regulated under the Companies Acts or other similar legislation and will have their own specific articles of association setting out how they can operate. The Council would have to appoint directors and give consideration to governance arrangements in accordance with company law.
- Finance – How will the development activities of the Company be financed and what are the costs and benefits for the HRA and GF? This would include ensuring that the HRA debt cap is not breached. As the company would be wholly-owned by the Council, there are also accounting issues that need to be addressed.
- Tax Issues – these would be dependant upon the form of the company but the three main tax issues of VAT, Stamp Duty and Corporation Tax would require specialist advice.
- Procurement Rules – a subsidiary company of the Council, depending on its form and purpose, would be subject to public procurement rules.
- The extent to which the housing which could be provided through a housing company may be limited (for example the housing may have to be of certain tenures, at certain rent levels, or for particular sectors of housing need which may not be in line with Members' aspirations).

2.4 As can be appreciated from the considerations outlined above, there are a number of significant issues that would need to be resolved as part of the establishment of a housing company. Whilst there are answers and options to the questions posed, and successful local authority wholly owned housing companies are operating, it will still require significant investment of Officer time and consultants fees to advise on legal, finance and tax issues.

2.5 It is recommended that if Cabinet wishes to investigate this option, a full business case be prepared and brought back to Members, outlining the costs of setting up a company and the potential benefits. The report would also set out a suggested structure that begins to answer the questions posed in paragraph 2.3 above, to assist in the evaluation.

OTHER CONSIDERATIONS

3 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO)

3.1 Developing new affordable homes is a key priority of the Council as it seeks to promote active communities. It also facilitates the District's economic prosperity.

4 RESOURCE IMPLICATIONS

4.1 As part of the evaluation of the establishment of a housing company, initial advice would be required from Legal, Finance and Tax specialists. This advice will be crucial in determining what is legally possible, the structure of the company and its purpose. It will also determine the accounting arrangements for the company to enable decisions to be reached over whether the initial set-up costs of the company should be funded from the HRA or GF.

5 RISK MANAGEMENT ISSUES

5.1 The significant financial risk involved at this stage is the Officer time to investigate the options and the cost of specialist financial and legal advice. The exact amount of advice (and therefore the cost) cannot be quantified at this stage but would not be expected to exceed a few thousand pounds. This will be funded from the HRA revenue new build feasibility budget.

BACKGROUND DOCUMENTS

None

APPENDICES

None.