

**Agenda Item No: 9.3**

**Report No: 143/16**

**Report Title: Options for the Establishment of a Housing Investment Company**

**Report To: Cabinet**

**Date: 16<sup>th</sup> November 2016**

**Cabinet Member: Cllr. Ron Maskell, Cabinet Member for Housing**

**Ward(s) Affected: All**

**Report By: Ian Fitzpatrick, Director of Service Delivery**

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### **Purpose of Report:**

To seek approval for the development of a new housing and regeneration investment company.

### **Officers Recommendations:**

- 1** To delegate authority to the Director of Service Delivery and the Assistant Director of Legal and Democratic Services, in consultation with the Lead Member for Housing and their counterpart at Eastbourne Borough Council, the Cabinet Portfolio Holder for Community, to undertake work to set up a joint Lewes District Council/Eastbourne Borough Council wholly owned housing investment company.
- 2** In the event that the establishment of a joint company on the basis set out in (1) above is not considered appropriate or agreed by Eastbourne Borough Council, to delegate authority to the Director of Service Delivery and the Assistant Director of Legal and Democratic Services in consultation with the Lead Member for Housing, to set up a Lewes District Council wholly owned company.
- 3** To authorise the Director of Service Delivery in consultation with the Leader and Lead Member for Housing to procure specialist advice as necessary up to a value of £30k, this being the estimated cost of advice on setting up the company together with costs of developing the business case and investment proposals.
- 4** Any investment proposals to be reported back to Cabinet for approval.

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### **Reasons for Recommendations**

- 1** The role of local authorities in shaping housing markets and meeting housing needs and aspirations has changed significantly in recent years.

- 2 In addition, the ability of the council to invest in new council-owned homes in the traditional way is constrained by the caps on borrowing that apply to the Housing Revenue Account (HRA).
- 3 Although the HRA borrowing is currently £7.2m under the cap, the Government has recently introduced a series of measures which will reduce income, and restrict the HRA's ability to afford the interest and principal repayments associated with additional borrowing to fund new homes for rent.
- 4 This means that LDC will need to consider how to invest in ways that do not impact adversely on the HRA and find new ways to bring forward housing.
- 5 A council-owned investment company enables the development of a wide range of housing products across rented and owner-occupied tenures that can be tailored to meet specific housing needs and priorities and so reduce demand for high cost services, such as supported housing for older people.
- 6 The Council also recognises that there is a role to play in taking up opportunities for commercial development where this might have a regenerative effect and/or assist the council in meeting strategic housing priorities.
- 7 Establishing a joint LDC/EBC company would simplify the sharing of necessary officer skills in managing future projects, allow the councils to choose to share risk on larger ventures and provide a stronger financial platform for activities in new commercial areas.
- 8 The company will be wholly-owned by the councils and any investment decisions would require LDC lending approval before development or purchase began, subject to appraisal, therefore the Council would only approve schemes it is willing to support.

## **Information**

1. The Housing and Planning Act 2016 and the Welfare Reform Act 2016 have brought about a number of implications for the ways that affordable housing is developed and managed in the future:
  - a. The extension of the Right to Buy to all tenants of affordable housing requires Councils holding housing stock to pay an annual levy in order to finance this change in policy. The value of each Council's levy will be based on the amount which it could generate from the sale of its higher value HRA homes. Although there will be no compulsion on councils to sell homes, it may not be possible to fund the levy in any other way. The Government is expected to release details of the levy in the autumn, ahead of implementation in 2016/17. The establishment of an investment company could provide a vehicle for the Council to maintain control of these homes as part of a portfolio of housing and regeneration assets..
  - b. All affordable housing providers are required to reduce the rent of current tenants by 1% annually for the 4 years 2016/17 to 2019/20. This has a significant impact upon the HRA business plan, and makes it more difficult to finance new Council housing solely through HRA borrowing.

c. From 1 April 2017, higher income council tenants will be required to pay a higher level of rent, paying 15p extra each week for each £1 of income earned above a £31,000 threshold, until market rent level is reached. The additional rent income generated will be paid to the Government. It is possible that this change will encourage higher income tenants to exercise their Right to Buy.

2 Officers have been examining delivery mechanisms used by other Local Authorities, many of which have set up their own housing companies as a means of:

- directly delivering market sale homes in order to cross subsidise housing delivery
- delivering low cost home ownership homes products, either directly themselves or through housing provider partners
- investing in existing housing, including dilapidated market housing, as a regeneration tool

Appendix B sets out details of a number of councils with details of the housing companies established by them and the housing outcomes achieved through the use of those companies.

3 Eastbourne Borough Council has already created a housing investment company: Eastbourne Housing Investment Company Limited (EHICL). This is a private company limited by shares where the Borough Council is the sole owner and shareholder. The company has been established in order to invest in both housing and business opportunities, with an initial focus upon regenerating the Devonshire ward of the Borough.

*EHICL Key Priorities are:*

- a) To improve the built environment in key identified areas, encourage greater tenure diversity, the highest quality of supply and provide some much needed new housing.
- b) To establish different and innovative approaches to delivery, partnerships and funding so as to minimise reliance on external funding and support wider strategic objectives/projects.
- c) To place local communities at the heart of the regeneration process and to ensure that maximum benefits are derived which support sustainable communities.

The company is supported by a “Housing & Economic Development Partnership” (HEDP) officer team, which is a joint initiative between Eastbourne Borough Council and Eastbourne Homes Limited, and which provides development expertise that has already delivered over 100 affordable homes in Eastbourne. A programme of potential new housing is being planned through EHICL that will seek to combine commercial opportunities with strategic corporate objectives for sustainable communities and income generation.

## Financial Appraisal

- 4 The initial cost of setting up the proposed company, developing the business case and investment proposals is estimated to be £30,000. This can be funded from the General Fund budget for service priorities.
- 5 Operating with a Council owned company to develop and own housing as part of a programme of wider regeneration initiatives would have implications for both the HRA and General Fund. Under this route, the Council could dispose of land to the company and provide the company with financial assistance to develop a mixed portfolio of housing.
  - (a) Housing Revenue Account – if sites transferred to the company were in use by the HRA and generating income, for example garage sites or commercial premises, that income would be lost to the HRA. This loss of income would, however, be offset in whole or part by a reduction in annual and cyclical maintenance costs, and management costs could also reduce. In the event that HRA sites were sold to the company, the capital receipts could be used to support any capital expenditure on HRA housing (or General Fund projects).
  - (b) General Fund – the principal benefits to the General Fund would be:
    - Interest earned on loan to the company – the company would need to borrow to fund its investment in new affordable homes. The General Fund is able to make a loan to the company, subject to there being sufficient assurance that the company will be able to repay the loan from income generated from its property portfolio. The loan would be at a commercial rate of interest, exceeding the return which the Council can make from ‘treasury’ investments with banks and other counterparties. This investment income would provide an additional source of income to the Council, reducing the savings target needed in response to reductions in Government grant.
    - Any surplus generated by the company (after any corporation tax due) and not required for reinvestment could be distributed to the council by virtue of their status as shareholders
    - New Homes Bonus – assuming that this Government scheme remains in place, the Council would receive additional revenue grant of £1,500 annually for 6 years for each new home which the company delivered.
- 6 The company will be responsible for the repayment of any loans made to it by the Council(s). The Council would bear the risk of the company defaulting on repayment, in the event that the company does not perform as expected and sustains losses rather than generating surpluses. This situation could arise if, for example, there is a downturn in the property market.

## Legal Implications

- 7 The Legal Services Department has made comments which can be found within Appendix A

## Risk Management Implications

- 8** The risks and issues of a council-owned investment company will be considered within the company business case.

Strategic oversight and direction of the company and its activities would remain firmly with the council, making sure that the company's activities are in line with corporate priorities, policies and strategies.

Further work to ensure due diligence will be undertaken and reported back to Cabinet at the point that the company becomes active with future schemes.

### **Equality Screening**

- 9** An Equality Analysis Report (Appendix C) has been undertaken. No significant negative or positive outcomes have been identified.

### **Appendices**

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Appendix A : Legal Implications

Appendix B: A list of housing companies established by Council

Appendix C: Equalities Impact Report