



To: Executive Councillor for Finance and Resources
Report by: Alan Carter – Head of Strategic Housing
Relevant scrutiny committee: Strategy 13/07/15
and
Resources
Committee
Wards affected: East Chesterton and Arbury

Title – General Fund Investment in Housing Key Decision

It is recommended that the committee resolves to exclude the press and public during any discussion on the exempt section of the report by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006, as it contains commercially sensitive information.

1. Executive summary

This report examines the opportunities to invest General Fund monies in housing let at rents below market values to assist in meeting the needs of those who do not have priority for social housing but cannot afford market housing (known as the intermediate market). The report proposes a pilot project involving the acquisition of 24 new homes on the Aylesborough Close and Water Lane schemes currently being developed on Council land under the Housing Revenue Account. The pilot project will allow the Council to test the risks and opportunities of the proposition before consideration of any further investment.

2. Recommendations

The Executive Councillor for Finance and Resources is recommended to delegate authority to the Director of Customer and Community Services in consultation with the Head of Finance and Head of Legal Services to;

acquire 24 homes on the Aylesborough Close and Water Lane schemes currently being developed on Council land by Keepmoat and to set up a housing company, wholly owned by the Council, to borrow from the General Fund to acquire the housing and to let the homes at 80% of market rent on short-term tenancies ensuring all risks have been considered in the business case.

3. Background

The Annual Statement 2015/16 includes as a priority for the Council “to use General Fund reserves left lying dormant previously to invest in new intermediate homes at affordable sub-market rents for those with low priority for social rent homes, and generate revenue to protect services.”

A report to the Housing Committee in September 2014 detailed the growing issues in the intermediate housing market. The Executive Councillor for Housing agreed to endorse the need to address a range of intermediate housing needs amongst people who cannot afford to buy or rent good quality housing on the open market but who also do not have priority for social housing for rent.

This report proposes the use of General Fund monies to purchase the market housing that is available on the Council housing development schemes in Water Lane and Aylesborough Close and to let them at rents that are below market levels.

The market housing on these schemes is made up as follows;

Water Lane (Total properties - 10)

- 2 one bedroom flats
- 4 two bedroom flats
- 4 three bedroom houses

Aylesborough Close (Total properties – 14)

- 1 one bedroom flats
- 8 two bedroom flats (including one wheelchair accessible)
- 5 three bedroom houses

Both schemes have planning approval and are under construction by the Council’s partner house-builder, Keepmoat. The market housing is due to be completed as follows;

Water Lane – December 2015 to March 2016

Aylesborough Close – September 2015 to March 2016

Appendix 1 shows the layout of each scheme and the location of the market housing colour coded and marked as ‘private’ in the key shown on the layout plan.

Initial legal advice has suggested that a housing company, wholly owned by the Council, could be set up to facilitate the proposal.

Under the model being explored the housing company would borrow money from the General Fund and acquire the new homes from Keepmoat. The

housing company would repay the loan through the rental income received from the tenants.

The properties would not be subject to the 'Right to Buy' and if the pilot proves to be successful it will be available to accommodate similar investments in the future. Further detailed legal advice will be sought to ensure that 'state aid' is avoided and to be clear on any tax implications.

The housing company will have a number of options to manage the housing including by contracting with City Homes; by contracting with the Council's social lettings agency, Town Hall Lettings; or through contracting with a private lettings agency for example (the latter would be subject to procurement but the former two options would not as the service delivery will remain within the public sector. A Lettings Policy for the housing would need to be produced and factors such as length of tenancy defined.

As the project is proposed as a pilot it requires an 'exit strategy' should the housing company prove unviable over time or fail to meet the intermediate housing need as intended. The proposed exit strategy is to dispose of the properties realising a capital receipt to repay the Council's loan. This can be facilitated by offering fixed term tenancies of say, a three year duration. The housing company will be required to produce an annual budget and the company board members will monitor operational and financial performance. It would be the intention to formally review the pilot say after two years to confirm that it is meeting its objectives.

In order to set up the housing company, then Council will need to;

- Complete a legal process to form the company
- Agree governance arrangements ie agree Board membership
- Draft a business plan including a budget for its first year of operation
- Secure legal and tax advice in respect of this specific proposal
- Produce a risk assessment and mitigations
- Consider letting, management and maintenance arrangements

4. Implications

(a) Financial Implications

Initially the proposal to acquire the 24 properties was based on the use of the Investment for Income Fund (IFI). A minimum return on investment of 5% has been set for this fund. As the financial appraisal for the proposal using IFI generated less than 5% return, two other scenarios were appraised.

a. Using internal borrowing @ 2.02% interest

c. Using external borrowing @ 3.62% interest

Each scheme was appraised separately. Using internal borrowing both schemes generate a positive revenue return from year 1. Using external borrowing, neither scheme generates a revenue return in year 1.

The recommendation is therefore to use internal borrowing to acquire the properties. This has the added benefit of not utilising the IFI leaving it available for schemes that will generate the minimum return required.

The Head of Finance has confirmed that the use of internal borrowing is a legitimate route to fund the proposal and that the Council's projected cash flows indicate that there is sufficient cash available to fund this proposal for the long term, if required.

An overview of the financial appraisals for each scenario and revenue costs and rental income assumptions used for this proposal are detailed in Appendix 2. In summary, the market values of the have been assessed by a qualified independent valuer. The assumed housing management costs are higher than for an appraisal of a social housing scheme due to an anticipated higher turnover of properties. Maintenance costs are the same but profiled with lower costs in the early years of the scheme as the properties are new. The rents used are as follows and are based on 80% of market rent at December 2014 plus an assumed annual inflation of 2%;

One bedroom - £150.88 per week

Two bedroom - £206.62 per week

Three bedroom - £236.16 per week

(Note – the appraisals do not factor in any potential capital appreciation of the properties)

(b) Staffing Implications

Legal and financial advice will be needed to set up the housing company.

The housing company will need to commission the following services;

Legal - to acquire the market housing; establish the types of tenancies and potentially to dispose of the housing should the company be wound up.

Finance and accountancy to receive set budgets; receive rents and manage accounts.

Housing management and maintenance.

All of these services can be provided by the Council.

(c) **Equality and Poverty Implications**

None

(d) **Environmental Implications**

All of the homes acquired will be constructed to Level 4 of the Code for Sustainable Homes.

(e) **Procurement**

None.

(f) **Consultation and communication**

None.

(g) **Community Safety**

None.

5. Background papers

None

6. Appendices

Appendix 1 - Layout of each scheme and the location of the market housing colour coded and marked as 'private' - attached as separate documents.

Appendix 2 (Confidential) – Summary of financial appraisals for each scenario and revenue costs and rental income assumptions used

7. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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