Rother District Council

Report to	-	Cabinet
Date	-	2 December 2019
Report of the	-	Executive Director
Subject	-	Housing Development Programme

Recommendation to COUNCIL: That:

1) a Local Housing Company be established with the Board structure outlined at Option 2 on Appendix 4 and a budget of £30,000 be allocated from earmarked reserves to undertake this;

2) a £200m Housing Development Programme to be delivered by the Local Housing Company be approved and financially supported by the Council;

3) the Programme aims to complete up to 1,000 new homes by 2035, with the primary objective being to increase and accelerate the overall delivery of housing in the district;

4) the Programme seeks to deliver mixed tenure developments in accordance with Local Plan and Housing Policy;

5) the Local Housing Company to be financially supported to purchase land on which to develop new homes, accessing borrowing to do so;

6) the Local Housing Company will sell the market housing through direct marketing and should seek to sell the affordable element on each scheme to a local registered provider; and

7) provision of sufficient additional resource is made through the Medium Term Financial Strategy Reserves for the development and delivery of the Housing Development Programme, including £60,000/year to appoint a Housing Development Programme Manager in the first instance.

Head of Service: Ben Hook
Lead Cabinet Member: Councillor Clark

Foreword

This report was considered by the Overview and Scrutiny Committee at its meeting held on 25 November 2019. The report has been reproduced in full for Cabinet; the comments of the Overview and Scrutiny Committee will be tabled at the meeting.

Introduction

1. The slow rates of housing delivery in Rother are contributing to a reduction in the ability of local residents to buy and rent good quality, reasonably priced market homes. The purpose of this report is to advise Members how the

Council can directly intervene in the housing market, as a developer, to accelerate housing delivery and increase overall housing supply.

2. The target set out in the adopted Local Plan Core Strategy is for 335 dwellings per annum from 2011-2028. However, the average delivery rate of housing completions equates to only 198 dwellings per annum since 2011. This means that we now need to deliver 458 homes a year (over 4,100 homes in total) between now and the end of the plan period. Appendix 1 provides some high level information on housing need.

3. Following the work of the Housing Task and Finish Group (HT&FG) in 2018 the Housing, Homelessness and Rough Sleeping Strategy (HHRSS) was developed and adopted by Council on 19 February 2019 (C18/65 refers).

4. The HHRSS 'Improvement Delivery Plan' (IDP) lists 'Increasing the Supply of Housing' as its first priority. This report outlines the actions necessary to meet objective 1.1 of the delivery plan and in line with the HT&FG recommendations, this report provides Members with an opportunity to consider and make recommendations to Cabinet in regard to a Council led housing development programme.

5. This report is structured as follows:

- Background – where we are and how we got here
- Strategic Direction – what are we trying to achieve?
- Delivery Methods – how will we meet our objectives?
- Housing Development Programme – where is housing development needed?
- Resources required
- Conclusion and recommendation

Background

6. Like many councils in the 1990s, Rother District Council (RDC) took the decision to transfer its housing stock to a locally established housing association under what is known as a Large Scale Voluntary Transfer or LSVT. In 1997, Rother Homes was established as a Local Housing Company to be set up in conjunction with and under the Group structure of the South London Family Housing Association (SLFHA).

7. The circa 3,500 homes in the ownership of the Council were transferred to Rother Homes for agreed valuation of £33.1m in 1998. At the same time, the Council's Housing Operations Team were also transferred under TUPE regulations.

8. In 2001 SLFHA became known as the Horizon Group, which merged with Amicus in 2006 to form AmicusHorizon. In 2017 AmicusHorizon merged with Veridian Housing to form Optivo, who now own and manage the former RDC housing stock.

9. Optivo remain a key partner in meeting our housing obligations as a Council and the Council gets 100% nomination rights on all new build affordable homes.

Strategic Direction

10. The IDP is broad in its ambition, suggesting that the Council should be looking to increase supply across the board inclusive of all tenures of housing. Whilst this can be achieved in a variety of ways, the Council, as a developer, should have a very clear vision of which objectives it is choosing to prioritise.

11. The prioritised objectives will dictate the scale and ambition of the housing delivery programme. It will also influence where and how we choose to build houses, the timescales for delivery and (if any) financial returns.

12. There are a number of key strategic objectives which could form the basis for future housing development plans; these include:

    a) Speed up the rate of policy compliant development to meet Local Plan targets.
    b) Improve the environmental standard of local homes.
    c) Develop affordable/social rented housing.
    d) Develop housing for affordable ownership.
    e) Delivering stalled sites.
    f) Produce a return back to the Council.
    g) Discharge statutory homelessness duty.

13. Focusing on accelerating the delivery of policy compliant schemes would be the best way of the Council meeting a broad spectrum of delivery objectives. The remaining objectives would be achieved on a scheme by scheme basis and would depend on cost and viability.

14. The latest KPI performance report shows that 254 homes were built in 2018/19. Currently 458 properties need to be built every year to meet the local plan target, however only 70 were delivered in the three months 2019/20. The scale of the problem is only going to grow with the introduction of the new 'standard methodology for local housing need' through the National Planning Policy Framework (NPPF).

15. The scale of the Council's ambition needs to be realistic and achievable. Starting from a position of nil development, the Council could expect to see starts on site by 2022 with the first units completed in 2023, if sufficient resources were allocated to the programme in the 2019/20 financial year. A 15 year development programme up to 2035 could realistically target delivery of 1,000 homes.

16. Adopted Local Plan policies require a certain percentage of housing units, in developments over a certain size, to be delivered as 'affordable'. These units are secured through a Section 106 agreement as part of the planning permission. The affordable percentage is variable across the district and is reflective evidence supporting the Local Plan as to the 'typical' viability of schemes to deliver affordable units in that area. There are two main types of affordable units; rented, for which the Council will have 100% first-let nomination rights to allocate residents on the housing register; and low cost home ownership options. A full description and SWOT analysis of these tenures can be found at Appendix 2.

Delivery Methods

17. Local authorities have wide ranging powers in relation to housing delivery of all types and the development of property, to facilitate their responsibilities to deliver services and to provide assets for their areas. A combination of these would usually be sufficient for a local authority to undertake any property acquisition, development, sale, rental or related project in its area where at least part of the motivation was connected with the broad benefit or improvement of its area.

18. The Council should therefore be able to root any development proposals in specific powers and to form, where appropriate, corporate vehicles (for example, a limited company or a limited liability partnership, as a wholly-owned vehicle or joint venture), whether for the better discharge of its functions or for some other purpose.

(i) Housing Revenue Account / General Fund

19. Any Local Housing Authority that owns 200 or more dwellings are required to account for them within their Housing Revenue Account (HRA). Therefore Rother can hold up to 199 in the general fund without opening an HRA. Appendix 3 provides a description of a HRA, some particular features that Members should note.

20. As the Council does not currently own any homes, development could initially be undertaken through the general fund. If the Council intends to build homes this way then approval from the relevant Secretary of State is required for each development. Whilst usually only a formality, the Council would have to make a case for each request. Also the Council would still be limited to 199 homes; this would include market sale homes that have not yet been sold.

21. There is a significant lack of flexibility in operating a housing programme through the general fund. As schemes undergo development there is the risk that a scheme may require changes between construction phases. Under this operating model, changes like this would require full committee reports and approval, as well as renewed Secretary of State approval.

(ii) Council Owned Housing Company

22. As outlined above the Council has the necessary powers to start a Local Housing Company (LHC), which can take a number of different formats. The two most common forms of corporate vehicle considered or established by local authorities are:

    i. a private company limited by shares (**CLS**); and
    ii. a private company limited by guarantee (**CLG**).

23. The final constitution of the LHC would be determined in a report to Cabinet following comprehensive legal advice.

24. Whichever structure is used, consideration must be given as to the appropriate composition of the Board of Directors. In some examples the Board of Directors is entirely made up by appropriate senior officers. Others have a combination of officers, Members and in some cases even independent representation. Having independent people with a housing

specialism will enable the company to benefit from professional experience at board level.

25. As it is an external body an LHC is not subject to the same democratic processes as regular Council business. The constitution of the Board will dictate the level of transparency and accountability in which the company operates and the levels of influence that Members, officers, and independent representatives will have.

26. For the avoidance of any conflicts of interest, membership of the board is restricted and should not include any person who is part of the Executive of the Council. For this reason the Executive Directors and Section 151 officer cannot be officer representatives and if the board has Councillor representation, they should not be Members of the Cabinet.

27. In circumstances where Councillors are not represented on the board it is common for a separate democratic committee of non-Cabinet Members to be established with the purpose of scrutinising the company and steering strategy. Options for both of these structures have been outlined in Appendix 4.

28. Some examples of how other local authorities have established their LHCs;

a) Eastbourne Homes (Eastbourne Borough Council) – CLG with mixed board representation including independent board members, tenant members and two Councilors.
b) A Better Choice for Property Ltd (Ashford Borough Council) – CLS with officer only board.
c) Quercus Housing Ltd (Sevenoaks Borough Council) – CLG with officers and Independent Non-Executive Directors on board.
d) Sussex Weald Homes (Wealden District Council) – CLS with mixed board of equal Officer and Councillor representation.

29. From the options provided in Appendix 4 it is recommended that, should the Council approve the establishment of a LHC, that option 2 (Board and Committee Structure) should be the preferential approach as this enables greater scrutiny and transparency of company operations.

30. To better inform Members' decision making, Appendix 5 provides details on how a LHC is funded and Appendix 6 outlines key advantages and disadvantages of operating with and without a LHC.

(iii) Other Delivery Methods and Objectives

31. As has already been agreed with the site at Blackfriars, Battle the Council has the opportunity to enter into joint ventures with other housing developers and providers. This would allow access to a greater pool of development resources and reduce the risk taken on individual site development. However this approach could limit the Council's ability to influence the development programme, returns generated and the timescales for delivery.

32. In Rother, where the local authority does not own a managed housing stock, private developers will seek to sell their Section 106 contingent to a housing provider who will operate those homes as affordable/social rent or shared

ownership. These homes are usually sold at an average of 60% of market value and are factored into the original development appraisal as a cost to the scheme.

33. The Council as a developer would benefit from operating the same model, which would release vital capital back into the scheme, making development more viable. Retaining stock in the form of 'Council Houses' would mean that the income from those homes would need to cover the cost of both borrowing and management. Income would be limited to local housing allowance (LHA) rates, which for the majority of Rother are prohibitively low and would mean that the Council would have to subsidise the cost of building by meeting the shortfall in the loan financing through the revenue budget. Appendix 7 outlines high level costs for construction of a two bed house against the LHA income. This shows that for every Council House that is retained, an additional £3,531/year would need to be allocated in the Annual Revenue Budget to support borrowing costs. This does not include costs for management of a housing team or lifetime property maintenance.

34. Also as RDC does not currently have a housing management team, the Council would have to buy in this service in the first instance at additional cost. A housing provider with a local presence such as Optivo or Orbit would be likely candidates to provide this service, as well as other local authorities such as Wealden District Council who have this function within their structure.

35. Given the acute need for acceleration in the delivery of all housing tenures, the current financial position of the Council, and the unaffordable cost of developing council-owned housing, it is recommended that the Council follow a Local Housing Company model. The Local Housing Company should focus on bringing forward policy compliant schemes, seeking to sell the housing once built.

Housing Development Programme

36. The Council has already taken the decision to maximise the value of existing land assets through the development of housing (CB18/73 refers). The projects at the Former High School Site, Bexhill and the site at Blackfriars, Battle will deliver up to 180 homes over the next five years. However, other opportunities for housing development on Council owned land are limited to smaller sites and the programme will need to consider the acquisition of new housing land to progress further development on any scale.

37. The key growth area for Rother is North East Bexhill, now known as Worsham. The development at Worsham has been slow to commence with Bovis Homes only starting on site for phase one (200 dwellings) following the granting of outline planning in March 2016. This area represents a real opportunity for accelerating delivery of homes that already have outline planning permission.

38. In addition to that, the Development and Site Allocations (DaSA) Local Plan identifies a number of other opportunities, including a significant growth area to the North of Bexhill in Policy BEX3 (equating to 530 dwellings), Land at Northeye (some (140 dwellings), the Hastings Fringes development at the Michael Tyler Furniture site (some 40 dwellings) and a number of rural development sites in excess of 40 homes.

39. There will also be a number of larger scale development opportunities that are presented through neighborhood plans as they are developed and adopted.

40. The housing development programme should focus resources on acquiring and delivering sites that are a reasonable scale, and have either already achieved planning permission or have been allocated through the Local Plan. This will enable the Council to maximise the number of homes that can be delivered throughout the 15 year programme life.

41. The growth areas to the North and North-East of Bexhill would meet this criteria however, we should not be looking to compete with other developers already looking to bring forward sites as this will not meet the primary aim of accelerating delivery.

Resources Required

42. Developing 1,000 homes over a period of 15 years will likely cost in the region of £200m. Each scheme will be appraised on its own merits and viability be assessed to ensure that the sales value of the market housing will be sufficient to cover the gross development cost.

43. The development of housing is a new area for this Council and there is no existing resource to drive this work forward. Additional programme level resource would be required to ensure that projects come forward. Each project will consist of three key stages. Pre-development, Construction and Disposal.

44. A Housing Programme Manager will be required in the early stages to develop a programme, progress the identification of sites and acquisition of land, and commission services necessary for achieving planning permission at additional costs. It is anticipated that the programme manager will cost the authority in the region of £60,000/year, including on-costs. This would initially be funded through the Medium Term Financial Strategy (MTFS) Reserves.

45. This post would also be responsible for managing the establishment of a LHC, should the Council approve that approach. The full cost of establishing the LHC is estimated at about £30,000. This will include all legal, accountant, recruitment and registration fees. Ongoing costs of about £10,000/year are likely to be incurred by the Council in the form additional work for finance and legal departments in relation to maintaining the housing company.

46. Once a development reaches construction stage we have an experienced Development Project Manager who can oversee the delivery of individual schemes.

47. When in a position to do so and dependant on capacity within the wider team, additional resource might be required for either managing the property or for the disposal of the market sale homes. This could also be a function of the LHC but will need consideration at the appropriate time.

48. It is likely that many of these costs would be capitalised as they directly relate to development, meaning that in the longer term they will have little impact on the revenue budget. However, in addition to this there will be additional resources required such as finance and legal to support the running of an

LHC, appraising developments, and developing business cases that would need to be accounted for through revenue budgets.

Conclusion and Recommendations

49. There are a number of different options available to the Council and the approach taken will depend on the key strategic drivers for housing development.

50. The Council understands that the overriding need should be to meet the requirements of both the Local Plan and the HHRSS in accelerating the delivery of housing across all tenures. However, the extent to which this can be achieved will be dependent on the resources available within the existing financial constraints of the budget. Members will need to determine how additional resource would be funded and be aware of the implications on delivery of other services and priorities that the Council may have.

51. Other local authorities who have undertaken similar programmes have been realistic in their ambitions. Wealden District Council for example, when setting up Sussex Weald Homes, targeted delivery of 250 homes in the first five years. As an authority we have less experience in house building and therefore it should be realistic for us to deliver up to 200 homes by 2025. However, an ambitious programme should seek to demonstrate continued growth.

52. It is recommended therefore that the Council set a target of 1,000 homes to be built on policy compliant, mixed tenure developments by 2035. At the start of the programme the Council should aim to complete at least 200 homes by 2025.

53. The Council should establish a Local Housing Company to drive forward the development of housing in the district. Members should consider the structure and board representation of the company, as well as noting the additional resources required to run a LHC.

54. In order to achieve the scale of delivery and to make schemes more financially viable, it is recommended that the Council sell the majority of homes on the open market and the 'affordable' element of developments to a housing provider to release much needed capital back into the programme for future development.

55. The Council, where possible, should look to ensure that sites with planning permission and those allocated through existing Local Plan policies should be brought forward in the first instance and that identified key growth areas such as North and North East Bexhill represent the best initial opportunity. However this should not exclude other sites, particularly those identified in Neighborhood Plans. It will remain the policy of the Council to encourage private development throughout the district so where there is interest from other developers in bringing forward sites, the Council should not seek to compete, but explore other opportunities.

56. It is recommended that a Housing Development Programme Manager be appointed as the first resource required in developing and delivering this ambitious housing programme.

Dr Anthony Leonard
Executive Director

Risk Assessment Statement
There are a number of risks that need considering in the recommendations in this paper.

Establishment of LHC – The specific governance arrangements surrounding a LHC will determine the level of exposure to the Council. Whilst specific proposals will be brought back to Council at a later date, Members will need to steer on governance preferences at the early stages.

Funding of LHC – The LHC does not make enough money to repay the loans to the Council, meaning that the Council is liable for the repayments on their own borrowing.

Appointment of Staff – given the financial constraints already faced by this Council the appointment of professional staff to drive forward this programme in the first instance could apply additional pressure to the revenue budget.

Scale of development – the recommendations related to the target for development are ambitious and represent a reputational risk to the Council if they are not achieved.

Intervention in the market – by entering heavily into the local market place in the manner proposed, there could be unintended consequences for the development of housing in the district, namely:

a) Increase in the land value due to increased competiveness.
b) Discouragement of private developers to bring forward target key growth areas.
c) Suppression of house price growth due to increased supply.

There are a number of factors which drive the need for an increase in housing. These include the following:

a) <u>Increasing population</u> – the projected population in the Rother district is expected to rise by 9,000 between 2011 and 2028. This equates to a 10% increase.

b) <u>Increasing life expectancy</u> – during the same period, average life expectancy is expected to increase by five years for men and 3.5 years for women.

c) <u>Reducing average household size</u> – households are expected to reduce from 2.15 in 2015 to 2.10 in 2025. The effect of this is more single person households and consequent under use of housing stock.

Demand for affordable social housing is increasing and supply is struggling to keep up with demand which is leading to homelessness, sofa surfing, poor quality living conditions and rough sleeping.

Tenure imbalance is an issue, in particular a lack of affordable (shared ownership and social rented) housing (only 10.4% of all housing stock in Rother is social rented housing; compared to 17.6% in England & Wales) (see Chart 1 below).

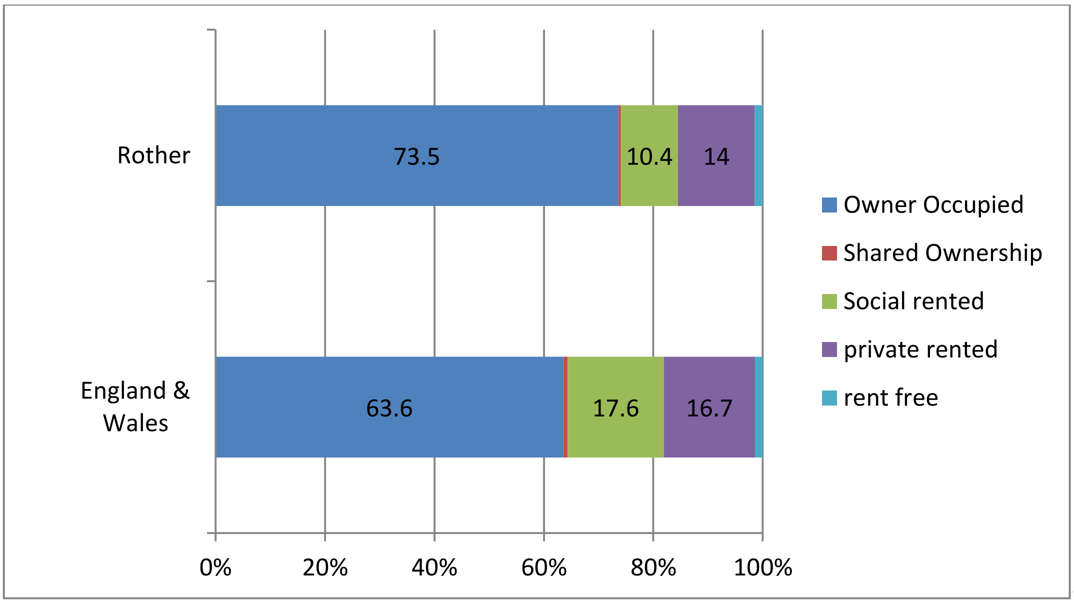


Chart 1: household tenure comparison – England & Wales, Rother

A significant portion of affordable housing delivery is dependent on the delivery of private housing schemes. Although housing delivery for all tenures is increasing, it does not meet the expected Local Plan targets. Chart 2 below shows housing delivery compared to the Local Plan target, broken down by private and affordable housing.

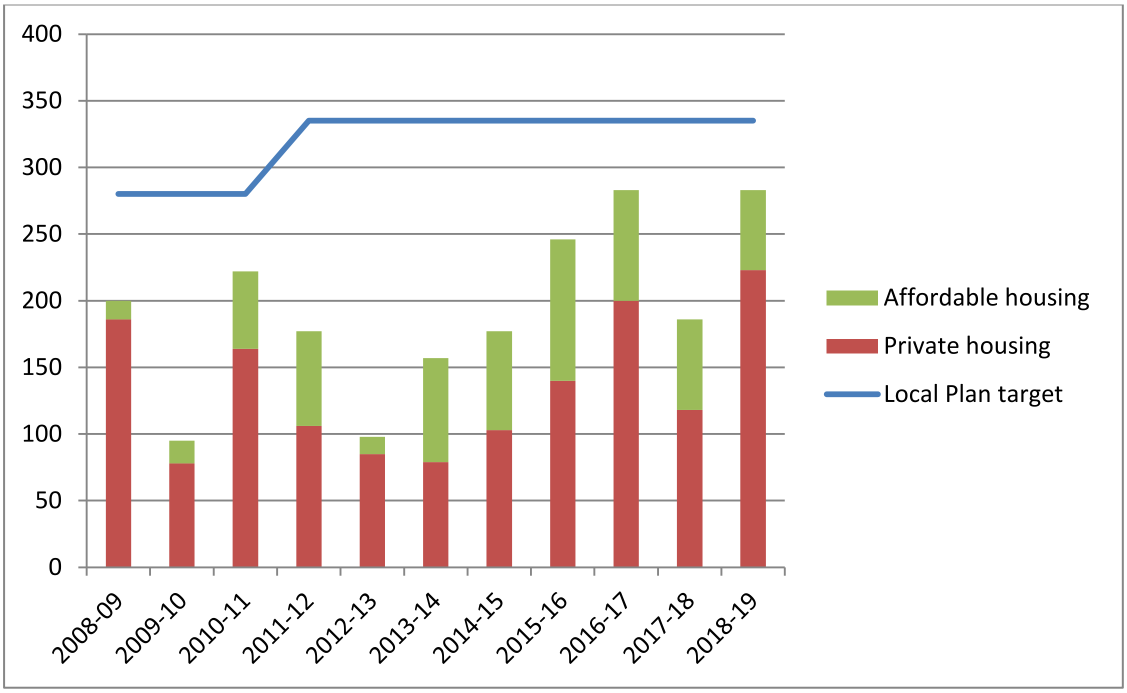


Chart 2: Housing delivery 2008 - 2019, Rother

Social/Affordable Rent

Social and Affordable rented homes are those owned either directly by councils or by registered providers (RPs) and are rented at sub-market rates making them more affordable for households on low incomes. The Council's housing register provides a useful starting point to understand the current need for social/affordable tenure across Rother. There are currently 1600 households on the housing register. The data confirms that need is greatest for smaller one and two bedroom properties, and the most affordable tenure for our residents is social rented tenure.

The need for one and two bedroom properties is also broadly supported by the Housing Needs Survey, with a higher proportion of two bedrooms to reflect the range of affordable housing tenures included under current guidance, to include intermediate homeownership options. Smaller dwellings is also consistent with the Council's existing planning policies which requires a mix of housing sizes and types, of at least 30% one and two bedroom dwellings in rural areas to achieve a mixed and balanced community.

Strengths	Weaknesses	Opportunities	Threats
• Opportunity to respond to identified local need • Control over allocations (local connection) • Supports meeting Local Plan and Housing Strategy housing delivery numbers • Will meet increasing housing needs	(if Retained) • No capital return • Rental only stream does not cover borrowing and costs • Ongoing management costs • Maintenance liability • Cyclical repairs • Need to establish an HRA (if Sold) • Will reduce return on investment	• Partnership working with RPs • Potential for M&M agreement with RP or LA • Reduce housing waiting lists	(if retained) • Potential for bad debts • Likely liable to Right To Buy (if sold) • May not be able to find buyer for affordable element

Low Cost Home Ownership

This is an umbrella term for a series of government schemes that seek to make private home ownership more accessible. The most well-known of which is the 'shared ownership' tenure, which enables a buyer to purchase a percentage of a property whilst renting the remaining percentage from the RP who manages the scheme. The typical percentage for first time buyers is between 30% and 40% for which they would most likely obtain a mortgage. It also includes market based tenures, such as starter homes, intended for those who can afford to buy, where market values are discounted in some way.

These tenures relieve pressure on the private rented sector by enabling those families with higher incomes to access home-ownership without the need for large deposits. As a developer this tenure can also be critical in releasing capital from schemes ensuring financial viability. Shared ownership does however require on-going management on the part of the provider.

Strengths	Weaknesses	Opportunities	Threats
• Meets a specific need • Delivers a level of capital receipt upfront • Allows for the provision of mixed tenure AH developments	• Capital return reduced • Need to ongoing management • Some ongoing maintenance costs • Liability for cyclical repairs • Not always affordable for the even at social rent levels	• Could free up rented affordable housing • Potential to allow young people stay in the District	• DPA legislation • Mortgage availability

Market Sale

Whilst there is a clear need for more affordable housing in Rother the needs of the Local Plan outlined above show that delivery of market housing is also significantly below target. Should the Council seek to address this need then it would need to take the approach of a private developer and deliver predominately market housing.

Market housing plays a key role in addressing the overall balance between supply and demand and tenure mix. The lack of supply is a key driver behind the increase in property prices, however there is a limit to what people working locally can afford to pay. Increased delivery can help suppress house price inflation in the area ensuring that as many people as possible can afford to enter the market.

As a market housing provider, the Council could opt to address local need in the types of dwellings that are built as part of the site. Whilst house type mix is a matter for planning policy the Council should consider the needs of local people when designing sites. The Council could seek to deliver greater numbers of smaller, entry level homes, albeit less profitable, but would address market failings not being redressed by the major developers.

Without significant grant investment from Central Government, or through a registered provider it is inevitable that any site that the Council develops will include a majority of market sale units. Housing development on any scale will likely incur significant short term debt and market sale units will be needed to repay, in part or whole, the cost of developing the site to ensure that the Council limits the on-going impact to the revenue budget.

Strengths	Weaknesses	Opportunities	Threats
• Capital receipt returned to Council • No ongoing maintenance • No ongoing management • No lifecycle costs • Easy: In and out	• Aftercare (12 month DLP) • Focused on value/m^2 rather than need • Higher market facing specification needed • Very likely to	• Short term projects allowing rapid progression to next project • Potential to cross subsidise other (AH) projects • Potential to provide a mix of	• Sales risk • Dependent on national economy • Not necessarily responding to the needs of RDC residents • Augmenting market delivery through direct intervention

	require a housing company	units to respond to local needs • Potential to improve locally based supply chains	

Market Rent

Some local authorities have used housing development as an opportunity to increase revenue income to sustain council services. By retaining units in an arm's length housing company and renting them at full market rates could, depending on the viability of the site, generate an income that exceeds the cost of borrowing, therefore adding to the Council's income stream.

Whilst this option does not address the housing needs of low income households who struggle to meet market rent prices, few landlords invest in new property as they tend to be more expensive, there is less capital growth potential. The majority of private rented stock is older meaning it does provide the Council the opportunity to raise the bar in the stock quality available in this sector. The Council is also in the position to offer improved security and quality for those families who may not be eligible for social housing, but in turn have little prospect of ever owning their own home.

Strengths	Weaknesses	Opportunities	Threats
• Allows RDC to retain stock • Delivers a rental stream • Responds to a demonstrably high need in the market • Supports balancing tenure mix (current PRS levels are low throughout the district)	• No capital return • Rental only stream covers borrowing and costs • Ongoing management costs • Maintenance liability • Cyclical repairs • Higher spec (white goods, kitchens etcetera) needed • Very likely to require a housing company	• Can meet the need of those ineligible for AH but unable to afford OMS • Could free-up affordable housing • To attract large scale investors requiring lower rate of returns (including Legal and General/pension investors)	• Risks trapping potential first time buyers in private rented

Appendix 3

The HRA is intended to record expenditure and income on running a Council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the Council's own tenants. The main features of the HRA are:

- it is a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities (under the powers and duties conferred on them in Part II of the Housing Act 1985 and certain provisions of earlier legislation);
- it is not a separate fund but a ring-fenced account of certain defined transactions, relating to local authority housing, within the General Fund;
- the main items of expenditure included in the account are management and maintenance (M&M) costs, major repairs, loan charges, and depreciation costs;
- the main sources of income are from tenants in the form of rents and service charges;
- the HRA should be based on accruals in accordance with proper accounting practices, rather than cash accounting; and
- it does not make a profit.

Legislative features are:

- ring-fenced account within the General Fund;
- credits and Debits are prescribed by statute;
- no general discretion to breach the ring-fence;
- cannot budget for a deficit;
- all borrowing within the HRA is in line with the CIPFA Prudential Code. considerations;
- right to buy – tenants have a right to purchase their property at a discount;
- resourcing for rent collection, monitoring spend both revenue and capital, repairs both everyday and cyclical repairs e.g. kitchens and bathrooms;
- decent homes standards; and
- rents are limited by LHA rate.

Appendix 4

Structures for a Local Housing Company Board

Option 1 - Board Only Structure

Rother District Council Officers x 3 (Cannot be Executive Directors or Section 151 officer)

Independent Representative x 2 (Including Chair)

Rother District Councillors x 3 (Cannot be Members of Cabinet)

Option 2 - Board and Committee Structure

LHC Board

Rother District Council Officers x 3 (Cannot be Executive Director or Section 151 officer)

Independent Representatives x 2 (Including Chair)

No Councillor Representation on Board

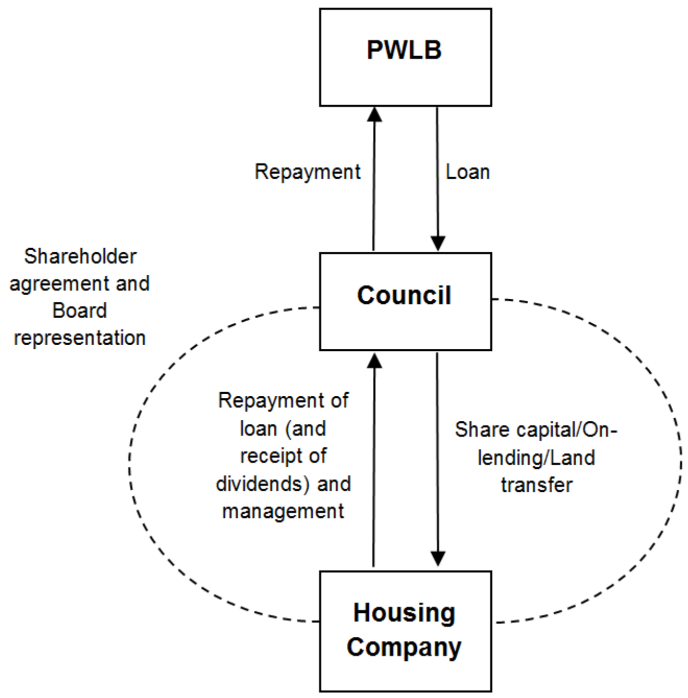
Housing Company Committee

This would be a politically balanced democratic subcommittee of the Council, constituted of between five and seven non-Cabinet Members, that has responsibility for providing the strategic steer and oversight of the Housing Company. The Committee will represent the Council in its role as shareholder with the Board of the LHC reporting and updating regularly in an open transparent forum.

Appendix 5

Funding a LHC

Most local authorities that are active in the housing market without a HRA are funding development either through borrowing from the PWLB or through reserves. A LHC cannot directly access PWLB borrowing so the usual process for financing is a process known as 'on-lending'. In this scenario the Council will borrow from the PWLB and 'on-lend' to the LHC at a predetermined interest rate.



The Company makes money for the Council because the margin between the PWLB and market interest rate provides local authorities with an untaxed return. When providing market loans, a local authority is required to act as a notional market lender and not a public authority. HMRC would require and treat such market loans as being given on arms-length terms.

There are a number of other key considerations that the Council needs to take into account before deciding to start a LHC. These include:

a) The initial revenue financing and resource requirements.
b) The time needed to run the company.
c) The impact on existing Council resources (Management and Finance).

Appendix 6

Some of the advantages and disadvantages of the two primary options:

	Key Advantages	Key Disadvantages
General Fund	- No need for arms-length company - Can directly access prudential borrowing	- Limited to 199 homes without activating HRA - Requires Secretary of State approval on all developments - Administrative running costs must be met through revenue budget - Any retained stock must be rented out at LHA rates and would be subject to 'Right to Buy' - Decision making must follow democratic process.
Local Housing Company	- No limit to number of homes that can be owned - Does not require Secretary of State approval. - Administrative running costs can be absorbed by the company and funded through borrowing - Greater flexibilities with regards to retained stock - No 'Right to Buy' - Greater flexibility autonomy of decision making.	- Cannot directly access prudential borrowing - Can place additional administrative burden on Council staff.

Appendix 7

Description	Annual Income	Annual Expenditure
Loan repayments – 2-bed House @£175,000 cost of construction		£9,803
2-bed LHA Rent	£6,272	
Cost differential per unit		£3,531
Cost based on a 200 home development with 80 retained units		£282,480