FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
8 July 2013

Portfolio:	Health and Housing and Policy and Resources
Subject:	**Alternative Approach to Supporting Housing Delivery**
Report of:	Director of Community and Director of Finance and Resources
Strategy/Policy:	Corporate Strategy, Housing Strategy
Corporate Objective:	Dynamic Prudent and Progressive Council A Balanced Housing Market

Purpose:
To outline a new approach to support housing delivery in the borough.

Executive summary:
The current market and financial conditions have resulted in a significant downturn in the delivery of new homes to buy and/or rent. At the same time, there is a growing need for affordable homes in the borough and a reducing level of finance available to support affordable housing investment in the traditional ways.

This report outlines an alternative approach to supporting the delivery of new homes through the creation of a local housing company as a Joint Venture Company. Officers have been exploring this option in partnership with colleagues from Eastleigh Borough Council and two local Registered Providers (Housing Associations). The option provides an opportunity to help stimulate economic growth locally and increase the supply of new homes to buy and/or rent.

The Executive is invited to support the proposal in principle and authorise expenditure on specialist advice and legal costs to progress this option to the next stage.

Recommendation:
That the principle of progressing a Joint Venture Company for the delivery of housing is supported and officers be asked to develop a specific proposal with Eastleigh Borough Council and other Registered Providers for consideration by the Executive in September 2013.

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Reason:
To support the delivery of affordable housing in the borough.

Cost of proposals:
Fareham's proportion of the costs for preparing the legal framework for the Joint Venture Company and the provision of specialist advice are unlikely to exceed £5,000. These costs can be met from within existing resources (Housing General Fund).

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Executive Briefing Paper

Date: 8 July 2013

Subject: Alternative Approach to Supporting Housing Delivery

Briefing by: Director of Community and Director of Finance and Resources

Portfolio: Health and Housing and Policy and Resources

INTRODUCTION

1. Due to the current market and financial conditions there has been a significant downturn in the housing market causing some development sites to stall, and buyers unable to easily secure mortgage finance. At the same time, there is a growing need for affordable homes in the borough and a reducing level of finance available to support affordable housing investment in the traditional ways.

2. This report provides details of an alternative approach to supporting the housing market in the borough.

TRADITIONAL APPROACH

3. Currently, affordable homes are delivered in the main by Registered Providers (previously known as Housing Associations). Typically, free serviced land is made available for affordable housing through the planning process or the Registered Provider purchases development sites on the open market. The construction cost of building the affordable homes are met by the Registered Provider by borrowing secured against either current assets and or forecasts of future rental income. Registered Providers must also secure the approval of the Regulator (the Homes and Communities Agency) for all development and borrowing. Registered Providers are also able to apply to the Homes and Communities Agency for a capital grant under the Affordable Housing Programme 2011-15 towards the cost of construction. These grants are typically between 10-15% of the cost of construction with the balance being met from borrowing. Bidding under the Affordable Housing Programme closed in April 2011 and all funds have been allocated up to 2015. An announcement is expected in June 2013 on the availability of funding for future programmes beyond 2015.

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4. Fareham Borough Council is also a Registered Provider and was successful in securing grant funding from the Affordable Housing Programme 2011-2015 towards the cost of redevelopment of Collingwood House. However, following the Government's reform of the Housing Revenue Account system, Local Authorities are restricted in their ability to borrow against the value of their own housing stock and or forecast future rental income. In Fareham's case our borrowing capacity within the Housing Revenue Account is restricted to approximately £2m (which is sufficient to build less than 20 new Council houses).

5. The Council has adopted a target to enable 500 new affordable homes in the Borough over the period 2011-17. This averages out at approximately 83 properties per annum. Although the target of 83 properties per annum has been exceeded for the first two years, the forecast output for the remaining three years is not as promising. With the Affordable Housing Programme 2011-2015 being fully allocated and the Council having limited scope to borrow against the Housing Revenue Account there is a need to explore alternative options for funding the delivery of affordable housing, particularly with the opportunities that will be presented by new development at Welborne.

ALERNATIVE OPTIONS

6. Having identified these difficulties, officers have been exploring alternative, innovative proposals as a way of providing a boost to flagging confidence in the housing market by:

- Introducing new initiatives to help bring vacant properties back to use.
- Encouraging developers to progress the development of housing sites in the knowledge that there are potential buyers.
- Providing more incentives for the development of mixed sites in line with the Councils Housing Strategy.

Land or Development Guarantee

7. Working with other agencies, the Council has been working with Registered Providers (RPs) to encourage them to purchase vacant housing stock on new developments (i.e. the Tanners Gate development of Hunts Pond Road).

8. A proposal being considered is for the Council to loan money to the RP's to purchase vacant properties with a view to either:

- property being let on intermediate or market rents
- dependent on viability of sales, consider marketing for shared ownership sales

9. A variation on this scheme would be to work directly with developers and provide a guarantee based on the land value that, once a property is built, if it is not sold then the Council would purchase the property. The value would be agreed in advance taking account of the current market situation.

Joint Venture Model for housing delivery

10. An alternative option that is being explored is the creation of a “housing company”, an arms-length entity which develops affordable and market housing in partnership with other third parties such as Registered Providers, land owners/developers or even other local authorities.

11. The benefit of such an approach is that the council could have a stake in developments across the borough without putting the Housing Revenue Account at risk from the development. As a part shareholder, the Council would only bear a proportion of the risk, yet could maintain an influence over the management and letting of the stock. It would also leverage in external funding to developments and could open up access to a wider range of privately owned sites, which wouldn’t otherwise be possible if the Council led wholly on the scheme.

12. The Company which held the housing assets would not be owned or controlled by the Council, but would be structured in such a way as to only be able to act on behalf of the Council in purchasing vacant properties or giving guarantees on land values to encourage developers to build new properties.

13. The Council would provide the housing company with the capital finance to purchase the properties and this will be repaid to the Council (at a market rate) through loans secured on the value of the properties. As, over time, property values start to rise so the loan would increase in value in accordance with the value of the property. The loans can be classified as capital spend and can therefore be considered for borrowing under the Prudential Code.

14. The properties would be leased to a Registered Provider and or Fareham Borough Council who will then let them to tenants for up to 5 years at either market, affordable or social rents. Incentives to purchase could be offered with the tenancy to help achieve the sales of the properties in the longer term. Letting properties at market and affordable rents rather than social lettings will ensure that the site will generate a mix of tenures.

15. As a model for delivering homes in the borough, officers have been in discussions with Eastleigh Borough Council and two Registered Providers to progress the concept. As a result, it is felt there is merit in working collaboratively on this in order to share knowledge expertise and exploratory costs of setting up such a venture.

16. Whilst in the early stages of development, the model currently being explored is attached at appendix A. The approach would involve Fareham BC initially taking an equal share in a Joint Venture Company (JVCo) which would act as the vehicle for progressing opportunity sites. Specific sites would be progressed in a “subsidiary, set up as a limited liability partnership (LLP). By doing so, this would isolate other Joint Venture partnerships from any risks associated with specific sites; (only those party to the LLP will have a liability).

17. As potential sites came forward, each party could consider whether they wish to be involved or not, and as the work of the JVCo would be recharged to the LLP’s to a great extent, the financial exposure of being party to the JVCo is very limited.

RISK ASSESSMENT

18. Potentially there are a number of risks associated with a Joint Venture Company which need to be mitigated where possible. These include legal liabilities and financial risks. Officers will be seeking specialist advice to ensure that these risks are minimised in accordance with best practice - possibly jointly with Eastleigh Borough Council to reduce cost.

19. Financial risks; ensuring that suitable due diligence is undertaken as development come forward and making sure that appropriate returns are secured on loans made to the LLP

20. Social Risk; the Council will have less control compared to direct provision, but the JVCo offers the opportunity to attract external funds and accelerate delivery. Also benefit from greater flexibility and avoids constraints otherwise encountered if developing within the HRA.

21. The Council will need to consult the Housing Regulator (Homes & Communities Agency) regarding the participation by Local Authorities and RP's in the JVCo and seek their approval of the governance & regulation arrangements.

22. In establishing the JVCo the Council is effectively entering the property market and there are inevitably risks associated with this venture. In summary they are:

    - The property once purchased (or built in the case of the land guarantees) fails to be let, although at present the lettings market is very buoyant. If a significant number of properties are not let the Council would have to fund that element of the borrowing cost supported by the rental stream.
    - Property values continue to fall. In this case the SPV will have purchased property that has a balance sheet value of less than the loan. This could be a problem if the housing market remains depressed for many years in which case the timing of the potential sale of the property could be crucial.
    - The need for the SPV outlives its useful life and needs to be wound–up. The structure of the SPV will be such that in that event all the property owned by the SPV become the property of the Council and the rental stream is paid (potentially still via a Housing Association or Letting Agent) to the Council instead the loan repayments.

FINANCIAL IMPLICATIONS

23. The cost of investigating and ultimately setting up a JVCo is estimated to be no more than £5,000 plus officer time. Individual developments would be considered on their merits and being a party to any LLP’s would be subject to a separate decision by the Executive and would have to be supported by a detailed business case.

24. The cost of any land/development guarantee would, again be limited in the first instance and would be subject to a specific separate decision making process via the Executive. In the event that the Council guarantee was exercised, then stock acquisition would be funded in accordance with the business using prudential borrowing, enabling budgets or reserves (Housing Revenue Account or General fund, depending on the role for which the asset is used).

CONSULTATIONS

25. The Council will need to consult with the Homes and Communities Agency (the Statutory Regulator for Registered Providers and Stock Retaining Authorities) and District Audit to ensure that the proposed model meets with their approval.

CONCLUSION

26. The Council has adopted a target to enable 500 new affordable homes by 2017 as a corporate high priority. In addition, the Council is committed to securing longer term housing growth via the new community at Welborne.

27. However, the current market and financial conditions have resulted in a significant downturn in new housing delivery across both nationally and locally.

28. At the same time, there is a growing need for affordable homes in the borough and a reducing level of finance available to support affordable housing investment in the traditional ways.

29. Financial restrictions on the Council's Housing Revenue Account combined with reduced funding available from traditional routes are impacting significantly on the delivery of affordable housing in the borough. Consequently, there is a need to explore new approaches to help deliver the much needed new homes to buy and or rent.

30. Officers consider the proposal outlined in this report is worthy of further investigation and invite the Executive to support the proposal in principle and authorise officer to incur expenditure on specialist advice to enable a detailed proposal to be considered at a future meeting of the Executive.

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