

Cherwell District Council

Executive

7 November 2016

Local Development Company

Report of Commercial Director and Head of Regeneration and Housing

This report is public.

Purpose of report

To seek approval in principle for the establishment of a local development company with South Northamptonshire Council to:

- Act as an investment vehicle for the councils;
- Provide housing which meets housing need not met by the current market.

1.0 Recommendations

The meeting is recommended:

- 1.1 To agree in principle to the establishment of a local development company with South Northamptonshire Council;
- 1.2 To give approval to officers to complete further work to prepare a full business case for the local development company to be considered by SNC Cabinet and by CDC Executive in due course.

2.0 Introduction

- 2.1 In December 2015 South Northamptonshire's Cabinet considered a report regarding the potential to establish a local development company. In September 2016, South Northamptonshire's Cabinet agreed in principle to the establishment of a Local Development Company with Cherwell District Council and agreed to the development of a full business case including an initial pipeline of projects for South Northamptonshire.
- 2.2 While the initial pipeline of projects is for South Northamptonshire, there is an opportunity for Cherwell District Council to jointly own the Local Development Company which would provide a vehicle for the Council to utilise should it wish to progress its own pipeline of projects.

3.0 Report Details

Strategic Context – National Level

- 3.1 Local housing companies have emerged in the last couple of years, following the introduction of the General Power of Competence in the Localism Act 2011. They are seen as alternative delivery vehicles for new housing, giving strategic housing authorities another tool with which to proactively shape the housing market. Initially developed with some of the London boroughs primarily to offer housing for rent, local housing companies were recognised in the Elphicke-House report (January 2015) to government as having a wider role to play. In March 2015, the Housing Minister wrote to local authorities to say that government supports the setting up of local housing companies where they are taking on a wider role. The proposal to set up a local development company fits with central government expectation that local authorities will play a more active role in housing delivery and in shaping the local housing market.
- 3.2 Numerous local authorities have set up or are in the process of setting up local housing companies. The purpose and remit of these local housing companies is wide ranging including:
- Acquisition of properties on the open market;
 - Developing/building properties;
 - Delivery of additional affordable housing (social/affordable rent);
 - Delivery of homes for market rent;
 - Delivery of homes for open market sale;
 - To buy high-value council owned stock in an attempt to prevent them being sold off to fund Right to Buy;
 - Development of sites in council ownership.

Examples of local housing companies established to deliver homes for market rent and act as “ethical commercial landlords” are Red Door Ventures (London Borough of Newham) and Ermine Street Housing (South Cambridgeshire District Council).

- 3.3 The Housing and Planning Act 2016 – The Act received Royal Assent on 12 May 2016 and included a number of new housing policies including: starter homes; the sale of higher value local authority homes; pay to stay; extension of right to buy to housing associations; and a new deregulated regime of social landlords. Further information regarding the Act is outlined in Appendix A.

Strategic Context – Local Level

- 3.4 The local development company has two drivers:
- To act as an investment vehicle for the Councils, providing a return on investment commensurate with other investment opportunities in the market, bearing in mind the level of risk.
 - To provide housing which meets housing need not currently met by the current market. The company will not provide social housing but will focus on the provision of housing for rent at market levels, housing for sale at market levels and low cost homeownership initiatives.
- 3.5 Both South Northamptonshire Council and Cherwell District Council need to generate income to contribute towards closing the financial gap in the Councils’ medium term financial plan revenue projections.

- 3.6 This proposal represents a different opportunity for CDC compared to the existing Cherwell Community Build (CCB) local housing company and the Graven Hill companies. The Graven Hill companies have been set up for a specific purpose to deliver a large self-build development at Graven Hill, near Bicester. The CCB has also been established for a specific purpose as a not for profit company, registered with the Financial Services Authority and an intention to register with the Homes Community Agency (HCA) as a registered provider. CCB is essentially a vehicle to hold housing units that have been made available through utilising council and HCA funding it is focused on affordable homes and community projects. As CCB is a community benefit society an asset lock applies in that the council cannot receive any future income on assets transferred to it or take assets back, therefore CCB whilst providing community benefits cannot provide a financial return to the council and does not assist with closing the medium term financial gap. Additionally the council cannot exercise control over CCB and council representation on the board is likely to be reduced or entirely removed due to new government legislation. The proposed Local Development Company would allow CDC to identify and invest in other housing or commercial development opportunities in order to return a profit to the Council.

Proposed Delivery Programme and Timescales - SNC

- 3.7 The current pipeline of projects is solely based on South Northamptonshire and proposes that the company would acquire and/or develop properties.
- *Short Term* – In order to ensure a speedy delivery of the first properties, and provide a return on investment in a timely manner, it is proposed that initially the local development company will purchase new build properties from a developer(s). An initial assessment of sites has been carried out and some opportunities identified. The local development company's focus would be on 2 and 3 bed accommodation as this reflects both demand and the size of units which are likely to be available.
 - *Medium Term* – The local development company would also develop new homes, with an initial focus on sites in council ownership. Some appropriate sites have been identified. On these sites the local development company would develop a mixture of market rent and sale as well as meeting the requirements of the Council's planning policy and/or national legislation (social housing or starter homes).
 - *Longer Term* – In the longer term, the local development company could acquire land/sites for development.

Governance

- 3.8 Although the development of the proposal has been led by South Northamptonshire Council, it is proposed that the local development company would be set up as a jointly owned company with Cherwell District Council.
- 3.9 The local development company would be a company limited by shares with both South Northamptonshire Council and Cherwell District Council owning shares. Shares in the company would be split into ownership shares and dividend shares. Dividend shares would be divided according to the Council that funds the projects and may vary over time. Further tax advice to inform the company structure has been commissioned from KPMG.

- 3.10 The local development company would have a Board of Directors. The nomination of directors to the board would reflect the proportion of shares owned by each council. The councils would have the ability to appoint Non-Executive directors.
- 3.11 The relationship with the Councils would be managed through the Joint Commissioning Committee.

Financial Modelling

- 3.12 Specialist housing finance consultants have been appointed to carry out high level financial modelling in order to help assess the feasibility of the proposal based on the SNC pipeline of projects.
- 3.13 There is currently no pipeline of CDC projects to model, however any future investment by CDC would need to be based on a business case including the required financial modelling.
- 3.14 Project Timetable
The proposed project timetable is outlined below:

Date	Meeting	Action
10/10/16	South Northamptonshire Council Cabinet Meeting	<i>Approved in principle</i>
07/11/16	Cherwell District Council Executive Meeting	In principle decision (subject to SNC decision/approval)
TBC	South Northamptonshire Council Cabinet Meeting	Approval of full business case and Referral to Full Council
TBC	Cherwell District Council Executive Meeting	Approval of full business case
TBC	South Northamptonshire Council Full Council	Approval of full business case and budget approval for 17/18.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report is requesting Executive members to agree in principle to establishing a local development company with South Northamptonshire Council, such an approval is being sought as the local development company offers a future opportunity to:
- Generate income for the Council to contribute towards closing the financial gap in the Council's medium term financial plan;
 - Provide housing which meets housing need not currently met by the current market.

5.0 Consultation

Commercial Panel

High level presentation of the Local Development Company proposal. This is a joint CDC and SNC panel. If the decision is given in principle further

consultation with CDC Members in relation to the ownership shares will be required.

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not to support the establishment of a local development company but this would reduce the opportunities available to the Council to generate income and to address gaps in the current local housing market.

7.0 Implications

Financial and Resource Implications

7.1 There are no direct financial implications from approving in principle the establishment of the Local Development Company.

7.2 There may be some implementation costs that the Council as an owner of the company would need to contribute to.

7.3 Any future investment by the Council into the company would require a separate business case and decision.

Comments checked by:

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Legal Implications

7.6 The full legal implications and associated governance issues will need to be set out as part of the full business case. Officers from Legal Services will continue to provide support to the proposal; however some external support/verification will be required.

Comments checked by:

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Risk Implications

7.7 There are no material risk implications from progressing to the development a full business case; however the full business case will need to set out the risk implications for the final proposal and how they will be mitigated.

Comments checked by: Claire Taylor, Interim Assistant Director – Commercial Development and Innovation, 0300 0030113

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8.0 Decision Information

Key Decision

Financial Threshold Met: No

Community Impact Threshold Met: No

Wards Affected

No wards will be affected in the progression to the next stage of work.

Links to Corporate Plan and Policy Framework

Cherwell: a district of opportunity;
Cherwell: sound budgets and customer focused council.

Lead Councillors

Councillor Ken Attack, Lead Member for Financial Management;
Councillor Nicholas Turner, Lead Member for Change Management, Joint Working and IT;
Councillor John Donaldson, Lead Member for Housing.

Document Information

Appendix No	Title
None	
Background Papers	
None	
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