

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Cabinet
LEAD OFFICER: Director of Housing

19 November 2013

HOUSING INVESTMENT PLANS: HOUSING COMPANY PILOT SCHEME

Purpose

1. To seek the recommendation of Cabinet to full Council to authorise the setting up of a pilot scheme to take forward the Council's new housing company.
2. This is a key decision because:
 - (a) it results in the authority incurring expenditure which is, or the making of savings, which are, significant having regard to this Council's budget for the service or function to which the decision relates;
 - (b) it is significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions in the area of the relevant local authority.
3. This item was first published in the August 2013 Forward Plan.

Recommendations

4. It is recommended that Cabinet recommends to Council:
 - a. The adoption of the pilot proposal and action plan.
 - b. Approval to advance £7m of funding to South Cambs Ltd on a secured basis funded from prudential borrowing in line with individual investment appraisals being developed before property acquisitions are made, requiring the prior approval of the Executive Director and Director of Housing in consultation with the Finance and Staffing Portfolio Holder.
 - c. To instruct the Executive Director (Corporate Services) and the Director of Housing to develop the business case(s) for the further expansion of South Cambs Ltd and to report back with detailed recommendations to the Cabinet by the autumn of 2015.

Reasons for Recommendations

5. The setting up of this pilot project will allow the Council to establish a new housing company in the area that will have the potential to meet a wide range of housing need in the district and generate significant revenue stream for the Council in future years. This is in line with the Council's adopted aims for 2013/14 – 2017/18. The limited nature of the pilot will enable the Council to test the concept and limit the financial risks before committing to a larger scale investment.

Background

6. In November 2012 the Cabinet approved the New Build Strategy for council houses. This report recognised that the Housing Revenue Account (HRA) financial settlement and the scope provided by the new build programme also provides the Council with a

base from which to develop non HRA housing activity. The November 2012 report stated that,

“the Council will also be able to consider the setting up of a specialist delivery vehicle. This will enable market sale and market rent homes to be developed thus providing cross subsidy to enable the building of even more affordable homes. It also opens up the possibility of establishing a future income stream for the Council which will help to reduce reliance on central government funding.”

7. In November 2012 Cabinet also approved delegated authority to the Executive Director Corporate Services, in consultation with the Finance and Resources Portfolio Holder, to explore and utilise alternative income sources to help fund new housing development in addition to the resources already identified from within the Housing Revenue Account.
8. South Cambs Ltd was registered as a private company with Companies House in December 2012.
9. The New Build Strategy for council homes is underway and the first new houses are scheduled to be completed in December 2013. The Council has now completed the procurement needed to secure the support of specialist legal advisors (Walker Morris) and architects and construction project managers (Saunders Boston).

Considerations

10. In January 2013 the Government launched the Build to Rent Fund and has allocated £1bn of funding to support the development of large scale private sector renting portfolios by bodies such as housing associations. This is in recognition of the need for an improved market rented offer across the country and the importance of market rented housing to the needs of local communities and the economy.
11. There is a buoyant local economy and a demand for housing particularly rented housing in the district. For example, a significant number of businesses in South Cambridgeshire are science based and have high turnover of specialist staff working on one to three year contracts. There is currently a shortage of suitable accommodation to meet the housing needs of this flexible workforce.
12. The identification of potential strategic development sites in addition to the site at Northstowe could provide an opportunity to develop on the scale that would be required.
13. The development of the company could enable the Council to meet a number of objectives which include:
 - Generate a revenue stream that will enable to Council to continue to deliver its services at a time of reducing Government grant.
 - Generate capital gains for the benefit of wider Council services
 - Meet housing need and gaps in the housing market, particularly those people that are unlikely to be granted an affordable housing tenancy or who do not wish to join the housing register but are finding it difficult to buy a house or finding it difficult to find a rental home

- Assist economic development in the district by helping to provide good quality, flexible rental housing for the many local businesses that have workforces with a high turnover of staff.
- Place leadership - supporting community development by investing in the local district and working alongside other private and public sector bodies.

Options

14. Using its experience as a manager of rental homes the Council has the opportunity to develop a housing management service to be offered to private owners and other institutional owners of property. A full business case needs to be prepared to assess the opportunity for the Council to extend its housing management services to include private sector properties at market rents.
15. The Council also has the option of building and acquiring its own portfolio of rental homes in the ownership of South Cambs Ltd. It is proposed that circa 40 homes will be acquired for the pilot scheme mainly by purchasing off the shelf properties. An indicative timeline in Appendix A.
16. The capital required to undertake this activity may be borrowed from the Public Works Loan Board (PWLB) at competitive rates or can be raised by a bond issue. Consideration can also be given to using funds raised through the Community Infrastructure Levy and the New Homes Bonus. The Council may also wish to bid for funding from the Government's Build to Rent Fund or other special initiatives where this is permissible.
17. The pilot scheme is likely to focus its operation on South Cambridgeshire. While there are a significant number of local opportunities to develop the company portfolio within the District, the Council can also consider expanding its operation in the future outside of the district boundary into neighbouring areas where this supports the business case.
18. It is not intended at this stage to consider the acquisition and letting of commercial premises.

Implications

19. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, The following implications have been considered:

Financial

20. A substantial portfolio of homes will require significant capital expenditure. Full consideration by Council will therefore be sought at each stage before financial commitments are made.
21. To establish the pilot scheme revenue funding of up to £100K pa is required over the first 24 months to be paid for by the company and a capital sum of £7M is required to secure the property portfolio.
22. Individual investment appraisals will be developed before property acquisitions are made which will require the prior approval of the Executive Director and Director of Housing in consultation with the Finance & Staffing Portfolio Holder.

Legal

23. There are significant legal dimensions to this work and specialist legal advisors, Walker Morris, have been appointed by the Council to advise on the development activity alongside the Council's in house legal team.

Staffing

24. Agreement has already been given for the recruitment of a finance specialist to support the development programme and recruitment to this post is now underway.
25. Other temporary posts/secondments required are set out in Appendix B along with a structure diagram to show how the project team links with existing staff.

Risk Management

26. A full risk log will be drawn up before any commercial activity is commenced. The bulk of the funding will be used to purchase properties which can be re sold if required to pay off the associated debt.
27. The management of risk is a critical to the success of the company and along with the funding strategy and the governance arrangements will form a key part of the business plan to be drawn up.
28. Risks will include financial, reputational and political elements, as well as the performance of the economy and competition from other businesses.

Equality and Diversity

29. An Equality Impact Assessment has been completed and does not indicate any adverse impacts.

Climate Change

30. Any new homes will be built to at least Code Level 4 thereby reducing carbon emissions

Consultation responses (including from the Youth Council)

31. None at present

Effect on Strategic Aims

Aim 1

32. We will make sure that South Cambridgeshire continues to offer outstanding and sustainable quality of life for our residents. Access to appropriate housing is a critical factor in providing and maintaining sustainable communities.

Aim 2

33. The proposal will seek to deliver on the Council's key strategic aim to deliver a range of homes that are affordable where people want to live that will support economic growth and economic activity.

Background Papers

Cabinet reports:

- Housing Revenue Account 30-Year Business Plan, 9/2/12
- Northstowe Affordable Housing, 12/7/12.
- New Build Strategy, 8/11/12

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