

HOUSING & NEW HOMES COMMITTEE

Agenda Item 41

Brighton & Hove City Council

Subject:	Housing Delivery Options – Wholly Owned Housing Company		
Date of Meeting:	16 November 2016 – Housing & New Homes Committee 8 December 2016 – Policy, Resources & Growth Committee		
Report of:	Executive Director Economy, Environment & Culture		
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 Housing & New Homes Committee on 21 September 2016 considered a report requesting members recommend to Policy, Resources & Growth Committee delegation of authority to relevant Executive Directors to progress a wholly owned special purpose vehicle with reserved matters coming back to Committee for approval. Committee resolved: *That a decision be deferred to the next meeting of the Housing & New Homes Committee to ensure that members can feel fully supportive of the proposals.* Following September Committee further work has been undertaken seeking to address key concerns of councillors through additional briefings offered to Housing spokespersons and their lead members / political groups. Details of briefings are outlined in this report.
- 1.2 This report covers a wholly owned Special Purpose Vehicle or Housing Company. This proposal is informed by outcome of the Housing Market Intervention options study presented to Housing & New Homes Committee in March 2016 who approved the report and agreed to the procurement of legal and other specialist advisers to pursue this work. Following the deferral of the previous report at the September meeting Members requested that the proposal for a wholly owned Special Purpose Vehicle or Housing Company and a separate the proposal for a Joint Venture with Hyde Housing be presented in individual reports.
- 1.3 This report focuses solely on seeking approval to establish the wholly owned Housing Company. It details the kinds of projects that the company will deliver, but does not seek approval to progress each specific project. Specific projects will be the subject of future detailed business cases, with each reported to future Housing & New Homes and Policy Resources & Growth Committees for approval as required. The proposal is for the council to develop a wholly owned housing company to deliver additional homes in a range of ways: including intervening in the housing market as a potential purchaser / lessee of new accommodation being

brought forward on development sites in the city or sub-region in order to meet identified housing needs; and, the direct development of new homes.

- 1.4 The key aim of this project is the provision of lower cost rented housing. Supply of new lower cost rented homes is not keeping pace with demand and there is limited evidence of market appetite from developers and Registered Providers to deliver this product. There is also potential to generate a long term income for the council through funding returns and/or a margin through lending from the council.
- 1.5 The council has appointed Bevan Brittan LLP as its legal advisors for this project. This report provides an overview of the proposal to establish a wholly owned Special Purpose Vehicle to provide a range of options to increase the supply of homes. This report relates to the establishment of the company structure only; any projects to be delivered by the company and their funding will come to future committee meetings as separate decisions. Appendix 1 provides an overview of legal advice to date on the establishment of a wholly owned Special Purpose Vehicle or Housing Company.

2. RECOMMENDATIONS:

2.1 That Housing & New Homes Committee:

- i) Recommends the report to Policy, Resources & Growth Committee as out at paragraph 2.2

2.2 That Policy, Resources & Growth Committee:

- ii) Give delegated authority to the Executive Director of Economy, Environment & Culture in consultation with the Executive Lead Officer for Strategy Governance & Law and Executive Director of Finance & Resources to:
 - a. progress a wholly owned Special Purpose Vehicle or Housing Company to support the provision of additional homes in the city;
 - b. agree and authorise execution of documentation required to implement the model;
 - c. make the appointments to the management board;
- iii) Note that future projects will come back to committee for approval including any business plans and the disposal of land/sites.

3. CONTEXT/ BACKGROUND INFORMATION

- 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 the 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 Registered Providers (RPs).
- 3.2 Housing demand, growth in the private rented sector and rising rents has an adverse effect on affordability of housing in the city. This has contributed to a decline in owner occupation as those seeking to buy their own home are

increasingly unable to take advantage of housing for sale either through cost or as a result of sales of residential accommodation meeting demand from buy to let or other landlord investors rather than prospective home owners.

- 3.3 This increasing housing demand, reduced public subsidy for affordable homes (in particular no funding for lower cost general needs rented homes) and a shift away from development of rented and family homes remain key challenges identified by the council's Housing Strategy and Budget. This has an adverse impact upon the council's ability to respond to the needs of a growing more diverse population and the council's capacity to maintain mixed and balanced communities and retention of lower income working households and employment in the city.
- 3.4 For stock holding authorities such as Brighton & Hove, the Housing Revenue Account debt cap, reduction in rental income of 1% per annum over the next four years and the potential impact of Housing & Planning Act (in particular proposed High Value Void tariff) will restrict resources available for new build and regeneration.
- 3.5 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 £156.8 million and the outstanding debt reaches its peak in 2023/24 where the borrowing level is £147.4 million leaving headroom of only £9.4 million.
- 3.6 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 opportunities including those related to the structures researched in the proposed Joint Venture with Hyde Housing Association.
- 3.7 Options to mitigate reduced public subsidy for affordable rented homes and Registered Provider shift away from development of this type of accommodation have been subject to regular discussion and review at our Affordable Housing Delivery Partnership (RPs, Homes & Community Agency (HCA) and council) meetings. In particular, as addressing the acute shortage of affordable rented homes and in particular family housing has been identified as a key priority in our Housing Strategy.

Wholly owned Council Housing Company

- 3.8 The council would like to take forward the establishment of a wholly owned special purpose vehicle or housing company. This has become common practice amongst local authorities and will provide the council with flexibility to look at a wide range of housing delivery options including those identified in the previous Housing Market Intervention report and continuing to develop new homes directly through the New Homes for Neighbourhoods programme.
- 3.9 As reported to March 2016 Housing & New Homes and Policy & Resources Committees Savills and Trowers & Hamblins were procured by the council 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. The aim would be to meet housing needs, including delivery of homes

let at Local Housing Allowance (LHA) rates to households to whom the council owes a statutory duty to accommodate.

- 3.10 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.
- 3.11 The Housing Market Intervention report was commissioned from Savills and Trowers & Hamblins 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 JV), 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.
- 3.12 The kinds of projects that could be undertaken through the company include:
- Purchasing properties off-plan to address a particular housing need
 - Continuing to deliver the New Homes for Neighbourhoods Programme through a new delivery mechanism
 - Delivery and management of new models of temporary accommodation
 - Buying street properties to provide a new supply of accommodation to address housing need
 - A vehicle for delivering new models of low cost housing through innovative modular and system build
 - Delivering new forms supported housing to address Health & Social Care budget pressures
 - Working with partners such as the Community Housing Network to deliver new housing community focused housing in response to the Fairness Commission recommendations
- 3.13 All projects proposals will be considered by the cross-party Estate Regeneration Board and Housing & New Homes Committee at the initiation stage, and any project with corporate or financial implications or that relates to our investment in land and/or property assets will be presented to Policy, Resources & Growth Committee for approval.
- 3.14 Bevan Brittan has advised that establishing a wholly owned company is now common and relatively straightforward to achieve. As well as exploring the opportunities to purchase 'off-plan', the company would give the council more flexibility in developing a range of ways of delivering additional housing in the city and managing properties. Bevan Brittan LLP advise that the company structure could be used for continuing the management and financing of homes built directly by the council through the New Homes for Neighbourhood Programme.

3.15 Should the council take forward a new council owned and funded company, in terms of funding, the Savills and Trowers & Hamlins 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 payment from the company to allow it to cover the additional interest cost it will incur in raising the finance provided to the company.
- Take into consideration the risks identified in paragraph 4.1 in this report.

4. RISK AND OPPORTUNITIES

4.1 A number of risks have been identified by the project team and the council's legal advisors:

- **Consents and Best Consideration:** Failure to structure arrangements to meet general consents could mean needing to go to the Secretary of State which would create uncertainty over timing and ultimately whether or on what terms consent would be given. Legal advice has been taken to ensure regulations are met.
- **State Aid:** An issue if contribution of land for no consideration or additional rights. Legal advice is being taken to ensure that the project is compliant.
- **Site identification:** Not able to identify suitable. Sites are being reviewed and any council sites will be brought to future committees once identified.
- **Project financing:** Understanding of financial risks and mitigation. Due diligence analysis will be undertaken on specific proposals.
- **Governance:** The governance structure needs to be fit for purpose in managing delivery of development and does not cause inappropriate conflict issues. Bevan Brittan's legal team are working to develop a structure that best meets the council's interests.
- **Planning:** Changes to national and / or local Planning policy framework. Including potential impact of Housing & Planning Act, in particular in relation to Starter Homes. Not able to gain planning permission for specific schemes or maximise capacity of sites. Early planning advice will be taken on individual schemes.
- **Community opposition:** Potential opposition to schemes. Communities will be engaged in a similar way to they have been for the New Homes for Neighbourhoods programme, for example using Planning for Real techniques.

- **Tax:** Tax implication and liabilities such as SDLT and VAT need to be reviewed in relation to the proposed structure. Tax advice has been sought on the proposed suture and will be reviewed with any relevant changes.
- **Housing Market and construction costs:** Impact of any future economic uncertainty on the housing market and construction costs will be monitored.

5. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 5.1 The council has been investigating a number of delivery options in order to find a range of mechanisms to increase the supply of affordable housing in the city. This includes the work undertaken in the recent Housing Market Intervention report by Trowers & Hamlins and Savills, as well as recent JV proposals from Hyde Housing.
- 5.2 Alternative options that have been considered are provided in the list 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 relevant committees.
- Wholly owned council vehicle e.g. Housing Company
 - JV with a Registered Provider
 - A procured joint venture
 - Disposal of sites to private developers
 - Do nothing

6. COMMUNITY ENGAGEMENT & CONSULTATION

- 6.1 General consultation on our approach to stimulating new house building, making best use of our Housing Revenue Account (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.
- 6.2 Consultation with residents and ward councillors on specific schemes and sites will require a similar level of community engagement as with the existing New Homes for Neighbourhoods Programme, for example Planning for Real techniques. This has followed a comprehensive process with ward councillors, residents and other stakeholders engaged and consulted at all key stages of individual projects. Consultation will also be undertaken via the Planning process.
- 6.3 Housing & New Homes Committee on 21 September 2016 considered a report requesting members recommend to Policy, Resources & Growth Committee delegation of authority to relevant Executive Directors to progress a wholly owned special purpose vehicle with reserved matters coming back to Committee for approval. Committee resolved: *That a decision be deferred to the next*

meeting of the Housing & New Homes Committee to ensure that members can feel fully supportive of the proposals. In addition to briefings undertaken prior to the September Committee report, further briefings & updates for members have been undertaken since Committee.

7. CONCLUSION

- 7.1 The establishment of a wholly owned housing company will give the council the flexibility to provide additional housing in a range of ways including purchasing off plan as outlined in the Housing Market Intervention report and continuing to directly develop new homes through the New Homes for Neighbourhoods Programme. Establishing this type of Housing company is now 'tried and tested' by other local authorities and relatively straightforward way to increase options and opportunities for the council to deliver new homes.

8. FINANCIAL & OTHER IMPLICATIONS:

- 8.1 The recommendation in paragraph 2.2 is for delegated authority to progress and implement the establishment of a wholly owned Special Purpose Vehicle or Housing Company to support the provision of additional homes in the city. If this recommendation is approved, finance officers will assess the financial implications upon development of the proposals to ensure financial due diligence is followed, minimising financial risk to the council and achieve the benefits this proposal sets out to achieve. Future projects including any business plans to support them and the financial implications will be required to be reported back to the appropriate committee.
- 8.2 It is anticipated that the cost of the appointed legal consultants to provide expert legal advice will be met within the total capital budget allocation of £0.151 million for this Housing Delivery Options. If there are any significant variations to these costs, this would be reported and approval sought through the council's budget management process.

Finance Officer consulted: Susie Allen

Date: 07/11/16

Legal Implications:

- 8.3 As set out in the body of the report, the Council has appointed Bevan Brittan LLP as its legal advisor. The legal advice so far is set out in the body of the report as well as in Appendix 1 attached to this report.

Lawyer consulted: Jo Wylly

Date: 7/11/16

Equalities Implications:

- 8.4 An increase in housing supply will extend opportunities to provide new, well designed homes to accommodate households on the Housing Register who are in housing need.

Sustainability Implications:

- 8.5 Attaining high sustainability standards is an important in delivering homes that are energy efficient, minimise carbon emissions and reduce water usage. Addressing fuel poverty and reducing total costs of rental or ownership is also an important consideration.

SUPPORTING DOCUMENTATION

Appendices:

1. Bevan Brittan advice to BHCC on the establishment of a wholly owned Hosuing Company or Special Purpose Vehicle

Documents in Members' Rooms

None

Background Documents

1. Housing Delivery Options - Housing & New Homes Committee Report 2 March 16
2. Housing Delivery Options – Policy & Resources Committee Report 17 March 16
3. Housing Delivery Options - Housing & New Homes Committee Report 17 September 16

Crime & Disorder Implications:

- 9.1 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.
- 9.2 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.

Public Health Implications:

- 9.3 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:

- 9.4 Increasing Housing Supply is a City Plan and Housing Strategy priority. In particular, meeting our housing target of 13,200 new homes in the City by 2030.
- 9.5 In addition, in our Housing Strategy (2015) priority of increasing housing supply to meet identified needs, we are committed work collaboratively with Adult Social Care, Children's Services and Health to reduce long term social care cost pressures and address issues arising with recruitment and retention of lower income staff in the City essential to the operation of these services.
- 9.6 In exploring Housing Delivery Options we are also working in support of the following Corporate priorities:
 - **Increasing Equality**- Coordinate services and spending better between public services to improve equality.
 - **Economy, Jobs and Homes** - Enable development of new, affordable homes, working with government, Registered Providers and other partners to maximize investment.
 - **Health & Wellbeing** - support for key worker housing to meet Health and Social Care employee requirements.
 - **Contributing to the Medium Term Financial Strategy** - Maximising New Homes Bonus and Council Tax revenue resources through improving housing supply; Ensuring Housing investment aligns with the Corporate Plan priorities.
 - **Greater Brighton** – Accelerating housing delivery through exploring housing market intervention / housing company models at a Greater Brighton level. Delivering activity alongside other initiatives and ensuring that the

strength of the housing market is captured to meet local needs including housing type and tenure

9.7 Housing Delivery Options proposals will bring a number of benefits to the city and council including:

- New affordable homes
- Potential long term revenue income from surpluses
- Regeneration of key sites and public realm improvements
- Each new home has potential to generate new Council Tax and New Homes Bonus
- Any business and retail units will generate additional Business Rates
- Potential £3 of economic output for every £1 of public investment based on national calculations
- Apprenticeships and training
- Potential regeneration of existing council stock that is in need of investment or coming to the end of its life