

HOUSING MANAGEMENT CONSULTATIVE COMMITTEE

Agenda Item 15
Brighton & Hove City Council

Subject: Housing Green Paper Options Review
Date of Meeting: 22 July 2008
Report of: Director of Adult Social Care and Housing
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Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The purpose of this report is to update Housing Management Consultative Committee on the council's review of options in the Government's Housing Green Paper *Homes for the Future: more affordable, more sustainable*, with the support of external financial and legal expertise from Pricewaterhouse Coopers (PwC) and Trowers & Hamlins (Trowers). Stage 1 – the detailed assessment of options for meeting the council's strategic objectives and development of a proposal for the council to set up a viable Local Delivery Vehicle (LDV) that meets these objectives – has now been completed.
- 1.2 The joint analysis undertaken by PwC and Trowers concludes that there is a range of workable options for an LDV to meet the council's corporate priorities and strategic housing objectives. Financial modelling undertaken by PwC indicates there is the potential for a viable business model which could raise up to £45 million for the Housing Revenue Account (HRA).

2. RECOMMENDATIONS:

- (1) That the Housing Management Consultative Committee note the progress of this project, which aims to deliver key strategic housing and corporate priorities and generate funding for investment in the HRA.
- (2) That the Housing Management Consultative Committee recommend that the Housing Cabinet Member approves to proceed to the proposed development and finalisation phases of Stage 2 of this review and authorises the Director of Adult Social Care and Housing to take all steps necessary to progress the work.

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- (3) That the Housing Management Consultative Committee note that any decision to implement the finalised proposals would be made by Cabinet and the Committee further note the provisional outline timetable to set up any asset-backed LDV, as outlined in section 3.17 of this report.
- (4) That the Housing Management Consultative Committee note the proposed consultation arrangements with tenant and leaseholder representatives before the Cabinet takes any final decision to establish an LDV, as outlined in section 4 of this report.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 Following the outcome of the tenants' stock transfer ballot, officers have reviewed strategic housing options to reflect the decision that the stock will be retained by the council. The objectives for this review are:

- (1) To obtain best value from assets;
- (2) To bring in additional investment;
- (3) To meet housing need;
- (4) To promote regeneration; and
- (5) To assist with meeting Decent Homes.

3.2 Given tenants' overwhelming rejection of the stock transfer proposal, the council is also very clear there should be:

- (1) No RSL involvement;
- (2) No freehold transfer; and
- (3) No transfer of tenanted properties.

3.3 In parallel, the Government has been setting out various options for local authorities to play a stronger role in addressing the housing needs of all their residents. The Housing Green Paper *Homes for the Future: more affordable, more sustainable*, published by the Department for Communities and Local Government in July 2007, outlines various types of local delivery or similar special purpose vehicle councils could set up to make the most of existing homes and land to lever in investment. Fourteen councils are in the process of creating Local Housing Companies with government support via English Partnerships and another 14 Community Land Trusts are also being piloted.

- 3.4 In light of that consultation paper, and in response to notices of motion to Policy & Resources Committee in November 2007 concerning Community Land Trusts, Housing Management Sub-Committee, Housing Committee and Policy & Resources Committee were updated on the range of opportunities offered in the Housing Green Paper.
- 3.5 On 11 March 2008 Housing Management Sub-Committee noted:
- (1) the range of options and opportunities offered in the Housing Green paper and that these were to be examined in detail in order to ascertain whether a sustainable case could be made for further development in order to support strategic housing and other priorities in the City;
 - (2) that external financial and legal advice was being sought in order to support officers to undertake detailed analysis of the practicalities of taking forward any Housing Green Paper options or opportunities; and
 - (3) that the Chairman of Housing was committed to ensuring that a detailed report on this analysis of options be brought forward through the council decision making process and the case made to enable the further development of any appropriate model.
- 3.6 PwC and Trowers successfully tendered in a competitive procurement process and were appointed as financial and legal advisers for Stage 1. Their role is to support officers in the assessment of options with their specialist expertise and financial modelling. Both firms have extensive experience of advising local authorities on setting up LDVs to meet their housing priorities. They also liaise directly with government departments on the new models being developed to access funding for investment in housing without the need to use (or transfer stock to) RSLs.
- 3.7 The council's brief set out the objectives for the review, together with the requirement that there should be no RSL involvement, no freehold transfer and no transfer of tenanted properties (see paragraphs 3.1 and 3.2 above). In addition, the council would work within the limit under the relevant legislation of letting an LDV use a maximum of 499 empty properties over a five year period.
- 3.8 PwC and Trowers' analysis of the options and opportunities referred to in the Housing Green Paper started with an assessment against key criteria to filter out those options which are not appropriate to meet the council's current objectives. Those options which are not suitable for the proposed scale of the project were discounted at this stage. This analysis and the criteria used are detailed in Appendix 1.
- 3.9 After consideration, Community Land Trusts (CLTs) were not recommended as the appropriate initial vehicle. The primary purpose of CLTs is to hold land and other assets to promote social, economic and environmental

sustainability of a specified local geographical community, usually at neighbourhood level. Increased land value is retained and reused by the CLT for the benefit of its community. Members of the CLT would normally be drawn from the local community, as would a significant proportion of the board, and the CLT would report to the local community and be accountable to it in a variety of ways. As investment is required across the council's stock, it would be difficult to create the local geographic focus that is suggested for a CLT at this time. However, three potential options were identified for including CLTs at a later date and these are outlined in Appendix 1.

- 3.10 The advisers concluded that there is a range of workable options for an LDV to meet the council's objectives, including a variety of both potential delivery structures and of the legal form an LDV could take. In particular, advice has been received on local authority control over the LDV which would impact on the classification, powers to facilitate the setting up of an LDV, the benefits and restrictions of charitable status and procurement and contracting issues. There are a number of choices which the council can make as to the LDV's set up and relationship with the council, which would be taken during Stage 2 of the review.
- 3.11 Financial modelling indicates a proposed business model could be viable. The model is based on the council initially leasing to the LDV 106 HRA units currently used for Temporary Accommodation, followed by up to a maximum of 393 empty HRA properties over a 5 year period. The model includes a payment by the LDV to the council of c. £92,000 per property leased, a total capital receipt of up to £45 million into the HRA. This receipt would be exempt from the government's pooling of housing capital receipts regime provided the council passes a resolution to use the receipt for affordable housing - which could include improvements to existing HRA stock - or for regeneration projects.
- 3.12 The Temporary Accommodation units are scattered street properties owned by the HRA, many having shared facilities and high maintenance and repair requirements. They are currently occupied by non-secure tenants, whose tenancy lasts around six months on average. Other HRA properties which may be identified as suitable for leasing could include units currently held empty due to the need for funding for major repairs. Leasing of any HRA properties would require the consent of the Secretary of State and full Council.
- 3.13 The maximum number of units for leasing to an LDV over a five year period would represent only 4% of HRA stock and a small proportion of turnover of affordable social rented housing in the city; by way of illustration, 782 council homes were let in the last financial year (excluding Temporary Accommodation). In addition, the city's supply of affordable rented housing is projected to increase by over 500 new properties over the coming four years, subject to planning consent etc., plus other social housing development in the pipeline for that period.

- 3.14 As well as providing funding for the HRA, the model includes provision for the LDV to refurbish the leased properties. The refurbished leased stock would be used to provide a stable supply of good quality accommodation to homeless households and other clients for whom the council has a duty to provide housing, from the Children and Young People's Trust, Learning Disabilities and Adult Social Care. The council would have nomination rights to the leased properties and there is an option for the council to be the landlord for a proportion of these tenancies, under a leaseback scheme.
- 3.15 In conclusion, Stage 1 of the review indicates that there is potentially an economically viable, legally robust way of achieving the council's objectives while working within the parameters set – in particular, that there should be no freehold transfer, no RSL involvement or transfer of tenanted stock. The proposed model could deliver:
- up to £45 million capital receipts to the HRA;
 - funding to refurbish leased stock; and
 - a stable supply of temporary accommodation for homeless households and other groups for whom the council has a duty to provide housing.
- 3.16 The practicalities of taking forward any Housing Green Paper options have been analysed and a sustainable case has been made for further development of this model in order to support strategic housing and other priorities in the city. The next step is to progress this work to enable the council to select a structure and vehicle tailor made to fit the council's specific financial circumstances and strategic objectives.
- 3.17 The provisional timetable for Stage 2 of the project is to develop and finalise the proposals over the summer and early autumn, after rigorous testing of assumptions and assessment of the impact on the LDV, HRA and General Fund. Housing Management Consultative Committee and Area Panels are to be consulted on the finalised proposal in the autumn, prior to the Cabinet taking the final decision whether to establish an LDV later this financial year.

4. CONSULTATION

- 4.1 The Leader of the council has stated her commitment to openness and transparency with tenants on proposals for the future of the housing stock. The proposal to review Housing Green Paper options was presented to and agreed by Housing Management Sub-Committee at its meeting on 11 March 2008, with tenant representatives in attendance.
- 4.2 The comments of the Housing Management Consultative Committee on this report, together with the outcome of the Stage 1 review, will be taken into account at the meeting of the Cabinet Member for Housing on 22 July 2008.

- 4.3 Area Panels and the Housing Management Consultative Committee will be consulted on finalised proposals before approval is sought to set up, or lease any council stock to, any LDV.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The Base case financial model and business case developed as part of Stage 1 includes a number of key assumptions. These assumptions, which include asset values, conversion costs, revenue flows, funding costs and operational costs will need to be vigorously tested and refined to establish a final business case that is sufficiently robust to be used to secure competitive commercial funding for the LDV. This work will form part of the Stage 2 process should the Cabinet Member for Housing agree to proceed to the next stage.

The Stage 1 financial model is based on the council granting 125 year leases to the LDV with the option of a break clause after 30 years. The model projects debt outstanding at 30 years of c £40 million. The LDV would therefore need to refinance the outstanding debt at year 30.

Key project risks identified by PwC and Trowers will be fully assessed in the course of Stage 2.

Peter Sargent, Loans and Technical Manager, Strategic Finance

Legal Implications:

- 5.2 The recommendations in this report require the progress to date on seeking a suitable LDV model to be noted. The LDV model selected during Stage 2 will not proceed to implementation without consultation with tenants and Cabinet approval, thus at this stage there are no further legal implications arising from the report itself. The Council must take the Human Rights Act into account in respect of its actions but it is not considered that any individual's Human Rights Act rights would be adversely affected by the recommendations in this report

Alison Leitch, Contract Lawyer

Equalities Implications:

- 5.3 There are no direct equalities implications to this report. Eventual actions in regard to the Housing Green Paper will be taken with regard to equalities issues.

Sustainability Implications:

- 5.4 The proposal to pursue the setting up of an LDV, enabling access to funding to refurbish properties and meet strategic housing needs, would

contribute to achieving the following council priorities to address sustainability as an integral part of all service delivery and contribute to the UK's Sustainable Development Strategy:

- (1) *Sustainable Consumption and Production* - considering the impact of products and materials across a whole life cycle;
- (2) *Climate Change and Energy* - greater fuel efficiency and reduction in CO2 emissions;
- (3) *Sustainable Communities* - using engagement and partnership to reduce poverty and environmental degradation.

Crime & Disorder Implications:

- 5.5 There are no implications for crime and disorder.

Risk and Opportunity Management Implications:

- 5.6 Risks and opportunities will be fully assessed when proposals are finalised during Stage 2. Key project risks include appropriate consents, availability of funding, EU procurement, interest rates, rental income and demand.

Corporate / Citywide Implications:

- 5.7 The outline proposal for setting up an LDV giving access to funding to refurbish up to 499 properties in need of investment would support the following council corporate priorities:
- (1) protect the environment whilst growing the economy;
 - (2) make better use of public money;
 - (3) reduce inequality by improving opportunities;
 - (4) open and effective city leadership.
- 5.8 The impact on the General Fund and Housing Revenue Account will be fully worked through in detail during Stage 2.

SUPPORTING DOCUMENTATION

Appendices:

1. Stage 1: Analysis of Housing Green Paper options

Documents In Members' Rooms

None

