

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 14th April 2014

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PART I **NON-KEY DECISION**

OPTION APPRAISAL – SUBSIDIARY HOUSING COMPANY

1 Purpose of Report

This report provides an update on investigations to date, to determine the benefits of the ‘flexibilities and freedoms’ introduced by the Localism Act 2011 primarily relating to the options for establishing a subsidiary housing company or other special purpose vehicle

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve:

- (a) That officers establish a corporate working group to fully develop an outline business case for establishing a Subsidiary Housing Company (SHC), or other vehicle, to develop, acquire, manage and sell market and affordable cross tenure properties to assist in meeting local housing need.
- (b) That an ‘invest to save’ bid is approved to fund initial specialist, legal and financial advice up to a maximum of £50,000.
- (c) That a further report is brought to the July Cabinet meeting with an outline business case, including financial modelling and, if appropriate, indicative timescales for the launch of the company.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Corporate Plan

The provision of additional, good quality family housing can reduce housing need for local households and contribute to the identified priorities of the JSNA by increasing the availability of good quality accommodation. The Corporate Plan has a target of achieving value for money and if this initiative contributes to that by maximising the asset value of development sites that the council will be better placed to respond to the wider needs of the community.

3 Slough Joint Wellbeing Strategy Priorities –

(a) Priorities:

- Health
- Economy and Skills

- Regeneration and Environment
- Housing
- Safer Communities

If the feasibility study determines that it is beneficial to establish a subsidiary housing company then conceivably it could contribute positively to all five of the wellbeing priorities.

(b) Cross-Cutting themes: improving the image of the town

Clearance or acquisition of redundant or derelict sites across the town and the subsequent construction of aesthetically pleasing family housing will improve the image of the town both visually and in terms of its perception by demonstrating that good quality homes are available and that aspiring households can find homes within the borough avoiding the need to move to adjoining areas.

4 **Other Implications**

(a) Financial

This reports seeks Cabinet approval to undertake a feasibility study to determine the benefits of establishing a subsidiary housing company (SHC) to potentially develop, acquire and manage properties across the borough as such there are no financial implications at this stage but future cabinet reports detailing the completion of the investigations and a launch report (if appropriate) will detail the financial risks and benefits. The formulation of any subsidiary housing company will have revenue financial implications, but also Capital and Treasury Management implications, depending on the best option taken forward for the Council in respect of financing any company or other financial vehicle.

(b) Risk Management

Risk	Mitigating action	Opportunities
<u>Legal</u> The local authority can only act as permitted by legislation which may limit some more creative solutions.	The feasibility study will include a full legal appraisal and authorisation of the recommended course of action.	Exploiting the flexibilities and general power of wellbeing under the Localism Act may offer increased financial returns to the local authority and assist in meeting wider housing need in the town
<u>Property</u> If council landholdings are retained and not developed while awaiting the determination of the options appraisal there is a real and opportunity if swift assessment and decision making is not achieved.	The majority of sites which may be related to the development of the company have now been cleared thereby reducing financial liabilities for security and occupiers liability.	If the feasibility study determines that a subsidiary housing company is viable then this may provide a new, exciting and financially beneficial method through which to manage the council's property assets.

Risk	Mitigating action	Opportunities
<u>Human Rights</u> There are no human rights issues associated with this report		
<u>Health and Safety</u> On vacant sites the Council has a legal duty to secure the site and prevent access which could lead to accidents and injury	Demolition of existing buildings will reduce obligations and liabilities.	
<u>Employment Issues</u> There are no employment issues associated with this report however should a subsidiary housing company be established it is possible that some existing staff will be contracted to work directly for the company and this may give rise to TUPE issues later.		
<u>Equalities Issues</u> There are no equalities issues associated with this report		
<u>Community Support</u> There are no issues related to this report however in future specific sites may be subject to challenge or opposition if the community perceives that designs and developments are inappropriate.	All schemes will be developed in accordance with Development Control guidance and designed to contribute positively to the town and the need for good quality accommodation.	Well planned site developments are likely to gain community support if they result in the removal of derelict or rundown sites.
<u>Communications</u> There is an outside chance of negative public perception of council owned vacant sites being left undeveloped over a longer period of time	This feasibility study will be a short, intense programme of work with a final decision paper being presented to Cabinet in July 2014.	If successful a subsidiary housing company will maximise the efficient use of the council's resources as well as delivering new homes to meet local housing need. All of these aspects will be positive issues for the Council.

Risk	Mitigating action	Opportunities
<u>Community Safety</u> Vacant and derelict properties together with cleared sites can attract a variety of anti-social behaviour activities	The feasibility study will be completed expeditiously, limiting the remaining lifespan of the property and then the vacant site. Colleagues in Neighbourhood Enforcement will be advised to maintain a watching brief on the site to deal promptly to any issues.	If successful the subsidiary housing company could resolve a number of longstanding 'eye sore' sites across the borough removing ABS focal points
<u>Financial</u> Financial implications at this stage are limited to the specific 'invest to save bid and the delayed receipt of any sale or development values for sites	The feasibility study will be completed expeditiously ensuring that the council will be in a position to consider a business case in July 2014	If successful a subsidiary housing company will maximise the efficient use of the council's resources as well as delivering new homes to meet local housing need. That in itself will reduce financial liabilities for homelessness and temporary accommodation.
<u>Timetable for delivery</u> Indecision or ongoing delays continue the revenue expenditure of maintaining vacant sites and delay receipt of projected capital receipts and/or revenue income	The feasibility assessment is making good progress although as a first time venture for the council subsequent projects of a similar nature will benefit from lessons learned and be delivered more swiftly.	Sound project management regulation will ensure that timely decisions are made and prevent 'mission creep' to investigate other peripheral issues.
<u>Project Capacity</u> Staff resources to undertake feasibility studies are limited and timescales could extend without sound project management control	The initial phase of developing an outline business case will be limited in resource implications and can be controlled within normal operational capabilities. If the OBC is positive a greater evaluation of business and resource needs will feature within the next report to cabinet.	
<u>Other - None</u>		

(c) Human Rights Act and Other Legal Implications

This report is seeking to commission a feasibility study into the establishment of a subsidiary housing company (SHC) as such there are no Human Rights or Legal implications at this stage however, should the project proceed, the creation of a company as a legal entity will be subject to full legal advice and guidance both internally and through external specialist advice.

(d) Equalities Impact Assessment

As a feasibility report there is no proposed policy change at this stage and hence no requirement for an equality impact assessment. Should the project result in the creation of a subsidiary housing company a further EIA screening will be undertaken although superficially, a project which increases the availability of new homes to all across the borough is unlikely to raise equality issues.

(e) Workforce

As a feasibility report there are no implications for the council's workforce at this stage. Should the project proceed the launch report will outline the employee related implications if any.

(f) Property

This feasibility study relates initially to the establishment of an SHC to develop and rent or sell properties on existing council owned land. If the outline business case shows a financial benefit of such action, further SBC owned properties and landholdings deemed to be surplus to requirements could be transferred to the company to deliver additional market and affordable housing as well as a financial return to the council.

5 Supporting Information

- 5.1 As this cabinet agenda demonstrates the Council's review of its assets and landholdings has identified a number of sites which are available for redevelopment or sale to generate revenue income or capital receipts. Given the financial challenges facing the council it is imperative that each site is fully evaluated to determine the best financial return that is achievable. This determination is not just assessing what the site can be used for but how a new development can be delivered, either by selling the vacant site, retained and built within the council or through some new special purpose delivery vehicle.
- 5.2 Looking at the borough as a whole it is clear that there are only a limited number of large sites (in public or private ownership) which might support the delivery of large numbers of new homes and of those sites, those in council ownership are already linked to the SRP while those privately owned, such as Castlevue or Middlegreen Trading Estate are already under construction.
- 5.3 What remains are a significant number of small, difficult sites, some owned by the council as housing (HRA) or in the General Fund and many sites in private ownership which because of their location, size or former uses have not been seen as attractive to speculative developers.

- 5.4 The matter has been discussed at the SRP board and the considered opinion was that, as a large multi-national company the organisation would not be able to gear itself up or demonstrate value for money for small in-fill site schemes of less than 20 units. While this is disappointing, as it could have legitimately avoided the need to complete a full procurement exercise on each future site, it does at least give clarity to the Council and in particular to the housing service who, in addition to the sites listed on this agenda, have plans to redevelop around 25 existing sites, each with significantly less than 20 units capacity.
- 5.5 Therefore if somehow, the council could create a smaller, more flexible special purpose vehicle to intervene on such sites then not only would additional homes and jobs be created but a more comprehensive regeneration of the area could be achieved.
- 5.6 While Slough has agreed ambitious housing, regeneration and wellbeing strategies which support the Council's Vision, that "People are proud to live in Slough where diversity is celebrated and where residents can enjoy fulfilling, prosperous and healthy lives", it could be argued that stalled sites and low market confidence will remain a real block to delivering Slough's vision in significant proportions of the borough.
- 5.7 Fortunately, the Localism Act, through the general powers of competency introduced a concept that a local authority has the power to do anything that individuals generally of full legal capacity may do and a number of local authorities, most notably Thurrock, Havering and Newham have already used this permissive power to establish subsidiary housing companies and officers are now recommending that Slough explores a similar route.
- 5.8 This concept is not actually new to Slough and although little known, DISH Ltd. (the Development Initiative in Slough Housing) began life back in the mid 1980's as a wholly owned subsidiary company taking ownership of 54 homes in Britwell in return for the sale of a ransom strip which allowed a developer to build a new housing estate for private ownership. Since that date these homes have been managed alongside the 'normal' council housing stock by the housing service and other than the absence of right-to-buy the tenants receive an identical service in all other respects.
- 5.9 With the Localism Act introducing a broader, general power of competency, a wholly owned housing company could operate cross tenure delivering sub or full market rented properties, key worker accommodation or simple market sale depending upon identified needs and the operating market conditions. Unlike the SRP, which concentrates on development of large strategic sites, a subsidiary housing company would develop but could also manage small schemes of rented accommodation, potentially meeting the general needs of residents who would not normally gain access to the council's social housing.
- 5.10 With higher rents generating greater returns than traditional social housing the Council could directly deliver housing on stalled sites in key locations and provide a catalyst for further private sector investment thus helping to meet Slough's wider strategic and regeneration objectives.
- 5.11 Development of high quality social housing is already underway, funded through the Council's Housing Revenue Account (HRA), in response to the opportunities presented by HRA finance reform but in key areas of the borough there is still

insufficient development of high quality housing across a range of tenures, while a broader delivery of the right quality homes will help deliver the jobs and improve the quality and attractiveness of Slough to potential investors.

- 5.12 As an indication, in terms of throughput, a very basic assessment of sites currently available in council ownership or through acquisition would generate around 200 additional units of accommodation. There is no limit to how far the company could grow, subject of course to sound financial planning and management but as economic conditions change decisions can be taken to dispose of stock to a viable private sector in return for a capital receipt or continue to rent out individual properties to develop a steady revenue source for the council.
- 5.13 As a separate entity the housing company would need a board of directors and accord with usual company law in terms of accounting practice, registration and clear operating parameters set out in the memorandum and articles of association. Funding could be from a variety of sources to suit the desired outcome, direct loans from the council, prudential borrowing, HRA reserves, right to buy receipts or institutional investments. Returns to the council could be many and varied, cashable such as a direct return in interest paid on loans, company profits covenanted back to the council, capital receipts for the sale of developed properties, indirect cashable returns through increased council tax receipts as well as non cashable benefits through the delivery of area regeneration.
- 5.14 Of course the council will need to consider the risks of such a venture against the projected returns together with a full evaluation of all the possible operating models which have only very briefly been laid out above. But if cabinet agrees to the commissioning of an outline business case, in the time until July officers will establish a project group and commission expert advice internally from Property Services, Asset Management, Housing, Legal, Finance and augment this as necessary with externally procured specialist advice.

6 **Conclusion**

- 6.1 This report seeks approval to undertake a short, focussed feasibility study into the pros and cons of establishing a subsidiary housing company with the primary function of intervening in the private rented and private sale sectors to boost the availability of good quality accommodation across the town and to complement the development work already being undertaken by the Council's Housing service and through the Slough Regeneration Partnership.

7 **Background Papers**

'1' - None