

Subject: Housing Delivery Options
Date of Meeting: 2 March 2016
Report of: Nick Hibberd, Executive Director Environment,
Housing & Development
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Ward(s) affected: All

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The Council has a strong track record of improving housing supply in the City making best use of assets and investment opportunities to deliver more affordable homes. In addition to working in partnership with Registered Providers (RPs) and the Homes & Communities Agency (HCA) to enable the development of new affordable housing, we continue to make best use of our Housing Revenue Account (HRA) assets and resources to provide more council housing through our successful New Homes for Neighbourhoods programme.
- 1.2 However, increasing housing demand, reduced public subsidy for affordable homes and a shift away from development of rented and family homes remain key challenges identified in our Housing Strategy and Budget. This has an adverse impact upon our ability to respond to the needs of a growing more diverse population, our capacity to maintain mixed and balanced communities and retention of lower income working households and employment in the City.
- 1.3 Our HRA financial forecast is clear that the HRA debt cap and reduction in rental income of 1% per annum over the next four years will restrict resources available for new build and regeneration so alternative options and delivery mechanisms for funding outside the HRA will be required. The council also continues to have significant pressures on our General Fund Temporary Accommodation costs in addition to uncertainties due to impending government legislation including Housing & Planning Bill proposals.
- 1.4 Policy & Resources Committee (16 October 2014) delegated authority to the Executive Director to explore options to enable the Council to intervene in the housing market to deliver new homes to meet our identified needs. This report outlines a consideration of options which are likely to be available in funding and structuring a new Council vehicle to support delivery of additional housing supply. We also aspire to explore this model on a Greater Brighton level and assess whether such an entity could be the basis of accelerating housing delivery as part of the housing component of the wider Growth Deal.
- 1.5 The report recommends funding for legal and financial advice to progress the establishment of a Joint Venture and / or Special Purpose Vehicle to deliver new homes to inform development of specific proposals for report back to Housing & New Homes and Policy and Resources Committees.

2. RECOMMENDATIONS:

- 2.1 That the Housing & New Homes Committee note the options which are likely to be available in funding and structuring a new Council vehicle to support delivery of additional housing supply.
- 2.2 That the Housing & New Homes Committee recommend to Policy & Resources Committee that the Executive Director Environment, Development & Housing, in consultation with Executive Director of Finance & Resources, procure specialist legal and financial advice in order to evaluate and progress the proposals for the delivery of alternative models for the supply of affordable housing as detailed in this report for report back to Housing & New Homes and Policy and Resources Committees.
- 2.3 That Housing & New Homes Committee recommend that Policy & Resources Committee allocate £0.100m of the 2016/17 Strategic Investment Fund towards specialist legal and financial advice.

3. CONTEXT/ BACKGROUND INFORMATION

City housing market

- 3.1 Brighton & Hove is a growing city with high housing prices, low incomes, an ageing population and a significant proportion of households with support needs. There are over 23,000 households on our joint housing register, 1,800 households in temporary accommodation and rising homelessness. Social Housing makes up only a small proportion of the overall housing in the City with 9.8% of homes owned by the local authority and 5.1 % by RPs.
- 3.2 One of the key themes emerging from consultation on the City-wide Housing Strategy was the acute shortage of affordable homes and in particular family housing, in the City. This is often set against concerns around the significant growth of houses in multiple occupation (HMO) in the expanding private rented sector, in particular where these arise from conversion of smaller family homes.
- 3.3 Private renting has increased by 45.7% (an extra 10,691 homes), and now stands at 34,081 homes or 28% of all housing stock. This growth is in contrast to the declining owner occupied sector, now making up 54% (65,835) of housing stock in the City (Census 2011). The private rented sector includes a very high level of converted family homes or shared houses.
- 3.4 The continued growth in the private rented sector in the City presents the risk that a reduced affordable housing offer on larger residential sites, where a developer contribution toward affordable homes applies but is challenged on the grounds of viability, is compounded by the remaining residential accommodation meeting the demand of buy to let or other landlord investors rather than those seeking to buy their own home. In particular, in areas already identified as having a proliferation of multi-occupied homes which offer investors a greater return on their investment. This in turn may increase pressure on the Housing Register or result in families seeking accommodation outside the City.

Council response – enabling delivery of new homes

- 3.5 Brighton & Hove has a strong track record of improving housing supply in the City, maximising investment in new affordable homes and making best use of our statutory powers and resources in support of our City Plan, Housing Strategy and Corporate priorities.
- 3.6 The Council continues to work closely with the Homes and Community Agency (HCA), our Registered Providers (RPs) and other partners to identify opportunities for delivery of Affordable Homes. We also continue to make best use of our own portfolio of land and housing, in particular through ongoing review of HRA assets. We have aligned our HRA Asset Management Strategy with our Housing Strategy priorities, including supporting new housing supply by providing more council housing through the New Homes for Neighbourhoods programme in order to meet the current and future housing needs of residents.
- 3.7 The New Homes for Neighbourhoods programme has been progressing well with the first projects completed in July 2015 and February 2016. There are now a further seven projects on site and around 250 new homes in the project pipeline. To date these projects have been funded through Housing Revenue Account (HRA) borrowing, with the majority of costs being repaid through the rental income from the new homes. The HRA Capital Programme for 2016/17 & 2017/18 includes a total of £34.3 million toward building new council homes.

Meeting future challenges

- 3.8 The City faces considerable challenges in meeting the housing needs of a growing population. In particular, in identifying sites for new homes and around the viability of delivering new affordable housing on residential schemes where a developer contribution to secure new affordable homes on site applies. This is currently with particular detriment to the delivery of Affordable Rent and larger family homes and is aligned to changes to public subsidy arrangements and appetite of Registered Providers to support risks in relation to funding new affordable housing.
- 3.9 Housing demand, growth in the private rented sector and rising rents has also had an adverse effect on affordability of housing in Brighton & Hove, contributing to a decline in owner occupation and risking those seeking to buy their own home being unable to take advantage of housing for sale on new developments.
- 3.10 Reduced public subsidy for affordable homes and a shift away from development of rented and family homes has an impact upon our ability to respond to the needs of a growing more diverse population, our work to support vulnerable households and our capacity to maintain mixed and balanced communities in Brighton & Hove. There is also an adverse economic impact on: our ability to retain lower income working households and employment in the City, including key workers in adults, children and health services; investment in existing and new housing to support residents and families to live independently in support of reducing social care cost pressures.
- 3.11 In order to mitigate an on-going adverse impact on delivery of new affordable homes in the City, and in light of alternative funding routes available to the Local

Authority, Policy & Resources Committee (16 October 2014) approved delegation of authority to the Executive Director to explore and negotiate options to enable the Council to intervene in the market to deliver new housing to meet our identified needs. This approval included consideration of funding options including General Fund prudential borrowing, Housing Revenue Account capital financing and 'off public sector balance sheet' institutional and private investment financing along with appropriate delivery, management and governance frameworks.

- 3.12 Following a successful bid to DCLG for Homelessness PRS Investment case Studies Grant we were allocated Section 31 grant funding to investigate and model the purchasing of local accommodation to house homeless households. Savills and Trowers & Hamlin were jointly procured to provide the modelling / advice required to support the investment case study for the local authority as a potential purchaser/lessee of new accommodation being brought forward on development sites in the City, to meet housing needs, including the delivery of homes let at Local Housing Allowance rates to households to whom a statutory duty to accommodate is owed. This modelling includes consideration of options which are likely to be available in funding and structuring a new Council vehicle to meet our strategic objectives.
- 3.13 We are also seeking to accelerate housing delivery on a sub-regional basis through our Greater Brighton partnership work. This extends to reviewing options for local authorities to intervene in the local housing market as potential purchaser of land or new housing being brought forward on development sites in the Greater Brighton region in order to support delivery of additional housing supply and meet housing needs. Including, a range of tenure options to meet housing requirements of households to whom we owe a housing duty, key workers and those requiring intermediate / market rent options.
- 3.14 In addition, as outlined in a presentation to Housing & New Homes Committee on 11 November 2015, the council has been assessing the HRA financial position following changes in the national Budget 2015 (including an annual 1% reduction in council rents over the next four years) and potential impacts of the proposed Housing and Planning Bill. These include the requirement to sell off high value council homes when they become vacant (with the capital receipts pooled by Government and redistributed to RPs) and the potential impact the proposed duty for Local Authorities to promote Starter Homes. In particular, the expansion of the Exception Sites Policy for Starter Homes- for sites in commercial or industrial use and not currently identified for residential use to affect S106 agreements and affordable housing.
- 3.15 The HRA medium term and 30 year financial forecast was reported to Housing & New Homes Committee (13 January 2016) which showed that the council is nearing its self-financing cap (or limit) on the amount of HRA borrowing permissible for capital investment. For Brighton & Hove this limit is currently set at £156.8m and the outstanding debt reaches its peak in 2023/24 where the borrowing level is £147.4m leaving headroom of only £9.4m.
- 3.16 This position means that the council needs to look at alternative funding and delivery mechanisms if it is to deliver the new affordable homes the city needs. The council has also been looking at larger scale opportunities including those

related to the structures researched in the Housing Market Intervention project in order to deliver a large number of new homes financed from outside the HRA.

Housing market intervention report

- 3.17 Savills and Trowers & Hamlin were procured to review options for the Council to intervene in the local housing market as a potential purchaser (or lessee) of new housing being brought forward on development sites in the City, to meet housing needs, including delivery of homes let at LHA rates to households to whom the Council owes a statutory duty to accommodate.
- 3.18 The joint report from Savills and Trowers & Hamlin is included in Appendix 1 of this report. Information provided to the Council in commercial confidence to frame illustrative case studies based on potential housing developments in the area has been removed. The principal assumption in the case studies is that the Council would be able to use its position of influence and financial strength to acquire a number of properties off-plan, at a discount to full market value based on the property acquisition assumptions. The financial modelling then uses market information and reasonably standard assumptions in terms of rental yields and operating costs, to show if/how such a proposition could be financially deliverable. Case study financial modelling shows a proposition which could be viable from the perspective of the company and Council.
- 3.19 The report sets out the options which are likely to be available in funding and structuring a new Council vehicle to support the objectives of this project and outlines the principal funding options. Whilst there is a wide range of options in terms of structuring (including third party involvement through a joint venture), and in funding (including third party or internal funding arrangements), the likelihood is that the objectives of this project could be most effectively delivered through a wholly owned and funded company. This is a relatively straightforward route which is being followed by a number of local authorities for similar projects.
- 3.20 The report sets out the financial implications of a new council owned and funded company being set up to acquire and let out properties. The assumption is that the company acquires properties and, to achieve a position which is financially viable from the company's perspective, it lets them out at a mix of market rent and LHA rent.
- 3.21 Should the council take forward a new council owned and funded company, in terms of funding, the Savills and Trowers & Hamlin report assumes that the Council provides the company with finance to allow it to acquire the properties. The financial arrangements between the Council and company are then set up so that:
- They are fully compliant with the regulatory environment (tax, state aid and other government regulation);
 - The company can afford to meet its financial commitment (interest payment to the Council) from the retained net rental income – i.e. it has a viable and deliverable business plan;
 - The Council receives sufficient interest from the company to allow it to cover the additional interest cost it will incur in raising the finance provided to the company.

This arrangement would create a portfolio of properties, which the Council would have access to, available to be let out at LHA or intermediate rent levels, with potential savings to the council in temporary accommodation costs. Whilst there are a number of issues which would need to be worked through, including more detailed financial analysis and risk assessment, it is a route which other councils are following, and ultimately the proposition is underpinned by the value of the Brighton housing market.

- 3.22 As outlined above, whilst the report from Savills and Trowers & Hamlin outlines that objectives of the Housing Market Intervention project could be most effectively delivered through a wholly owned and funded company acquiring and letting out properties, the report includes a wide range of options in terms of structuring, including third party involvement through a joint venture.
- 3.23 In addition to the potential for wholly owned Special Purpose Vehicle the Council has been investigating options to work with a Registered Provider Partner to deliver new homes, potentially through Joint Venture companies.

Joint Venture delivery options

- 3.24 The council has been looking at options to establish a Joint Venture Company or companies for the delivery of new homes. A Joint Venture structure could involve working with another organisation such as a Registered Provider or developer to share resources to deliver new homes. The aim of any partnership would be to pool the skills and expertise of both parties, together with land and financial resources, in order to deliver new affordable homes.
- 3.25 Each party to any Joint Venture Company would have an equal say in decision making and equal representation on the Company's Board. In addition to providing a supply of new homes quickly, the venture could potentially also generate an ongoing revenue stream to the council subject to the company structure.
- 3.26 A Joint Venture Company would have no direct staff, with services contracted in from the partners or from external contractors as necessary. Services agreements would be put in place with each of the partners at the point of forming the Company. The council would work closely with any Joint Venture partner to make sure the interests of the council and residents are represented through maintaining both a strong client / partnership role and through robust project management arrangements similar to those in operation with partners delivering major infrastructure projects in the city. The establishment of a Joint venture would need to be in-line with European and national procurement regulations as well as the council's Contract Standing Orders.

Joint Ventures for specific regeneration projects

- 3.27 The establishment of Joint Ventures may also be an effective way of delivering specific regeneration projects. Joint Ventures could be established around specific sites or areas in order to gain funding and deliver new homes. This could potentially involve the regeneration of existing estates or buildings that are coming to the end of their life and where additional homes could be delivered by increasing the capacity of the site. This could be particularly relevant where the

council owns land in close proximity of another organisations assets or land, for example a Registered Provider.

- 3.28 This type of regeneration activity would involve working with local communities to develop proposals for the regeneration of estates in greatest need of investment and where there are development opportunities. This would involve liaising with colleagues across the council to make sure that our estate regeneration activities join up with other initiatives and major projects and that we maximise the opportunities available for residents.

Next Steps

- 3.29 The council will need to engage expert legal advice in order to progress the establishment of any Special Purpose Vehicle and / or Joint Ventures. This will enable the council to establish the correct legal structures and ensure that the council's interests are protected and a due diligence assessment is made on any proposals. Other professional advice may also need to be commissioned as part of this process, for example financial experts.
- 3.30 In order to enter into a Special Purpose Vehicle and / or Joint Venture it is likely that one of the first steps would be for the council to create a company in order to enable the council to 'trade'. This would not be the establishment of a complex, separate organisation with staff, but rather a 100% council controlled entity that would operate similar to existing council Boards and Committees. The company would have objects enabling the council to trade and act commercially which are a legal necessity if the council is to enter into a Special Purpose Vehicle and / or Joint Venture arrangement.
- 3.31 The council is currently assessing procurement options for the provision of legal advice which include a new call for competition, or the use of the Crown Commercial Service Legal Services Framework. Costs of expert advice will be mainly met through the Strategic Investment Fund (SIF). Funding of £0.040m has been identified from the SIF 2015/16 allocation and £0.010m from external grant. The report recommends that Policy & Resources Committee allocate up to a further £0.100m of the 2016/17 Strategic Investment Fund towards specialist legal and financial advice.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 A list of alternative options is provided below. It is likely that a range of delivery options will be progressed in the longer term in order to maximise the delivery of new homes. Individual proposals would need to be agreed by the relevant committee.
- Council led project e.g. a Special Purpose Vehicle
 - Joint Venture with a Registered Provider
 - Disposal of sites to private developers
 - Do nothing

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 General consultation on our approach to stimulating new house building, making best use of our HRA assets and estate regeneration through the New Homes for Neighbourhoods programme has been undertaken with councillors, council tenants and leaseholders through reports and presentations to Housing & New Homes Committee. The cross party Estate Regeneration Members Board oversees development and delivery of our estate regeneration activities.
- 5.2 Consultation with residents and ward councillors on specific schemes to be developed by the Council or its partners will be undertaken via the Planning process.

6. CONCLUSION

- 6.1 Approval is sought for the above recommendations in order to support achievement of City Plan and Housing Strategy priorities, in particular the delivery of new affordable homes. We would return to Committee with proposals for any specific schemes which must be aligned to the Council's legal framework and financial capacity.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 DCLG provided Homelessness PRS Investment case Studies grant funding of £0.050 million to investigate options for increasing homelessness housing supply and model options available to the council which includes the purchasing of local accommodation to house homeless households and investigating alternative models for the supply of Housing. Savills and Trowers & Hamlin were jointly procured to provide the modelling / advice required to support this project. The report in appendix 1 includes modelling of options which are likely to be available in funding and structuring a new Council vehicle to meet strategic objectives.
- 7.2 The report concluded that the objectives of this project could most effectively be delivered through a wholly owned company and provides a summary of company funding arrangements available, financial risks and sensitivities. The case study modelling shows a proposition that could be viable, with the principal risk to viability being the ability to achieve sufficient net rental income stream from the properties to meet financing costs. It should be noted that the financial modelling was based on case studies for illustrative purposes with no certainty that the properties will be available at the costs modelled.
- 7.3 The council has also been looking at the options to establish a joint venture or special purpose vehicle company for the delivery of new homes. In order to evaluate and progress further the options of these alternative delivery models the council will require initial independent external professional legal and financial advice which is estimated to cost up to/in the region of £0.150m. Funding of £0.051m towards these professional costs has already been identified from 2015/16 (£0.040m Strategic Investment Fund and £0.011m balance of external grant). This report recommends that up to a further £0.100m be allocated from the Strategic Investment Fund in 2016/17 as the procurement of consultants

progresses. Following this external professional advice a further report will be presented back to this Committee with detailed financial implications associated with the options available to deliver new homes.

Finance Officer Consulted: Susie Allen

Date: 15/02/16

Legal Implications:

The procurement of specialist legal services will need to comply with the council's Contract Standing Orders. The report at paragraph 3.21 highlights some of the legal issues around the creation of a local authority owned and funded company.

Lawyer Consulted:

Name Liz Woodley

Date: 19/02/16

Equalities Implications:

- 7.4 An increase in housing supply will extend opportunities to provide new, well designed homes to accommodate households on the Homemove register who are in housing need. New developments provide an opportunity to better meet the needs of particularly vulnerable households including elderly residents who may be under occupying a home that no longer meets their changing needs.
- 7.5 An Equalities Impact Assessment has been undertaken on the council's New Homes for Neighbourhoods Programme and should be updated to reflect any specific proposals.

Sustainability Implications:

- 7.6 Attaining high sustainability standards is an important in delivering homes that are energy efficient, minimise carbon emissions and reduce water usage.

SUPPORTING DOCUMENTATION

Appendices:

1. Housing Market Intervention Report – Savills and Trowers & Hamlin

Documents in Members' Rooms

1. None

Background Documents

1. Improving Housing Supply - Off Plan Procurement – Residential Acquisitions – Policy & Resources Committee 16 October 2014.

Crime & Disorder Implications:

- 7.7 The development of Special Purpose Vehicle and / or Joint Venture partnerships offers the opportunity to provide new, well-designed homes which link to the council's wider regeneration aspirations for the city, including the council's economic development and sustainability objectives. Well-designed urban housing has been shown to influence the rate of crime and disorder as well as the quality of life for future occupants. All new council housing will be designed to Secure by Design principles to minimise the risk of crime.
- 7.8 Vacant sites can sometimes attract anti-social behaviour. With careful planning, the future development of these sites is likely to improve the safety of existing neighbourhoods by reducing crime and the fear of crime.

Risk and Opportunity Management Implications:

- 7.9 There are a number of risks and benefits associated with the establishment of a Special Purpose Vehicle and / or Joint Ventures to deliver projects and a risk log will be maintained to monitor these and ensure contingency plans are in place. Key risks include
- Ensuring SPV / JV is legal and in council's interest
 - Ensuring procurement regulations are met
 - General Fund funding priorities
 - Financial models reliability
 - Construction inflation
 - Planning risks
 - Wider council residents support and perception of regeneration projects
 - Support from residents in nearby properties to development sites
 - Council control over project and issues such as decants and consultation
 - Potential impact of projects on wider council reputation
 - Site conditions and abnormalities
 - Ensuring that benefits are delivered e.g. affordable housing, employment space, jobs and apprenticeships etc.

Public Health Implications:

- 7.10 There are strong links between improving housing, providing new affordable homes and reducing health inequalities. Energy efficient homes which are easier and cheaper to heat are likely to have a positive influence on the health of occupants of the new homes.

Corporate / Citywide Implications:

- 7.11 Any new SPV or partnership should work with the Local Employment Scheme to ensure that work, apprenticeship and training opportunities are provided as part of the development of these sites.
- 7.12 Each new unit of housing has potential to generate new income for the council by providing New Homes Bonus. The New Homes Bonus (NHB) is paid by government for each new unit of housing or home brought back into use in the city. This is paid annually for six years and is based on Band C Council Tax plus an additional £350 for each affordable unit.
- 7.13 Every new unit of housing in the city is potentially a source of additional Council Tax income for the council. This is likely to be affected by the following factors:
- Single persons get a Council Tax discount
 - People in receipt of Council Tax benefit will not pay full Council Tax
- 7.14 New housing has an economic impact in a number of ways:
- Homes and Communities Agency analysis estimated every £1 spent on construction creates £2.60 in added economic value
 - Construction jobs – direct and indirect (one new home gives equivalent of one job for 2-3 years)
 - Local supply chain
 - Stable housing enables people to get stable work
 - Mix of tenure needed for mix of skills in labour market

