

Report to: **Overview & Scrutiny Panel**

Date: **3 May 2018**

Title: **Enabling Homes to Meet the Needs for All**

Portfolio Area: **Cllr K Wingate, Strategy & Commissioning
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Recommendations:

That the Panel:

- 1. acknowledge the good work carried out already to support the Council's strategic aim of enabling homes to meet the needs for all as outlined in section 3;**
- 2. agree and support the principles outlined in the report at section 4; and**
- 3. RECOMMEND that the Executive consider a detailed business case for the formation of a South Hams District Council Wholly Owned Company which will increase the Council's capability to enable homes to meet the needs for all.**

1.0 Executive Summary

- 1.1 This report has been produced in response to a request at Full Council last year, where it resolved to investigate and report on the range of options for the purpose of delivering social/affordable housing in order to meet the needs of those in South Hams who are finding it difficult to purchase their own property and/or find suitable rented accommodation.
- 1.2 A local housing company could potentially be used as a mechanism to achieve these aims, along with providing further support for Community-led housing, generating modest income streams and increasing the number and value of assets owned by the Council.
- 1.3 This report sets out a number of principles on which a local housing company could be formed. Members are asked to consider and agree these principles.
- 1.4 If supported, it is recommended that a detailed business case is prepared and presented to the Executive for consideration.
- 1.5 If progressed, a new housing company will require funds for set-up and trading along with additional officer resources. Details of this would be included within a detailed business case.

2. Background

- 1.1. Members have signalled their dissatisfaction at the lack of available affordable housing for purchase and rent and requested the Council consider options to once again become a housing stock holder, perhaps through the formation of a local authority housing company.
- 1.2. This topic has been researched in detail over the past two years. Legal advice and counsel opinion has been sought which confirmed the council has legal powers to develop and/or acquire property and these are best served via the formation of a wholly owned company (WOC).
- 1.3. The Housing Minister has previously stated that Councils who set up WOCs to avoid right to buy legislation would not be tolerated and therefore would be treated as if they were liable for right to buy. Work on the housing company initiative paused due to changing housing legislation & policy and whilst the Council considered the formation of a South Hams / West Devon Local Authority Controlled Company and then a single council.
- 1.4. Late last year South Hams and West Devon were successful with a funding bid to the Local Government Association's (LGA) Housing Advisors programme. The LGA commissioned Altair Ltd (www.altairltd.co.uk) to conduct research and make recommendations into the potential for the Council's to become stock holders again. This research and advice has been provided free of charge to the Council.
- 1.5. Representatives from Altair will present a summary of their research and conclusions to the panel at its meeting on 3rd May 2018. A copy of the Altair presentation will be made available to Members after the O&S panel meeting.
- 1.6. The Altair report provides the council with information and best practice relating to:
 - 1.6.1. How investment in housing stock can be prudent and viable in light of current right to buy legislation
 - 1.6.2. How such investment can best be funded (eg borrowing / grants)
 - 1.6.3. How such investment can offer a mixture of tenures to support local housing need
 - 1.6.4. The tax, financial and legal implications of any decision
 - 1.6.5. What structures (e.g. WOC) are required to hold / let any properties built
 - 1.6.6. How is land best accessed and acquired
 - 1.6.7. What assistance if any, is given to local residents to acquire (eg mortgages) / manage rental payments
 - 1.6.8. How the Council can ensure properties remain 'affordable' in perpetuity
 - 1.6.9. Whether there should be restrictions on who occupies
 - 1.6.10. What grants / funding is available to improve / speed up / fund delivery
 - 1.6.11. How the above applies in a rural & high property value context

- 1.7. If this reports recommendations are approved, officers and the portfolio holders will use the Altair report to formulate the business plan and business case in order to present a recommendation to the Executive in September. It will be included as an appendix to the Executive report.
- 1.8. Legal, management, treasury, tax and governance advice commissioned by the Council in relation to the formation of a LACC will be analysed to inform the WOC business case. It is not anticipated that new advice will be required as officers are confident that the previous advice is still relevant and can be used to cover most aspects of the business case. However, further advice will be sought if necessary.
- 1.9. For the avoidance of doubt, it is not proposed to TUPE transfer staff into a WOC. Instead the WOC will either directly employ staff or will agree a service level agreement with the Council to acquire relevant resources as and when required.
- 1.10. Appendix 1 shows a summary of the potential deliverables of a WOC. This will be detailed in any subsequent business case to be presented to the Executive and Full Council in due course.

2. Enabling Homes to meet the needs of all

- 3.1 According to the draft Devon County Council Local Economic Assessment (April 2018), the average house price in South Hams is £274,975, the highest in the county. The high house prices in the district create an earnings/house price ratio of 10.4 times annual earnings. South Hams has a reasonable amount (when compared with the rest of Devon) of social housing at 10.1% of the total housing stock. Between 2002 and 2016, South Hams saw the sharpest deterioration in housing affordability. By 2016, South Hams was the least affordable district in the county for housing, as growth in earnings did not keep pace with house price inflation. This suggests an increasingly pressurised housing situation in South Hams. Appendix 2 is the National Housing Federation Home Truths report 2017/18 which shows by district data to provide context for the need for action.
- 3.2 As at the time of writing, there were 629 households registered as being in housing need on Devon Home Choice, the Devon wide Choice based lettings system for the allocation of social and affordable housing. There were a further 728 households who did not have an identifiable housing need, but were still seeking affordable housing. The biggest need was for 1 bed accommodation, a need reflected in the changing demographic of people seeking housing advice through the Council's Housing Options Service.
- 3.3 The availability of good quality private rented accommodation is unaffordable to many South Hams residents who claim assistance with their rent through Universal Credit or Housing Benefit. Payment is limited to a shared room rate for people under 35, and shared housing is not in large supply in large areas of our rural District. Families and older people struggle to find accommodation within the local housing

allowance applicable amounts, often making up huge shortfalls of rent which pushes people into debt and poverty.

- 2.1. The Council already helps deliver affordable housing within the district. Detailed below is some of the most recent activity:

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|---|-------|
| Affordable Homes delivered 2017/18 | = 158 |
| Projected Affordable Home completions for 2018/19 | = 112 |
| Projected Affordable Home completions for 2019/20 | = 301 |

Transition Homes Totnes (THT)

The Council has granted £215,000 to THT to help them form and progress their Community Land Trust development in Dartington. This sum covers £25,000 pre-development costs grant and a further £190,000 for build costs. THT have obtained planning permission and have bid to the Homes England (formerly known as the Homes and Community Agency) for further funding. The scheme will deliver 19 affordable homes – 12 shared ownership and 7 affordable rent.

Harberton Community Land Trust (HCLT)

The council granted HCLT a £25,000 grant to help with pre-development costs. They have a planning application registered to deliver a custom build Village Housing Initiative of 12 units, 10 of which would be self-finish affordable units.

Ivybridge Town Council (ITC)

The council granted ITC £129,136 to assist with the purchase of land occupied by the former residential care home, Butterpark in Brook Road, Ivybridge from Devon County Council. The proposal is to build 6 units of accommodation for people with learning disabilities, plus a 3 bed learning/training house. Dialogue has been ongoing with Devon Social Services supported by the Dove Project and Brook Housing to enable a supported living package to be offered to residents.

Extra Care scheme in Totnes

One of big completions this year has been a 60 unit affordable Extra Care scheme in Totnes. It is a development of one and two bedroom flats for those aged over 55 who have a care need. The flats are available for rent or shared ownership. There is a 24 hour staff presence. South Hams District Council contributed £500,000 to the total development costs of £12million.

- 2.2. **Community Housing Strategy**

The Council also approved a Community Housing Strategy last year. Officers are working with communities to target the delivery of homes for those with local connection where the cost of market housing beyond their reach. *NB: typical house prices in many of the communities we are working in are between 10 – 15 times average incomes.* Particular focus is providing for those people who wish to buy but cannot afford to do so.

- 2.3. A Community Housing Fund award of £1.88m has enabled internal resource to be put in place and drive forward a standardised delivery processes to deliver a growing number of projects across South Hams.

The bulk of these schemes have been utilising exception planning policy (largely removing land value from the cost of development thus reducing the overall build cost). The Village Housing Initiative (VHI) model enables an element of cross subsidisation through some open market housing where necessary to meet affordable objectives (subject to viability assessment).

- 2.4. Housing projects will comprise a mixture of discounted purchase (protected by covenant in perpetuity) and rented, which will be available for local people. Standardisation of approach is enabling improved efficiency, cost effectiveness, speed of delivery and easy access to mortgage products.
- 2.5. A Council Housing WOC would assist the delivery of community led housing schemes as it would provide a vehicle for the community schemes to offer rented properties. The WOC could acquire finished units from the community housing scheme and let these to prospective tenants.
- 2.6. Progress to date:
 - 1.1.1. Officers are currently providing a supportive role to 7 community housing groups and if progressed these could yield 148 units.
 - 1.1.2. SHDC is directly managing and funding the development process of a growing number of projects working in close collaboration with a community groups. Option Agreements are close to being signed at two sites (land owned by third parties) in South Hams which would yield 26 units
 - 1.1.3. A further 3 schemes on land owned by the Council are being explored in conjunction with the community and this could yield a further 40 units.
 - 1.1.4. The provision of "Temporary Housing" units as part of some community housing schemes to reduce cost to authority (replacing the reliance on B&B) is also being investigated.
 - 1.1.5. There is a focused plan to utilise modular build off site construction methods which will speed up delivery time and reduce programme and pricing uncertainty. The first modular trial on an owned site in South Hams (4/5 units) is in design stage.
 - 1.1.6. Integration of self-build / custom build housing delivery within community housing schemes is being explored.
- 3.10 **Rent Plus**

The Council has adopted the Rent Plus model and the first homes have been successfully completed in Wembury. At Langdon View in Wembury the homes were allocated to people who have a strong local connection to the parish of Wembury and would have had difficulty in saving a deposit to access open market home ownership. All of the tenants moving into Langdon View were either living with family in the village or in a private sector rented property.
- 3.11 The new residents will rent their home for a period of 5, 10, 15 or 20 years at an affordable rent, which is approximately 80% of the market rent for the area. At the end of the rental period, they will have the

opportunity to purchase the property with the help of a 10% gifted deposit. Tenants will be encouraged to save towards the purchase during their period of rent as the homes are highly energy efficient and all repairs and maintenance will be carried out by Tamar Housing Association.

- 3.12 Another Rent Plus development is underway at Sparkwell for 7 Rent Plus homes – completion expected autumn 2018.
- 3.13 We expect the Rent Plus model to continue to grow and develop over the next few years as it requires £0 public subsidy and is funded by institutional investors. Rent Plus is compliant with the NPPF definition of affordable housing.

3. Principles for setting up a WOC

- 3.1. Below are the principles by which the Council would be agreeing to form a WOC. The strategic aims of the WOC would be broadly as detailed below. It is important to note that any deviation from this would either make the venture not financially viable or not fit for purpose. By agreeing this report's recommendations, Members are broadly agreeing with these principles:
 - 4.1.1 Housing delivery must be commercially viable and make a minimum financial return commensurate with the risk profile of the business; i.e. Cost of the development, including acquisition, construction, planning, financing, marketing and maintenance. This venture will not be cross-subsidised by the Council or Council tax payers. S106 contributions could be used to help facilitate development and increase housing delivery.

For reference, commercial developers operate on a >20% margin, whereas the Council could set its own, lower target perhaps circa.10%. This lower margin is mainly predicated on the concept that land owners would be prepared to sell land at reduced value to Councils to build houses to support their community. It has been proved to work for homes that have a local covenant, but it is not tested for Council built homes without a local covenant.
 - 4.1.2 Any WOC activity must be aligned with the Councils' Corporate Strategy of enabling homes to meet the needs of all. Affordable housing is to be provided across the district, for those with a local connection or those identified as key workers.
 - 4.1.3 The WOC would be wholly owned by South Hams District Council.
 - 4.1.4 The volume and speed of new affordable housing supply in the district will be increased. Housing delivery from the WOC should provide an alternative source of supply to existing developers and registered providers.
 - 4.1.4 The intervention in the market must be as rapid as possible to address mounting local housing market challenges.
 - 4.1.5 Any affordable housing delivered must ensure long term provision & retention of affordable housing.
 - 4.1.7 New housing delivery will support the medium to long-term alleviation of homelessness.

- 4.1.8 It is understood that a mix of housing types and tenures will be provided. This will include housing units for sale or rent at market rates and this will subsidise the provision of affordable housing. A minimum ratio of 30% affordable housing will be provided on all Council / WOC schemes, in line with proposed JLP policy.
- 4.1.9 Affordable housing rents will be set in order to meet the objectives as detailed above. This does not mean that social rents will be made available.
- 4.1.10 As an ancillary benefit, new housing delivery will make a commercial financial return (above the minimum return sought in objective 1) to support medium-to long term budget pressures facing the Council, if possible.
- 4.1.11 Governance arrangements are to be agreed, however following advice from the LGA & Altair, it is unlikely that Members will be named as company board members (directors). Instead, the Council will retain control over the WOC via its 100% shareholding.

5 Options available and consideration of risk

- 4.1. Members could opt to 1) do nothing, 2) accept or 3) reject the recommendation and proposals. If option 1 or 3 is pursued, no further costs would be incurred – however the issues raised in this report will not be addressed without further action. If option 2 is chosen, then work will progress as detailed in section 6 below. Alternatively, option 4 would be to request further information. If required, a clear indication of what additional information is required will need to be given. Additional cost could be incurred depending on what is required.
- 4.2. A risk analysis will be presented as part of a detailed business case to support the formation of a WOC.

6 Proposed Way Forward

- 5.1 If the overview and scrutiny panel approve the recommendations in this report, officers will work in conjunction with the portfolio holders to prepare a detailed business case relating to the formation of a WOC. This will be presented to the Executive in September.
- 5.2 Appendix 1 shows a summary of the potential deliverables of a WOC. This will be detailed in any subsequent business case to be presented to the Executive and Full Council in due course.
- 5.3 In order to progress the formation of a WOC and deliver housing, the Council will need to review its borrowing limits, its treasury management strategy, its capital expenditure forecast and governance arrangements.

7.0 Implications

| Implications | Relevant to proposals Y/N | Details and proposed measures to address |
|----------------------|------------------------------|---|
| Legal/ Governance | Y | There are no direct legal or governance consequences in relation to this report or its recommendations. Details |

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| | | <p>about the legal and governance impacts relating to the formation of a WOC will be included within any subsequent detailed business case.</p> <p>Officers have sought legal counsel regarding the implications of the Council purchasing and letting residential property to generate income. A WOC can help to protect the financial interests of the Council.</p> <p>Details about the Council's legal powers and issues surrounding the formation of a WOC will be included within any subsequent detailed business case. This will be informed by the legal and governance advice obtained in relation to the proposed formation of a LACC.</p> |
| Financial | Y | <p>There are no direct financial consequences in relation to this report or its recommendations. Details about the financial impacts relating to the formation of a WOC will be included within any subsequent detailed business case.</p> <p>Specialist treasury management & Tax advice has previously been sought regarding the Council's proposed formation of a LACC. This information will be re-analysed in the context of a WOC and included in any subsequent business case.</p> <p>Funding to acquire land and finance a housing development will need to be sourced when it is required. It is envisaged that the majority of this will be funded via borrowing, e.g. the Public Works Loan Board. Other sources of funding could be from any capital receipts yielded from open market sales, s106 affordable housing contributions, grant funding, or any other unallocated or available Council reserve.</p> <p>Any borrowing decision is at the discretion of the s151 officer in line with the Council's adopted Treasury Management Strategy and Affordable Borrowing Limits. A revised treasury management strategy would need to be approved by Council increasing the Council's borrowing limits for any housing development scheme.</p> |
| Risk | Y | <p>There are no inherent risks in relation to this report and its recommendations. Details about the risks relating to the formation of a WOC will be included within any subsequent detailed business case.</p> |
| Comprehensive Impact Assessment Implications | | |
| Equality and Diversity | N | N/A |
| Safeguarding | N | N/A |
| Community Safety, Crime and Disorder | N | N/A |
| Health, Safety and Wellbeing | N | N/A |
| Other implications | N | N/A |

Appendices:

Appendix 1: Potential WOC Delivery Options

Appendix 2: National Housing Federation Home Truths 2017/18 – The housing market in the south west