Potential Creation of a Housing Company for South Northamptonshire Council

Report of Head of Regeneration and Housing

This report is public

Purpose of report

To seek Cabinet support for the potential establishment of a local housing company.

1.0 Recommendations

The meeting is recommended:

1.1 To support the principle of establishing a local housing company.

1.2 To approve an initial sum of £40,000 towards consultancy costs to be funded from the housing allocation under the new homes bonus fund available for projects which support affordable housing.

1.3 To support the establishment of a small working group of members and officers to develop the local housing company proposals and support the due diligence work required.

1.4 To request officers to work with the above working group to prepare a business plan for the local housing company.

1.5 To request officers to bring back a further report to Cabinet proposing the business plan governance and early housing company objectives by Spring 2016.

1.6 To request officers to appoint appropriate consultants to complete the necessary legal, governance and financial due diligence associated with the creation of a local housing company.

2.0 Introduction

2.1 A key theme in the Council’s strategic business strategy is to secure a prosperous and sustainable future. To deliver this, the Council needs to explore different ways
of delivering services, different funding sources and investment models to create future income. Officers in the Housing Department have been exploring options for the Council to create a local housing company for South Northamptonshire Council. This work has concluded that the establishment of such a company could enable additional housing choice and create a new asset class for the Council to potentially increase both revenue and capital funding.

2.2 Members will be aware that Cherwell District Council (CDC) have recently established a local housing company focussed on the specific housing gap priorities and demands associated with the Build! programme. The CDC housing vehicle is however a charitable organisation and, in meeting the specific needs of CDC, will not be returning any potential surpluses directly back to the Council.

2.3 When determining the model for CDC, the Council's legal advisors clearly indicated that in looking at the possibility of such a local housing company working across its boundaries into SNC it was not appropriate to do this at this time given the specific housing needs and requirements being met for CDC. Legal consultants did, however, suggest that SNC, if it created a separate housing company to meet its own housing need requirements, could at some stage in the future explore some formal “group structure”.

2.4 It is worth, therefore, noting that the SNC proposals for the establishment of a housing company at this stage does not include registration with the Homes and Communities Agency (HCA) and therefore it will have greater flexibility in terms of its operating model and specifically in terms of the types of assets it may create and subsequently own and manage. This aligns the company under this scenario more closely with the confederation model that both Councils are intending to implement. The group structure mentioned above is therefore possible as previously envisaged at some time in the future, although careful consideration would need to be given at the time as to any impacts this might have around integration with the confederation initiative.

3.0 Report Details

3.1 National and Local Context
Local housing companies have emerged in the last couple of years, following the introduction of the General Power of Competence in the Localism Act 2011. They are seen as alternative delivery vehicles for new housing, giving strategic housing authorities another tool with which to proactively shape the housing market. Initially developed within some of the London boroughs primarily to offer housing for rent, local housing companies were recognised in the Elphicke-House report (January 2015) to government as having a wider role to play. In March this year, the Housing Minister wrote to local authorities to say that government supports setting up of local housing companies where they are taking on a wider role. The proposal to set up a local housing company in South Northamptonshire fits with central government expectation that local authorities will play a more active role in housing delivery and in shaping the local housing market.

3.2 The Housing and Planning Bill includes provisions to promote the delivery of starter homes. There are two main duties proposed: a general duty to promote the supply of starter homes when planning functions are being carried out, and a specific duty in relation to decisions on planning applications. Any future work on a local housing
company in South Northamptonshire will consider the Government’s recent announcement regarding starter homes and will be specifically considered as part of the due diligence process.

3.3 Why establish a local housing company?
The following are potential benefits of a new housing company delivery vehicle:

- It would act as an investment vehicle for the local authority giving a financial return equivalent to or better than other investment opportunities. The creation of new housing within the district provides for a new asset class to be created by the council. This asset class can provide new revenue income streams through rents and service charges and generate capital receipts for the Council which the Council currently does not obtain. The development programme for the local housing company would consider carefully how to balance capital receipts and on-going revenue to best suit the company and council objectives/priorities.

- The company would have as its primary focus the provision of housing products which would allow those currently in work, but unable to get on the housing ladder, a new opportunity to select a home of their choice. This would include private rented accommodation, rent to buy, open market sale, self-build and shared equity. It provides a vehicle to fill the market gaps in the housing sector which are currently proving difficult to achieve using traditional developer/Registered Provider partnerships. This is particularly relevant in the context of rural housing.

- The initiative allows for greater choice across the housing market, especially for those customers that whilst in work and earning reasonable salaries are unable to access the market place.

- It provides an opportunity for the council to think more imaginatively around the use of any commuted sums rather than negotiating a level of affordable housing on sites coming forward and controlled by developers.

- The local housing company model allows for the council to dispose of some or all of the housing assets to another provider or organisation at some time in the future should it wish to exit from the initiative.

- The local housing company will be well positioned to potentially develop priority sites identified through the asset management review process currently underway.

- The housing company will be able to attract institutional investment where necessary to increase its development output if required.

3.4 What would the local housing company look like?
Currently, our thinking would suggest that the company would be established as a company limited by guarantee with directors appointed by the local authority (these can include elected members and/or officers), and other board directors with specialist knowledge such as those persons who have worked in the housing industry, finance sector, or legal services. As mentioned above, it is not currently the intention that this company will be registered with the HCA given the added layer of complexity and regulation that this involves.

3.5 What products would the local housing company deliver?
The local housing company could be used to deliver the following products:
- Rent to buy and similar products which reduce the need for a deposit and therefore make home ownership affordable for those on incomes of £40K to £60K
- Market sale housing – smaller accommodation especially in rural areas where developers do not generally offer smaller homes suitable for first time buyers or older people wishing to downsize
- Self-build serviced plots where the local housing company owns the land and charges a ground rent to create an income stream for the council
- Shared equity models which make home ownership affordable for those on incomes below £40K
- Market rent housing particularly aimed at households in employment who may need to be mobile or who are looking to get into home ownership but are not yet ready to do so. It may be possible to work in partnership with key employers in the district to support wider corporate objectives around employment and economic development
- Off-site construction methods employed
- Delivery of mixed-use schemes including, where appropriate and justified, commercial assets
- Development of specialist housing facilities such as leasehold schemes for the elderly or sheltered housing plus schemes for the elderly

3.6 **Financial Arrangements**  
The financial due diligence arrangements will include detailed business planning and financial modelling. This will consider potential development activity and the pay-back of loans required to facilitate the development activity over the standard business case cycle of 30 years.

3.7 The Council can determine when it considers whether to set up the Local Housing Company, what mix of funding would be appropriate for the company. This can be public finance through Council resources combined with institutional investment. The financial due diligence and outputs from that work will provide a clear indication as to the best method, based on risk, for this long-term funding arrangement.

3.8 Once developments are completed, it is anticipated that the Council will receive a revenue stream and some capital receipts. The level of each will be determined by the type of tenures provided following the disposal of any properties or part disposal through shared ownership or shared equity.

3.9 **Work to date and Future Work Programme**  
To date, officers of the housing department have completed the following:

- Initial exploratory and high level feasibility work
- Some early discussions with senior elected members.

3.10 If a decision is taken by Cabinet to progress the local housing company initiative, the key elements of the future work programme are as follows:

- Financial, legal and governance due diligence work (including how the local housing company fits with the confederation proposals as indicated above)
- Development of preferred housing company model
- Development of the financial business case justifying the creation of the housing company
An initial delivery programme of between 30 to 50 units per year (subject to the outcome of the financial due diligence)

- Identify potential sites and opportunities in the first 5 years of operation and report back to Cabinet on the detailed arrangements for the establishment of the local housing company Spring 2016
- Second stage Cabinet report (estimated April 2016)
- Establish local housing company (estimated August 2016)

### 4.0 Conclusion and Reasons for Recommendations

#### 4.1

This report is requesting Cabinet Members to support the principle of establishing a local housing company and authorising officers to complete the necessary work to bring back a detailed report for Cabinet consideration in Spring 2016. Such a report, subject to the necessary due diligence work, will recommend the potential creation of a preferred housing company model along with an initial programme of development. Such an approval will also enable us to:

- Provide housing products that bridge gaps in the current market
- Increase opportunities for self-build for local residents
- Meeting housing need of those with higher incomes/assets, working families and older people who do not require social housing
- Increases range of housing solutions on offer to residents
- Responds to government expectation that councils will proactively manage the housing market
- Supports wider corporate objectives around employment and regeneration and confederation model
- Offers local authority control but removes some of the constraints ie not subject to central government controls on rent levels, borrowing etc.

### 5.0 Consultation

#### 5.1

Initial discussions have taken place with the Leader of the Council and Portfolio Holder for housing at South Northamptonshire Council, the Head of Finance and Procurement and Head of Law and Governance. Some early discussions have taken place with Registered Provider partners who deliver new affordable housing in the district and the local housing company proposal was viewed positively and would complement their work in the district to meet local housing needs.

#### 5.2

The future work programme will, as stated above, incorporate an officer and member working group including colleagues from finance, legal and transformation to support the due diligence work that will be necessary in the coming months.

### 6.0 Alternative Options and Reasons for Rejection

#### 6.1

The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not to support the establishment of a local housing company but this would: reduce the opportunities available to the council to generate
income, both revenue and capital receipts; fail to address gaps in the local housing market; reduce the housing choices available for the district’s community including local working families who are currently finding it very challenging to access appropriate housing choice products.

7.0 Implications

Financial and Resource Implications

7.1 There is a requirement to appoint appropriate consultants to assist with legal, governance and financial due diligence and creating a potential programme of development for the local housing company. An initial budget of £40K is being requested for consultancy support for this project. The proposal is that this budget is funded from the New Homes Bonus Affordable Housing funds. The Head of Finance and Procurement, along with the Head of Law and Governance, will also be requested to assist with the appointment of appropriate specialist consultants to complete the necessary due diligence work associated with the development of the local housing company concept.

Comments checked by:
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Legal Implications

7.2 The full legal implications and associated governance issues will be identified as part of the planned due diligence work. Officers from legal services will be involved in the detailed work programme. If a company is established it will be necessary for a business plan to be produced and approved and this would form part of the proposed report back to Cabinet in Spring 2016.

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8.0 Decision Information

Key Decision

Financial Threshold Met: No

Community Impact Threshold Met: No
Wards Affected

All wards will potentially be impacted by this initiative insofar as it related to potential new housing development producing greater choice to those communities in the district.

Links to Corporate Plan and Policy Framework

This report item links to the following corporate priorities:
- Protect our quality of life
- Secure a prosperous and sustainable future

Lead Councillor

Councillor Stephen Clarke, Portfolio Holder for Economic Development, Regeneration and Housing

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