

REPORT TITLE: HOUSING COMPANY – REVISED OPTIONS AND BUSINESS CASE

14 DECEMBER 2022

REPORT OF CABINET MEMBER: Cllr. Paula Ferguson, Deputy Leader and Cabinet Member for Community and Housing

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WARD(S): ALL

PURPOSE

The council has made a clear commitment to increase the supply of council owned affordable housing in order to address housing need, and has set a target of providing a 1000 additional new homes from 2021 - 2030

Providing *Homes for All* is a key priority identified within the council plan, and this includes the need to address the limited supply of housing for residents who, whilst they may not qualify to apply through the housing register, still struggle to access affordable longer-term housing within the local housing market due to both limited supply and the very high cost of private housing. This group includes those often regarded as being key workers.

To support meeting this priority the council is seeking to establish a wholly owned local housing company that would provide high quality, energy efficient homes at reasonable rents.

Setting up a local housing company that leases properties from the council will allow it to act in a manner similar to an “institutional grade landlord” offering a product that compliments the council’s other housing offers and addresses this gap in the local housing market. Importantly, it would offer tenants far greater security as the housing company, as the landlord, would have a long-term commitment to renting homes to the community. Tenants would benefit from living in a well designed, energy-efficient home, high quality property management and maintenance services provided by the council’s own landlord team as well as the security of democratically accountable governance arrangements.

The vehicle would allow individual opportunities to be considered on a case by

case basis with the first opportunity being to lease to the company 41 new flats currently under construction by the council in Winnall. As well as delivering the benefits outlined above this would fulfil a commitment made to the community to ensure the development creates a greater diversity of tenure on the Winnall Estate.

This report sets out a proposal for the establishment of a local housing company and includes an illustrative business model based on leasing 41 new flats in Winnall to the company.

Though considered in the past, establishing a commercial vehicle to support the construction/development of new housing at a time when construction costs are subject to significant volatility would be a very high risk to the council. New homes will continue to be developed through the Housing Revenue Account and if appropriate, a proportion of those homes could be leased to the new housing company to address the priority set out above. This would be evaluated on a case-by-case basis.

RECOMMENDATIONS:

1. To note the business case proposal and to support the principle of establishing a wholly council owned local housing company for housing purposes to:
 - a. Lease from the council and manage suitable residential council properties held in the Housing Revenue Account (HRA) and the General Fund as identified on a case-by-case basis, subject to a supportive business case.
 - b. Provide high quality energy efficient council owned housing as rented homes as an alternative to the council's current housing offer to households who struggle to rent privately and access council and other affordable housing options.
 - c. Take advantage of an early opportunity to lease from the council and manage one block of 41 units of accommodation currently being developed at Winnall.
2. Authorise the Corporate Head of Housing to develop detailed proposals that will be brought back to Cabinet for consideration. To include the strategic and financial business case, governance arrangements, director appointments and specific company conditions.
3. Agree that the proposals in this paper supersede the housing company investment and development model set out in CAB3139 (HSG) and CAB3160.
4. Authorise the Corporate Head of Asset Management to make a non-material amendment submission to the Local Planning Authority to change the

description of development to delete reference to sub-market rent in relation to the accommodation currently being developed at Winnall.

IMPLICATIONS:1 COUNCIL PLAN OUTCOMETackling the Climate Emergency and Creating a Greener District

- 1.1 The units being developed at Winnall are designed to be highly sustainable. Their convenient location within the city supports the council plan objectives to promote walking, cycling and use of public transport.

Homes for All

- 1.2 The proposals support the objective of using a local housing company to deliver a wide range of housing tenures to meet local housing need. They provide an alternative offer to households who cannot access either market, council, or other affordable accommodation and promote diversification of tenure at Winnall which will prevent an over-concentration of homes for social rent. Proposals will contribute to the diverse, healthy and cohesive communities envisaged in the council plan, and deliver well-designed, energy efficient homes for those living and working in the district.

Vibrant Local Economy

- 1.3 Meeting the needs of working households who choose to live and work in the district but who cannot access market housing will help to develop a vibrant local economy. This includes those who are often described as key workers and some young people.

Your Services, Your Voice

- 1.4 The recent Young Persons survey carried out by the council revealed affordable housing and renting options as the thing that is most need of improvement in the area. Proposals help fulfil a commitment made to the Winnall community, following local consultation, to let homes outside the council's housing register and to target them at households in employment.

2 FINANCIAL IMPLICATIONSImpact on the General Fund and HRA

- 2.1 Detailed financial implications will be considered at the time each opportunity arises. The proposal has, however, been assessed in detail with respect to the current Winnall opportunity. Details are set out below in this section and in Section 11.
- 2.2 Appendix C illustrates the potential impact of the leasing proposal upon the council's General Fund. The local housing company would be accounted for within the council's General Fund and all the inherent and latent local housing company risk and potential losses would be met by council taxpayers. At present, this Appendix shows that the investment of £300k is maintained and the impact of the margin on services provided produces a small return which over the life of the lease amounts to £57k.

- 2.3 The council is the lessor under a leasing arrangement and the local housing company the lessee, in terms of looking at the impact on the council there is no change if the company accounts are presented in either IFRS16 (the new accounting standard for leasing) format or in the non-compliant format. The company business plan is presented in Non-IFRS16 compliant format in Appendix B and in IFRS format in Appendix F. Appendix B shows the real underlying activity of the company before applying the accounting treatments required to comply with IFRS16. Although the local housing company makes a small loss in year 1 in the non IFRS16 model this would be offset against the investment/working capital and would not crystallise as a loss impacting on General Fund balances. The overall risk and impact on the General Fund is therefore small, but the risks of any deterioration in anticipated performance or increase in costs will ultimately fall to be met by the General Fund.
- 2.4 The local housing company will need to present its accounts in the IFRS16 compliant format shown in Appendix F. It should be noted that under the new accounting standard for leasing the local housing company makes a small paper loss in 14 out of the first 16 years, and then moves into surplus for the remainder of the leasing period. This is consistent with the expected impact of IFRS16 described in more detail in paragraph 11.49 below. Under both the IFRS and Non_IFRS models the surplus remains the same and the amount of corporation tax payable at the end of 30 years remains the same.
- 2.5 In addition, the setting up of a local housing company will likely require additional work in the consolidation of the company accounts in the council's annual statement of account, and potentially a letter of support on the going concern statement in the local housing company accounts.
- 2.6 Appendix D illustrates the impact on the HRA. This shows that the HRA would receive lease rental income in the first 15 years based on 70% of gross rent and 50% of gross rental income in the secondary lease period. At present the HRA lets affordable housing at 70% of market rent so would actually benefit in the first 15 years from not having to fund management and maintenance costs as well as not having to fund major works during the period of the lease.
- 2.7 The net impact on the HRA is that it will still own the asset and at the end of the lease period will receive the asset back in good repair. In addition, the Appendix identifies that the HRA will be some £1,070k better off as a result of both the opportunity saving and the margin on services provided.
- 2.8 The local housing company would be liable to pay unrecoverable VAT at 20% on all services it bought in and would contract with the council to provide governance support, housing management and repair services paying the council a margin of 5% on these services. The local housing company would pay corporation tax at 19% on any profits that it made.
- 2.9 There would be decommissioning costs not shown in the model representing the need to gain vacant possession of all flats and ending Assured Shorthold Tenancies which may create potential voids during this period. Consideration of extending the leasing period would mitigate this if the model were to prove an effective vehicle for delivering the councils objectives.

- 2.10 The financial business case for Winnall illustrates the position assuming market rents are charged to tenants and the lease payment is based on 70% of this gross income. The leasing model does not work at less than market rent given the current assumptions. The modelling done to date has been based on best assumptions and market intelligence where available. It should be stressed that the marginal viability of the model does present risks to the council's General Fund.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The council has the power to establish the local housing company pursuant to the general power of competence under Section 1 of the Localism Act 2011. An investment of £300k in the local housing company would fall within the limit of "minimal financial assistance" under the subsidy control regulations.
- 3.2 The grant of a lease on the 41 dwellings at Winnall would comprise a single "disposal" under the 2013 General Consent. This is important as the 2013 General Consent requires transfers of dwellings from the HRA to be transferred at market value and imposes a limit of five disposals in each financial year. Transfers from asset held in the General Fund will need to be at best consideration.
- 3.3 As the sole shareholder the council could direct the company to provide the accommodation at specific rent levels, which in turn would be a consideration which a valuer in an arm's length transaction would consider.
- 3.4 For reasons of viability, the local housing company is most likely to need to charge market rents. This would be possible under statutory rules in regards to the council's vires and subsidy control and in some respects would simplify the analysis.
- 3.5 The council can provide staff and services to the local housing company under a Service Level Agreement and charge a margin for the services it provides. As the local housing company will be established in compliance with the criteria necessary for a 'Teckal' company, the council can provide it with services in compliance with the Public Contract Regulations 2015 by taking advantage of the Teckal or "in-house" exemption. If staff are deployed to the local housing company under a Service Level Agreement (SLA), their contracts of employment should be reviewed to ensure the scope of their role is wide enough to allow this (see 4.4 below).
- 3.6 The local housing company would not be able to reclaim VAT so that any VAT it incurs on services from the council or other suppliers would represent an absolute cost. It will also be subject to corporation tax on its rental profits (in the same way as any other corporate landlord).

4 WORKFORCE IMPLICATIONS

- 4.1 Responsibility for the lettings, management and maintenance of the units will be outsourced from the housing company to existing teams within the council's Housing Services in return for a fee.

- 4.2 A Home Ownership team was established in 2020, within existing staffing resources to provide a dedicated leaseholder advice and support service, due to new homes investment in shared ownership options. In 2021, an additional and new full time post was approved to further support service growth and in preparation of a proposal to lease 41 new flats under development at Winnall through a local housing company.
- 4.3 Governance and financial administrative support will be provided by the General Fund. It has previously been agreed by members that three senior council officers be appointed to the Board of Directors of the local housing company and that the council will also perform the company secretary role. All services provided by the council will be at a 5% mark-up which will ensure sufficient workforce availability.
- 4.4 If staff are deployed to the local housing company under a SLA, their contracts of employment will be reviewed to ensure the scope of their role is wide enough to allow this. If necessary at all, variation is unlikely to apply to more than a limited number of relatively senior staff who may provide services to the local housing company. A reference to the SLA can be included in job descriptions for new employees. If any changes to existing terms and conditions of employment are needed to accommodate the introduction of an SLA this will require consultation and agreement by the employees. Consultation with relevant representatives such as a trade union may also be required.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The revised business model for the local housing company supports the transfer of existing assets to the local housing company from both the HRA and the General Fund. The offer of other homes for lease to the local housing company will be considered on a case-by-case basis. This would contribute towards resolving the issue of an inadequate supply of “institutional grade” rented properties in the private housing sector within the Winchester district – energy-efficient homes that are available for longer term occupation, with high quality management and maintenance. Amongst other groups this could benefit single people, families and down sizers and help to create a better balance in the local housing market.
- 5.2 The first opportunity to use the local housing company is presented by the council development of 41 units of accommodation currently under construction at Winnall.

6 CONSULTATION AND COMMUNICATION

- 6.1 Extensive consultation was undertaken with the local community prior to submission of the planning application for the development at Winnall in December 2020. Members of the local community were reassured that the block of 41 units of accommodation to rent would be targeted at residents in employment and let on Assured Shorthold Tenancies. This approach was further outlined to tenants at a Tenant and Council Together (TACT) tenant participation meeting in July 2022.

- 6.2 Officers have liaised with other local housing authorities who have established housing companies in order to better understand the different approaches to governance, and how operational matters have been addressed. Local authority delivery vehicles take many forms and whilst not the solution to large-scale housing delivery, there is a clear direction towards establishing vehicles for specific sites and purposes.
- 6.3 Officers have also discussed alternative options such as joint ventures with and leases to existing housing providers.
- 6.4 In September 2021 the Business and Housing Policy Committee was advised that the previous local housing company investment and development model was no longer considered viable. It was agreed that a proposal be brought forward for a revised business case for a special vehicle to manage sub-market rented housing at Winnall.
- 6.5 The TACT Support Group received a briefing update on the final proposed leasing option to establish a local housing company at the beginning of December 2022. The group indicated their support for the proposal and endorsed the council's objective of retaining young people in the local community to help develop a vibrant local economy. To also meet the needs of those who choose to live and work in the district but who cannot access local market housing.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 As with all new homes built by the council, properties leased to the housing company will be energy efficient, have lower carbon emissions, and be resilient to climate change. In particular, overheating, flood risk and extreme weather events. They will also provide an opportunity for residents to live and work in closer proximity to jobs and services, thereby reducing the need to travel.

8 PUBLIC SECTOR EQUALITY DUTY

- 8.1 Whilst there are no actions which currently arise directly from this report, officers have regard to s149 (1) of the Equality Act in that the council must have due regard, in the exercise of its functions (and Cabinet must, as the decision maker in respect of the proposed decision, have due regard) to the need to:
- Eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act.
 - Advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them.
 - Foster good relations between persons who share relevant protected characteristics and persons who do not share them.
- 8.2 The proposal is consistent with the Housing Strategy which was subject to an Equality Impact Assessment (EIA). The proposal expands the housing offer to

the community and complements the council's current offer that includes social and affordable rented and shared ownership homes and supports the *Homes for All* priority. A separate EIA will be required as the Local Housing Company operational model develops.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 Not required at this stage. This will be required as the operational model develops.

10 RISK MANAGEMENT

10.1 Key risks and opportunities are outlined below.

Risk	Mitigation	Opportunities
<p><i>Financial Exposure</i></p> <p>Local housing company is or becomes unviable/is unable to continue its operation.</p> <p>Risks to council General Fund working capital investment</p>	<p>Consider each opportunity for leasing on a case-by-case basis to ensure opportunities are feasible, meet objectives and that risks are suitably mitigated</p> <p>Do not restrict local housing companies ability to set rents at levels they decide.</p> <p>Earlier financial model for Winnall assumptions have been updated to reflect current market conditions. The model remains very marginal with a net profit of £57k over 30 years.</p> <p>Detailed financial modelling will inform the evaluation of all potential company opportunities with those falling short of the necessary viability criteria being excluded.</p> <p>Ongoing review of business model to monitor key costs and income drivers.</p> <p>Modelling will take</p>	

Risk	Mitigation	Opportunities
	<p>account of changing market conditions, including the impact of the current uncertain macro-economic climate</p> <p>The investment will provide an element of mitigation for the General Fund from any early losses until the company is up to full operation speed</p>	
<p><i>Achievement of outcome</i> Legal barriers.</p> <p>The council does not have the desired control or scrutiny of the local housing company.</p> <p>Constraints to increasing the number of homes leased and managed by the local housing company.</p> <p>Restrictions on use of Right to Buy Receipts</p> <p>Achieving housing objectives</p>	<p>Account will be taken of the external legal advice in developing detailed proposals.</p> <p>The council will be the sole shareholder and will be able to exercise influence in that role.</p> <p>Articles of Association will support council objectives as will governance/scrutiny arrangements.</p> <p>Members will be able to consider proposals for the local housing company to ensure they are satisfied with the degree control ahead of making a final decision.</p> <p>Paper considers and recommendation takes account of alternative options and ability of proposal to achieve desired outcomes. Proposal provides these opportunities.</p> <p>The Shareholders Agreement will identify reserved matters in respect of which council</p>	<p>Will allow a broader range of community needs to be met, including those who would be unlikely to access traditional council housing options.</p>

Risk	Mitigation	Opportunities
	<p>consent is required.</p> <p>As noted in 3.2 above the 2013 General Consent requires transfers of dwellings from the HRA to be transferred at market value and imposes a limit of five disposals in each financial year (though grant of a lease on the 41 dwellings at Winnall would comprise a single "disposal" under the 2013 General Consent).</p> <p>Careful consideration will need to be given on a case-by-case basis to which properties may be offered for lease. Special Consent from the Secretary of State may need to be sought in particular circumstances. Members will be able to consider opportunities on a case-by-case basis.</p> <p>Put checks in place to ensure homes funded by Right to Buy receipts are not offered to the local housing company.</p>	
<p><i>Complexity and capacity</i></p> <p>Different housing experience for the in house Home Ownership/Leaseholder team.</p> <p>Risks associated with governance.</p> <p>Potential need for changes to existing staff employment contracts</p>	<p>Development of relevant policies and procedures and staff training.</p> <p>Complexity minimised by replicating/tweaking current landlord standard operating procedures to generate efficiencies.</p> <p>During year 1 a lettings agent will be retained to ensure capacity at first</p>	

Risk	Mitigation	Opportunities
	<p>letting and help build the council's own capacity and understanding of how a commercial letting agent operates.</p> <p>Compare approaches and learn from other councils with similar models and experiences. Adopt good practice re governance and minimise burdens.</p> <p>If staff are deployed to the LHC under an SLA, their contracts of employment will be reviewed to ensure the scope of their role is wide enough to allow this. See 4.4 above</p>	
<p><i>Reputation</i></p> <p>Reputational impact of the local housing company on the council e.g. in the event of failure</p> <p>Non delivery of local housing company or solution for Winnall flats</p>	<p>Risk and reward considered as part of this report and will be considered again at final decision stage.</p> <p>A marketing and communications strategy will be developed to ensure positive branding and image of the company.</p> <p>Manage financial risk e.g. allow market rents to be charged, limit working capital employed, Articles of Association that support council objectives, no un-due fettering of the local housing company directors to act in the best interest of the company, appropriate scrutiny and governance</p>	<p>Broadening the council's housing options offer to meet a current unmet housing need within the local private sector housing market is likely to enhance the council's reputation.</p>

Risk	Mitigation	Opportunities
	<p>arrangements.</p> <p>Exit strategy to include alternative options should company be unviable.</p> <p>Ensure that proposals meet legal and financial requirements and implement the proposal as alternatives carry great reputational risk.</p>	
<i>Community Support</i>	<p>Extensive consultation with local community already carried out and TACT. Proposal is consistent with Winnall community commitments.</p> <p>Member oversight of detailed proposals.</p>	<p>Opportunity to meet housing need that cannot be met by the HRA or the local housing market.</p> <p>Raising standards in the private rented housing sector.</p>
<p><i>Exposure to challenge</i></p> <p>Equality duty or procurement challenge</p> <p>See Legal barriers above</p>	<p>EIA within the current Housing Strategy applies. A further EIA to be undertaken once the housing company offer is established.</p>	<p>Will allow a broader range of community needs to be met by the council than at present, including those who would be unlikely to access traditional council housing options.</p>
<p><i>Innovation</i></p> <p>Establishing a new local housing company.</p>	<p>Due diligence carried out including external legal advice, market testing/intelligence and discussions with other local authorities (which will continue during project set up).</p> <p>Revision of original proposal as a consequence.</p>	<p>An innovative approach that enables homes to be offered to a vehicle that has freedoms to provide homes to a broader market than the council can through its current housing stock/options, thus supporting the council's <i>Homes for All</i> priority.</p>
<p><i>Property</i></p> <p>Insufficient demand for products at required price</p>	<p>Ongoing analysis of likely market affordability and</p>	

Risk	Mitigation	Opportunities
<p>point and/or products unaffordable.</p> <p>Planning constraints</p>	<p>price point, including the impact of the current uncertain macro-economic circumstances.</p> <p>Market intelligence and experiences in neighbouring areas suggest demand will be high.</p> <p>Outsourcing of initial marketing and lettings to local agent.</p> <p>Agree appropriate response to nutrients matter with local planning authority to minimise/remove restrictions on occupation levels. Amend planning description to remove reference <i>sub-market</i>.</p>	
<p><i>Timescales</i></p> <p>Local housing company not established in time to support specific initiatives</p>	<p>Resources are in place to ensure that the local housing company can be established in time to take on the units at Winnall in late 2023.</p>	

11 SUPPORTING INFORMATION

Background

- 11.1 It is several years since the council first confirmed interest in establishing a local housing company. Initially, this was as a means of extending funding for the New Homes programme which was restricted by borrowing limits on the HRA debt cap, however as set out in this paper, and in particular the *Proposal* section below, the approach has been reviewed and an alternative way forward is recommended.
- 11.2 Prior to the lifting of the debt cap, a dual company structure had been envisaged, via an investment and development company for commercial

activity and a subsidiary charitable arm to deliver affordable housing for purchase by the council.

- 11.3 The abolition of the HRA debt cap in October 2018 released local authorities from government constraints on borrowing for housebuilding and permitted borrowing against their expected rental income in line with the Prudential Code. As a result, the New Homes programme was substantially revised with a target of providing 1000 homes by 2030. Good progress is being made towards the target with 121 homes already completed and 130 in construction.
- 11.4 Whilst the development of new homes is a valuable contribution towards meeting the housing need of many residents, some households still struggle to access a home they need and can afford. Increasing the supply of housing and broadening the offer made by the council to the community to give more people access to good quality housing is a key council plan priority
- 11.5 Winchester is one of the least affordable areas to buy a home in, and there are high levels of unmet housing need across the district. It is identified as an *area of high affordability pressure*¹ by Homes England, with one of the highest affordability ratios in the country at 14:1. The 2020 Strategic Housing Market Assessment highlights the challenges facing those seeking housing, including younger households. It emphasises the demand for intermediate housing products and the need for well managed private rented housing.
- 11.6 As a local housing authority, the council is constrained on the rents it can charge, the type of tenancy it can offer and on eligibility and housing need priorities. Creating a wholly council owned local housing company as a complementary vehicle is one of the ways of broadening the council's housing offer to meet the identified needs of the community.
- 11.7 Private rented accommodation delivered by a local housing company reflects the need for additional housing options in the district. It would also create a sense of security for households and supports community stability by offering tenancies from a landlord who has a long-term commitment to the provision of housing for the community, which is sometimes not the case in the private rented sector.
- 11.8 Financial appraisal of the dual company model demonstrated that it would be prohibitively expensive. In late 2017 proposals were approved, subject to a detailed five-year business plan, for the establishment of a single company limited by shares to focus specifically on the delivery of sub-market private rented accommodation. The five-year business plan was approved in early 2019 along with the proposed governance structure. Also approved was a combined loan facility and equity shareholding from the General Fund of £10m to support the company's development activity. Full approval to establish the local housing company was obtained in September 2019.

¹ An area where the difference between the average social rents and private rents is £50 per week or more

- 11.9 By late 2020 it was clear that the business case for this model was no longer sustainable:
- a) The impact of Brexit on the construction industry and the COVID 19 pandemic was significant in terms of rising costs, global supply chain disruption and labour shortages.
 - b) Build costs were originally modelled and based on smaller sites with exceptional design that would meet planning policies and the council's net carbon neutral ambitions. But for the model to be effective, it became clear that larger sites with few development constraints would be required and there were no such sites available.
 - c) The need to account for both land costs and commercial borrowing costs (6 %+) as well as tax implications.
 - d) The absence of the subsidies that generally support affordable housing.
 - e) Following a review of the council's finances in direct response to the pandemic, a reduction in the loan facility/equity shareholding from £10m to £4m was applied.
- 11.10 In light of these challenges, in September 2021 the Business and Housing Policy Committee agreed that a proposal be brought forward for a revised business case for a special vehicle to manage 41 sub-market rented units at Winnall.
- 11.11 These units would be built and retained by the HRA and leased to a wholly owned local housing company. The business case at the time indicated that the model was sustainable, but only very marginally over 30 years if sub-market rents were applied. The proposal also supported, where appropriate, the short-term transfer of existing assets to the local housing company (e.g. HRA stock under review; General Fund units awaiting regeneration).

Proposal

- 11.12 It is proposed to establish a wholly owned local housing company to provide private rented sector homes (with the council as sole shareholder) to lease properties from the council in order to provide high quality, energy efficient homes at reasonable rents. This is likely to be of particular interest to those in employment on modest incomes, including those often regarded as key workers.
- 11.13 Such a company would be able to act in a manner similar to that of an "institutional grade landlord" with freedoms to offer homes on alternative rents and tenancies to those normally offered by the council and to develop eligibility criteria that would improve the housing opportunities for those who would not normally access or qualify for council or other affordable housing options. Homes provided would be an alternative to the council's current housing offer for households who struggle to buy or rent privately and/or access council and other affordable housing option. They would also boost

the supply of private rented sector homes and so address a gap in the local housing market.

- 11.14 Council housing provided in the traditional way will remain the “core product” for the council’s 5000+ existing homes and its new build programme will continue to provide new council homes. However, if appropriate, a proportion of those homes could be leased to the new housing company and this would be evaluated on a case-by-case basis.
- 11.15 A first opportunity to utilise the local housing company is presented by the 41 new flats currently being constructed by the council as part of a 76 home development at Winnall. Leasing these homes to the local housing company as well as meeting the housing need identified, would also fulfil a commitment made to the community to ensure the development creates a greater diversity of tenure on the Winnall Estate. These units would continue to be owned by the council.
- 11.16 The financial risks associated with the previous Winnall proposal can be mitigated to some extent by removing a requirement to charge sub-market rents and by significantly reducing the amount of working capital committed from the General Fund. In relation to the Winnall flats it is worth bearing in mind that these flats were designed to be modest in size in order to improve affordability for single people. Affordability is discussed in more detail below.
- 11.17 It is therefore, proposed, subject to the approval of detailed governance arrangements, that a local housing company be established as set out in the recommendation.
- 11.18 Since the options for a local housing company were reviewed by the Business and Housing Policy Committee, work has progressed in a number of key areas, including:
 - a) Revising the strategic business case to ensure a clear focus on the council plan priorities, to reflect the opportunities that exist and to clarify that the housing company should be established to offer an alternative private housing sector option for a currently unmet housing need (rather than investment or development purposes)
 - b) Reviewing the financial business case to take account of current market conditions, a review of assumptions and testing of sensitivities.
 - c) Updated property valuations to support financial business case development.
 - d) Discussions with local lettings agents to gather intelligence on market conditions and service delivery options.
 - e) A market analysis in relation to affordability and appeal to those employed in particular roles and sectors.
 - f) Advice from external legal advisors on the updated proposals.
 - g) A review of the service offer and scope for the Housing Team to manage lettings and tenants as an established long term ethical landlord with a

large portfolio of social and affordable housing products and a strong local reputation of looking after its tenants.

- h) Undertaking an assessment of the governance arrangements using the *Local Authority Company Review Guidance* toolkit
 - i) Revisiting alternative options for achieving objectives, including discussions with prospective partners and other councils.
- 11.19 The council would be the sole shareholder and, while the final governance rules have yet to be agreed, it is envisaged senior council representatives will act as directors with the council acting as company secretary.
- 11.20 The local housing company will be run on a commercial basis in order to limit risk (e.g. there will be scope for the local housing company to set rents taking account of market conditions, resident employment status and income checks, guarantors and deposits). It will provide quality and energy efficient homes that are well managed and that offer tenants longer-term security than elsewhere in the private rented sector. The company will also be open to scrutiny by the council in its capacity as shareholder.
- 11.21 The local housing company can offer greater security of tenure than some other landlords as a result of it being a landlord with a long-term commitment to providing housing for the community. This includes attending to maintenance requests within a timely manner in line with established landlord repair service standards currently provided to council tenants, communicating openly with tenants on anything that may affect their home with clear accountable management lines. Services delivered by existing housing teams within the HRA will be via a SLA with the local housing company.
- 11.22 A local letting agent could be appointed to support the Homes Ownership team to undertake the initial intensive bulk marketing and letting of the homes. This approach would also help to build internal capacity acting as a learning opportunity for the team to understand how a commercial local letting agent operates. Thereafter, this function will be delivered in-house by the Home Ownership team, as would the provision of other landlord services to the local housing company with capacity funded by the 5% margin charged on services provided by the council.

Market Analysis, Affordability and Lettings

- 11.23 Members have previously expressed a particular desire for the homes to be attractive to those in employment but who may struggled to find affordable accommodation, those who are often regarded as key workers. This section of the report explores this matter and demonstrates that the proposed approach will produce a product that is attractive to those in employment on modest incomes.
- 11.24 To better understand the potential market, discussions have been held with local lettings agents and an affordability analysis has been carried out.
- 11.25 Agents comment on the buoyancy of the local market and are confident the homes at Winnall let in the manner described will be of significant appeal. A

similar recent development leased and managed by a local housing company established by Eastleigh Borough Council saw most homes let within a matter of weeks from the marketing launch.

- 11.26 There is recent evidence emerging of demand for self-contained homes increasing as renters who work at home begin to seek alternatives to shared housing.
- 11.27 The "institutional grade" purpose built, well designed, energy efficient nature of the new homes at Winnall will make them attractive to renters, as will control by a landlord committed to making homes available for renting for the longer-term.
- 11.28 There is no one universally accepted definition of affordability. The council's Strategic Housing Market Assessments identifies that typically 25-40% of gross income is taken to be a measure of affordability before settling on 33% for the purposes of analysis. Government policy (through Housing Benefit payment thresholds) would suggest a figure of 40%+ (depending on household characteristics). A recent Resolution Foundation report indicated 50% of income is apportioned to housing costs by lower income groups.
- 11.29 Lettings agents often use a multiple of rent to determine the affordability of rents to an individual e.g. income must at least equal 30 times rent. The most recent valuation of the Winnall properties suggest a rent of £900 pcm (inclusive of service charges). Using a typical commercial lettings agent measure this would suggest a minimum income of £27k p.a.
- 11.30 These measures are not hard and fast however and landlords will take account of individual circumstances. Some tenants are prepared or able to commit higher proportions of their income to housing costs, for instance to exercise choice over lifestyle, location, property type or because of savings or the availability of a guarantor.
- 11.31 The affordability analysis indicates that the homes are likely to be affordable to single person households earning around median level incomes. This would include health professionals, teachers and skilled tradespersons, as well as some younger people in the early stages of their careers. The table below provides an illustration of professions that the new homes may be attractive to taking account of affordability.

Sector/Population	Grouping/Profession	Indicative Individual Earnings/Annual Pay	%age of Salary/Market Rent (£900pcm/£10,800pa)
Winchester District	All - full time	£35k (median)	30%
Health and Social Care	Health Professional e.g. midwifery, physiotherapy	£39k (median- south east)	27%
	Nursing	£27k (newly qualified)	40%
	Nursing	£37k (median)	29%
	Nursing	£34k (junior sister)	32%
	School Nurse, pshycology trainee, experienced paramedic	£34k (<2yrs experience)	32%
Education	Early Career Teacher	£28k (Year 1)	39%
	Teacher (Classroom Teacher)	£34k (median)	32%
	Teaching and Educational Professionals	£39k (median- south east)	27%
Civil Service	All	£30k (median - England)	36%
WCC	All	£35k (median)	31%
Skilled Trades	E.g. Window fitters, heating installers	£39k (median- south east)	28%

Sources: HM Gov, ONS, WCC, NASUWT. ONS 2022 data sets not available for all sectors/professions at time of writing. Figures rounded

Fig. 1. Selected incomes/affordability examples

- 11.32 The proposal would complement other local housing offers including those made by the council. Council homes are provided at lower rents, a mix of Social and Affordable Rents. Such homes are normally appealing to those on lower incomes with around 25% of council tenants reliant on Universal Credit. Waiting times for traditional council homes are significant. Potentially shorter waiting times and the flexibility offered by a private rented sector offer is likely to appeal to the target market and support those looking to stay in Winchester for employment reasons.
- 11.33 The council new build shared ownership programme attracts purchasers with a range of incomes. Purchasers have a median income of £30k and purchasers often have significant deposits. The Winnall proposal will be likely to appeal to those without access to such deposits or to mortgages, including younger people in employment.
- 11.34 The council's Strategic Housing Market Assessment identifies a purchase income threshold of £59k (the income above which a household might reasonably be able to buy) and acts as a useful guide to the affordability of market homes.
- 11.35 The Winnall flats are being built to high environmental standards which means that energy costs will be lower than in many private rented sector homes. The Resolution Foundation study referred to above indicated that 67% of dwellings in the private rented sector nationwide had a poor energy efficiency rating and also that 70% of low-income private renters lived in homes with poor energy efficiency ratings. The energy savings costs arising will aid overall affordability and help combat fuel poverty and mean tenants are in more beneficial position than they would be in many other private rented sector properties.
- 11.36 The 2021 Business and Housing Committee 'Next Generation Winchester; Task and Finish project, was established to explore the challenges faced by younger people aged 18-35 who want to work and live in the Winchester district and reaffirmed a long-held confidence in the council as an effective

landlord. The proposals contained in this report include the council providing management and repair landlord services to the local housing company.

- 11.37 The Young Persons survey carried out by the council in 2022 revealed affordable housing and renting options as the thing that is most need of improvement in the area.

Governance and company structure

- 11.38 The proposed governance structure is attached at Appendix E. This does not differ significantly from the structure approved in 2019 but as already noted, it has been reviewed in accordance with the *Local Authority Company Review Guidance* toolkit which was published by Local Partnerships in 2021.
- 11.39 Council oversight of the local housing company will be in its (sole) shareholder capacity with three senior council representatives acting as company directors.

Planning Matters

- 11.40 The planning application for the development of the Winnall scheme made reference to sub-market rented flats in the description of the development. Although sub-market is not a separate planning Use Class (being treated the same as market rent in planning terms) if members agree to the recommendation, it is recommended that the council apply to the local planning authority (the council) to change the description of development to delete reference to sub-market rent.

The Proposed Financial Business Case for the Winnall Development Local Housing Company Lease

- 11.41 The financial business case is based on initially leasing the 41 units of accommodation at Winnall at market value to the proposed local housing company for an initial lease period of 15 years with an option to extend the lease for a further 15 years. The council has taken independent advice on the commercial structuring of the lease and this proposal is at market value, which assumes that the company retains 30% of gross income in the first 15 years and in the secondary period when the company assumes additional responsibility for major repairs this increases to 50%.
- 11.42 The operating model assumes that the local housing company would not be making either excess profits nor excess losses but would instead need to be run commercially to operate effectively within a tight and constrained operating budget, initially 30% of gross income and would effectively be aiming to achieve a break even position over the life of the lease. It is not anticipated that the local housing company will consequently pay any dividend.
- 11.43 In the secondary lease period the local housing company takes on the additional responsibility for major works through a full repairing and insuring lease in recognition of this the company's operating income increases to 50% of gross income. The local housing company would fund major repairs and

capitalise these works which would then be depreciated over the remaining life of the lease. At year 30 these provisions would be written back and the net effect is that at the end of the lease a small surplus would be generated, currently forecast to be £57k.

- 11.44 It is proposed the local housing company would be funded through an investment from the council of £300k. This amount falls within the threshold for Minimum Financial Assistance which may be provided on an exempted basis under the Subsidy Control Act 2022. This investment will be funded through scheduled HRA Right to Buy allowable debt capital receipts that have been set aside for this purpose and is compliant with capital finance regulations, which means it can be applied for General Fund purposes. Any losses would be a first call on the investment which would provide some initial mitigation if the local housing company made a loss. In light of the very marginal business case as set out in section 2 and the appendices, it should be noted that any increase in operating costs not offset by increased rents over and above the assumptions in the model would result in this investment being at risk of not being repaid (either in part or full).
- 11.45 The key assumptions that underpin the local housing company business case are shown in Appendix A. This illustration assumes rent charged to tenants by the local housing company are at market levels. These rents are inclusive of building service charges as currently calculated. Some operating costs are however still being assessed largely around the potential building service charges and the cost of fixtures and fittings, although it is considered by officers that the basis of these assumptions is reasonable at this point in time.
- 11.46 It should be noted that any properties let at “affordable rents” by local housing providers who are signed up to the Hampshire Home Choice partnership should all be let through the housing register. As the housing at Winnall is not aimed at applicants on the council’s housing register, it is proposed that rents should not be constrained and the local housing company should be free to set rents taking account of local market conditions and the objectives of the company as set out in the Articles of Association and the wider governance arrangements. This will ensure the council’s commitment to Hampshire Home Choice is not compromised.
- 11.47 The draft financial business case itself is set out in Appendix F. This shows IFRS 16 compliant presentation of the forecast cashflow, the income and expenditure account and the balance sheet for the local housing company over the period of the lease. This shows that the local housing company has largely positive cashflow throughout the lease period generating an average over the leasing period of £146k of net cashflow. The Income and expenditure account shows that the local housing company will pay some £451k in corporation tax over the life of the lease. At year 30 net shareholder funds are projected to be £357k, comprising £300k of original equity and a small surplus of £57k.(note in the Appendix F small rounding errors over 30 years shows this as £61k).
- 11.48 This presentation includes the impact of the proposed new leasing requirements of the International Financial Reporting Standard (IFRS) 16

which treats all leases as finance leases. The local housing company would need to be consolidated into the council's Annual Statement of Accounts on this basis. Under IFRS 16 the net present value of the Lease liability is capitalised and shown on the balance sheet as both a right of use asset, and a financial liability representing the obligation to make future lease payments. The lease payment to the council is unaffected, but in the Income and expenditure account of the company this is now replaced by a depreciation charge and an interest charge. This has the effect of increasing operating expenditure in the first 15 years and decreasing it in the second 15 years. Which in turn generates a loss in the early years and a surplus in the latter years. Overall the impact of applying IFRS16 delivers the same financial outcomes at year 30 as shown in Appendix B.

Alternative Proposals

- 11.49 It is possible to achieve similar aims by alternative means with varying degrees of risk and reward, however no other option has the potential to meet the objectives as well as the proposed approach. Further details of alternative options are set out in Section 13 below.
- 12 CONCLUSIONS
- 12.1 Providing *Homes for All* is a key priority identified within the council plan, and this includes the need to address the limited supply of housing for residents who, whilst they may not qualify to apply through the housing register, still struggle to access affordable longer-term housing within the local housing market due to limited supply and the very high cost of private housing.
- 12.2 To support meeting this priority it is proposed a wholly owned local housing company be established to lease properties from the council.
- 12.3 The case for a local housing company has changed since the original concept of establishing a wholly owned local housing company to boost the delivery of new homes when the council was restrained by borrowing limits on the HRA. This restraint no longer applies and as such the development of new homes through the HRA is far more cost effective than through a commercial vehicle.
- 12.4 It is important that there is clarity and a clear purpose for setting up a local housing company. To be clear in this report the purpose for the local housing company is not intended nor is it financially viable to be an investment or a development vehicle that will deliver significant returns. The financial business case reinforces this point as do previous local housing company reports considered by members.

The remodelled business case is to establish a wholly council owned local housing company based fundamentally on the council building in the HRA and leasing homes to the local housing company. This will extend the council's housing offer to support its *Homes for All* priority by providing good quality private rented sector homes as an alternative housing option to households who struggle to buy or rent privately and access council and other affordable housing options.

- 12.5 Each opportunity for leasing will need to be considered on a case-by case basis having regard to legal powers and to ensure opportunities are feasible, meet objectives and that risks are suitably mitigated. A first opportunity to utilise the local housing company is presented by the 41 new flats currently under constructed by the council at Winnall. It is proposed these are leased, to the company. As well as achieving other council plan objectives this will fulfil a commitment made to the community to ensure the development creates a greater diversity of tenure on the Winnall Estate.
- 12.6 The council has the power to establish a local housing company, pursuant to its general power of competence under Section 1 of the Localism Act 2011. If the local housing company sets the rents at a market rate the council may not provide any subsidy to the local housing company other than where permitted under the Subsidy Control Act 2022 (e.g. where the level of subsidy falls within the threshold for Minimum Financial Assistance). External legal advice is that the rules in respect of vires and compliance with subsidy controls are clearly set out if market rents are offered by the local housing company.
- 12.7 Financial model assumptions in relation to Winnall have been updated to reflect current market conditions. The approach, as with any commercial venture, does carry risks. The financial business case still remains marginal with risks attached to the general fund investment of £300k. Whilst potential losses are not likely to be high (no debt interest and limited exposure to inflation increases), there is a risk that the initial investment could be required in full to ensure the company remains solvent. This is, however, a significantly lower level of working capital than that previously considered and consequently the scale of risk is more limited.
- 12.8 Financial risks to the council and to the local housing company can be mitigated to some extent by allowing the local housing company to determine rent levels rather than the council requiring sub-market rents to be charged. In fact, the leasing model does not work at less than market rent given the current assumptions and so it is a reasonable expectation that the local housing company will charge market rents. This approach also simplifies local housing company set up and operation and reduces associated operational and, as noted above, legal risks and governance complexities.
- 12.9 It is important to continue to review key costs and incomes taking account of changing market conditions. It is equally important to monitor any changing market conditions as a result of the current uncertain macro-economic climate and understand the risks and impact that changes may have on the local housing company financial business case.
- 12.10 Notwithstanding these points, establishing a local housing company to lease and manage homes does have advantages over alternative options. The approach would mean the local housing company would be able to offer Assured Shorthold Tenancies to those in employment, including those often regarded as key workers, while ensuring the council has a high degree of control as the sole shareholder. It would offer tenants greater security of occupation as a result of the local housing company being a landlord with a long-term commitment to renting homes to the community. Tenants would

benefit from living in a well designed, energy-efficient home, and high quality property management and maintenance services provided by the council's own landlord team as well as the security of democratically accountable governance arrangements.

- 12.11 The wider housing offer to the community with increased opportunities for housing for those in employment would not only help individuals' housing circumstances it would support the local economy and essential service provision, and increase Winchester Town based accommodation to reduce commuting and promote sustainable travel choices.
- 12.12 Local market research suggests high demand for the Winnall and similar high quality market rented properties.
- 12.13 As noted above, it is important that operational arrangements are kept as simple as possible. They must replicate as closely as possible the Housing Team's standard operating procedures. With the local housing company charged (by Housing) the costs of service provision plus a 5% mark-up.
- 12.14 On balance therefore, and while members are encouraged to consider the inherent risks involved in this approach, Cabinet is asked to agree the recommendation set out above.

Next Steps

- 12.15 To review the strategic and financial businesses cases and member direction to develop more detailed proposals to include a final financial business case, timing, governance arrangements, director appointments and specific company conditions.
- 12.16 Detailed proposals following member direction will be brought for consideration at the Cabinet in the new year.

13 OTHER OPTIONS CONSIDERED AND REJECTED

- 13.1 This section summarises alternative options to establishing a local housing company and outlines why they are not the preferred options with specific reference to Winnall.
- 13.2 Develop a Community Lettings Plan. To let the Winnall flats as Affordable Rented Housing through the council's housing register with introductory and secure tenancies with the council acting as landlord. It could allow those in employment to be prioritised for the Winnall new build properties and remains a potential alternative option to leasing them to a local housing company. However, while also limiting financial risk, the approach would not fulfil the community commitment to diversify tenure (though it would be likely to diversify the community mix) or be likely to meet all the Winnall housing scheme project objectives.
- 13.3 Let as Affordable Rented: Housing via a Housing Register Allocation. Letting through the housing register without a community lettings plan in place would

carry a risk of stock residualisation given the high numbers and high density of council rented properties already in the local area. This would not fulfil the local community promise of diversifying tenure nor would it be likely to meet all the Winnall housing scheme project objectives or achieve project benefits. There would be a reputational risk for the council given previous commitments to the community along with potential estate management issues.

- 13.4 Lease to another housing provider: It may be possible to lease to a Registered Provider/landlord or to enter into a joint venture. This approach has the ability to deliver tenure diversity and to target the new homes at households in employment. However, informal discussions with other landlords and councils suggest it is unlikely that this would give the council the same degree of control over the use of the property as a local housing company given it would not be the sole shareholder or hold all (or indeed any of) the board positions. It would also be less likely to achieve the Winnall new build scheme project objectives and benefits. The approach would not necessarily be any less complex than the local housing company approach and would present a reputational risk for the council due to it having less control.
- 13.5 Sell as Shared Ownership Homes (through shared ownership leases with the council). This option is unlikely to meet all the Winnall new build scheme project objectives and benefits. The remainder of the new Winnall housing development will be shared ownership homes with a mix of 1 and 2 bedroomed homes. The demand for additional shared ownership flats is unclear and an attempt to dispose of the block of 41 homes on a shared ownership basis would present a risk to the council in terms of sales rates and income. There may also be a limited number of lenders who are prepared to provide mortgages on such a large number of shared ownership flats based in one location.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

BHP022: *New Homes Programme Update*
Business and Housing Policy Committee, 21 September 2021

Presentation: *Housing Development Strategy*
Business & Housing Policy Committee 1 December 2020

CAB3160: *Establishing the Winchester Housing Company*
Cabinet, 18 September 2019 and Council 25 September 2019

Presentation: *Housing Company*
Business and Housing Policy Committee 18 June 2019

CAB3139(HSG): *Establishing the Winchester Housing Company*
Cabinet (Housing) Committee 20 March 2019 and Cabinet 25 March 2019

CAB2990(HSG): *Establishing Local Housing Companies to Support New Homes Development*

Cabinet (Housing) Committee 22 November 2017 and Cabinet 6 December 2017

CAB2911(HSG) – *Establishing Local Housing Companies to Support New Homes Development*

Cabinet (Housing) Committee 22 March 2017

CAB2616(HSG): *Options for Increasing the Supply of Affordable Housing*

Cabinet (Housing) Committee 1 October 2014

Other Background Documents:-

None

APPENDICES:

Appendix A – Key assumptions underpinning the Financial Business Case

Appendix B – The Local Housing Company Business Case - showing cashflow forecasts, income and expenditure account and Balance Sheet over the life of lease

Appendix C – The impact on the General Fund

Appendix D – The impact on the HRA

Appendix E – Proposed Governance Structure

Appendix F - The Local Housing Company Business Case in an IFRS16 Compliant presentation