

POLICY AND PROJECT ADVISORY BOARD

Meeting held on Thursday, 30th August, 2018 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr A.R. Newell (Chairman)
Cllr Sophia Choudhary (Vice-Chairman)
Cllr Marina Munro (Vice-Chairman)

Cllr J.B. Canty
Cllr A.H. Crawford
Cllr P.I.C. Crerar
Cllr R.L.G. Dibbs
Cllr Mara Makunura
Cllr M.J. Roberts
Cllr P.F. Rust
Cllr J.E. Woolley

10. **DEVELOPING THE BUSINESS CASE FOR A LOCAL HOUSING COMPANY - STRATEGIC, ECONOMIC AND COMMERCIAL CASE**

The Board considered the Executive Director (Customers, Digital and Rushmoor 2020) Report No. ED1803 which set out the Strategic Case, Economic Case and Commercial Case for a proposal to set up a local housing company and provided information on the business case process up to the point where a preferred option was chosen and the commercial case was made. If the Board was content with the first three cases, then the Financial Case and Management Case would be considered by the Board at a future meeting. The comments and views of the Board would be presented to the Cabinet when a decision to recommend the Council to set up a Housing Company would be considered.

The Board was reminded that the Council Plan set out a priority to establish a local housing company as a vehicle to participate directly in the provision of housing. It was envisaged that the proposed housing company would provide homes for private market rent, which would improve the supply and quality of housing in this sector, and also enable other housing tenures either directly or in partnership. A draft business case had been prepared using the HM Treasury Green Book five case model, which evaluated whether a business case could be made for continuing with a project considering five key areas:

- the strategic case - the case for change;
- the economic case – the options for delivery, public value;
- the commercial case – the legal requirements, commercial considerations and risk analysis;
- the financial case – funding and financial viability; and
- the management case – delivering successfully.

Members were advised that the business case had been reviewed by the Council's legal advisors, Freeths, who had confirmed that the Council's proposal to set up a housing company was within its powers and Freeths had also provided tax and VAT advice.

The Strategic Case considered the establishment of a new housing delivery vehicle as a mechanism to help improve quality and choice in the Borough's housing offer. This would link into the Council's regeneration priorities and with the wider priorities of meeting housing need contained in the Housing and Homelessness Strategy and the Council's need to achieve financial sustainability and develop new revenue streams to support its ongoing service delivery (Rushmoor 2020). There was also widespread agreement that the long term undersupply of housing had created unaffordable house prices and rents, with a quarter of young adults still living with their parents and long waiting lists for social housing. It was estimated that the country needed 225,000 to 275,000 or more new homes per year to keep up with population growth and to tackle years of undersupply.

The Report gave details of housing need within Rushmoor and the current situation with regard to the private rented sector, affordable housing and temporary accommodation. It was also noted that the Council had a small portfolio of property assets. The Council wanted to make best use of this portfolio to meet its policy objectives, including its objective to achieve financial sustainability.

The Board Members were asked to give their views on whether there was a strong case for establishing a housing company; whether the housing company should include a mix of types and tenures of housing or, for example, focus predominantly on higher income generating options such as the private rented sector, and finally whether the company should operate predominantly within Rushmoor or across a broader area such as the Council's Strategic Housing Market.

During discussion on these issues, the comment was made that the business case decision had used out of date data on the private market and requested more up-to-date data evidence of demand. There was general agreement that there was a strong strategic case for establishing a housing company. Whilst most Members were content with the proposed approach to mix of tenures, the opinion was also expressed that the housing company should focus on where the market was failing (i.e. social housing) and not the broad mix which was being suggested. It was further suggested that the housing company model in Bournemouth should be investigated, whereby the company was intervening in private sector rented housing and also influencing social rented accommodation, where it was felt there was the greatest need in Rushmoor and would offer more flexibility. A view was expressed that there should be the ability to cross-subsidise in order to make the company viable. In respect of where the housing company should operate, Members were of the opinion that this should predominantly be within Rushmoor, although should be open to operating within economic areas.

The Board then considered the economic case for a housing company. It was noted that the economic case identified and evaluated a long list of options for delivering housing that would contribute to the improvement of the overall quality and choice in

the Borough's housing offer and assessed them against the policy objectives for the project. The following objectives had been identified for setting up a housing company:

- provide a mechanism for holding existing residential properties
- provide a mechanism for creating a future residential property portfolio by development/acquisition
- provide a mechanism that allowed income generation and trading
- make the best use of the Council's existing property assets to meet housing needs and create an income stream
- initially to provide quality homes for market rent, and contribute to improvements in the condition in the sector of the stock
- address difficulties in affordable housing delivery through registered providers of social housing
- help address the need for temporary accommodation and the Council's desire to deliver differently
- give the Council control over types of housing, rents, tenures and returns to the Council.

It was felt that a housing company could support and assist with meeting these aspirations.

The following options had been identified as potentially enabling the Council to meet the objectives and the benefits, burdens and risks for each option were examined in the Report:

- do nothing
- hold and develop a limited portfolio in the General Fund
- re-open the Housing Revenue Account
- site by site disposal with development agreements
- wholly owned company
- other corporate structures
- investment partner/joint venture with the private sector, other public sector or registered providers of social housing

The Board was advised that an officer project team had assessed the long-list options to meet the critical success factors for the housing company and a table summarising this was set out in the Report. The analysis had identified that a wholly owned company provided the best fit against policy objectives. The remainder of the business case therefore focused on the housing company being established as a wholly owned company.

During discussion on whether Members were satisfied that a wide enough range of options had been considered and whether they were comfortable with the business case conclusion that a wholly owned company would be the best option, one Member expressed the view that his preference was for a community interest company in order that the company could feed back into more community schemes. This view aside, Members broadly welcomed the view that a wholly owned company would be the best option to provide the opportunity for other options, such as a joint

venture, to be used too. Members were also generally of the opinion that a wide enough range of options had been considered. However, one Member did mention that co-operatives and community land trusts had not been looked at. It was also suggested that the Sustainable Community Act should be investigated for what this might enable the Council to do.

The Board then considered the Commercial Case for the preferred option of a wholly owned company. It was noted that the Council had the powers to:

- set up a wholly owned company under the Localism Act 2011
- fund a wholly owned company under the Local Government Act 1988; and
- transfer land and property to a wholly owned company under the Local Government Act 1972.

The Commercial Case outlined the procurement and commercial aspects of the preferred option, together with a risk analysis. A company limited by shares was the most common corporate vehicle used in England for profit distributing bodies. The Council would be able to participate in the company by way of share equity as well as loan debt, subject to entering into formal lending documentation. The company would be set up under the Companies Act 2006. The Council would hold 100% of shares in the company and would have full ownership allowing the Council to retain control of the selection of properties, standards of properties, allocations and rents. It was noted that a clear governance structure would be required to enable the Council to have control of the strategic direction of the company while allowing the directors of the company discretion to carry out effective operational management. A shareholder agreement would be needed to set out the parameters within which the company must operate and to clarify the extent of control by the Council. This would include such things as what powers were reserved to the Council as shareholder, the business planning process and board meeting requirements.

To meet the needs identified in the Strategic Case and the Economic Case, the key objectives of the company would be:

- to take a transfer of existing residential properties owned and let by the Council
- to develop/acquire property to assemble a residential property portfolio that might contain a range of tenures
- to provide quality homes for rent in the private rented market to meet housing need, and create a revenue stream
- to remain financially viable
- to assist the Council in meeting requirements for affordable housing and temporary accommodation where a company was the best means of achieving the required outcomes
- to provide an efficient landlord service including housing management and maintenance
- to maintain its properties to a standard that met tenants' reasonable expectations and protects the Council's investment in the company.

The Report set out the requirements for establishing a housing company, including company documentation and operational documents. The housing company would

also need to provide housing management and property maintenance services to its tenants. Initially it was likely that this would be undertaken through agents (some registered providers would undertake this role on a commercial basis) and through the use of some Council staff. Costs for Council staff would need to be recharged in a transparent way having regard to state aid rules. It was noted that tenants of the housing company would be granted Assured Shorthold Tenancies, except in the case of any supported housing schemes that would be let on licences. In some circumstances, it might be appropriate to offer homes on a shared ownership basis.

The Report also advised regarding Stamp Duty Land Tax, Corporation Tax, VAT and Council Tax. It was also noted that the housing company would be required to follow the Public Contracts Regulations 2015. However, as a wholly owned subsidiary of the Council, the housing company would not be subject to the EU procurement regime. Issues for decision in these circumstances would include lettings, management and maintenance, administrative, legal and accounting services. It was further noted that appropriate adaptation and revision might be required when the UK achieved Brexit on 29th March 2019.

During discussion, Members were broadly supportive of the objectives for the housing company. The view was expressed that the purpose for the company should be to enable housing need to be addressed and that the company could restrict or prioritise dwellings to local people or people with a local connection. Members were content to move on to the consideration of the Financial and Management Cases for a housing company at a future meeting.

The views and recommendations of the Board would be reported to the Cabinet for consideration on either 16th October or 13th November and for recommendation to the Council on 6th December 2018 for the setting up of the housing company.

The meeting closed at 8.55 pm.

CLLR A.R. NEWELL (CHAIRMAN)
