



**Report to: Income Management Sub-Committee, 9<sup>th</sup> November 2022**

**Report of: Corporate Director – Finance and Resources**

---

**Subject: AFFORDABLE HOUSING – POTENTIAL SCHEME PROPOSAL**

**1. Recommendation**

**1.1. That the Sub-Committee notes proposals brought forward for securing housing at affordable rents and agrees to an allocation of up to £10,000 for consultancy advice to scrutinise the proposals.**

**2. Background**

2.1 The ARK report *Options for Council-Led Housing Development*, presented to Communities Committee on 22 June, demonstrated that Worcester has a need for 384 new affordable homes per year, albeit some of this need may be met across the South Worcestershire Partnership. Past data shows that the annual rate of development of new affordable homes has been running at 95 per year. Combining future need with historic unmet need gives a total unmet need of 458 homes per year.

2.2 The report set out a number of ways in which this shortfall might be addressed, including the development of some special purpose vehicles to facilitate growth on the supply side. These include:

- A dedicated land promotion function/vehicle and CPO
- Establishing a Special Purpose Vehicle for direct housing production
- Joint Ventures (JVs) with private developers/contractors
- JVs with Registered Providers (housing associations)

2.3 In April, the Council was approached with a proposal which involves acquiring properties from developments which the Council could then specify and manage as properties with affordable rents, rather than purpose-built affordable housing.

2.4 The distinction between 'Affordable Homes' and 'Affordable Rents' derives from the Government's Policy Statement on Rents for Social Housing (2019). Affordable Homes, includes homes with 'social rents', based on the Government's rent formula, with a number of flexibilities, and homes with 'affordable rents'. In 2011, the government introduced 'affordable rent' which permits rents to be set at up to 80% of market rent (inclusive of service charges). The Policy states that the 'introduction of affordable rent made it possible to build more homes for every pound of government investment, allowing more people in housing need to have access to a good quality home at a sub-market rent.'

- 2.5 The proposal only includes homes with 'affordable rents' and those at 'market rents' which are based on assessment of local rent levels in Worcester. Social rents are not considered, although the option to explore this by the Council could remain.
- 2.6 The schemes would be on the basis of a 'lease and buy' back arrangement which has become an established procurement vehicle in recent years. Lease and buy back schemes have been introduced to address the problem of the funding gap period between the revenue costs of borrowing being incurred and the income from the development starting to arise. If the Council borrows to fund, for example, a housing development, there is a need to start paying interest and principal on the loan well in advance of the income from rents being received to cover the borrowing costs. This makes such schemes unaffordable. The lease arrangement means that the developer finances the build from investment capital, rather than borrowing, and receives the lease payments in due course once the tenants are in place and the income streams have been established. At the end of the lease term the properties are transferred to the Council for a peppercorn.
- 2.7 A summary of the proposals is presented to the Committee in the exempt report provided elsewhere on the agenda. In line with the Council's Commercial Strategy, the outline proposals were discussed with Group Leaders at a meeting of 5 September and referred to the Income Management Committee for consideration.
- 2.8 This document addresses the financial proposition. Other material matters to consider are:
- Will the developments provide the right type of property?
  - are the developments in the right place for affordable housing?
  - Do we wish to re-establish a Housing Revenue Account?
  - If a mix of tenures is required, the Council will need to establish a Housing Company to manage any market rent properties: is this an acceptable approach and, if so, how will it be managed?
  - How do Right to Buy requirements affect the schemes and how should these be addressed?
  - Would the Council assume responsibility for contractual management of any housing obtained or look to contract this out to a Registered Provider?
- 2.9 Since the initial discussions, modelling of the financial elements have continued. To help assess the complex models and to provide guidance on the wider questions outlined above, it is proposed to seek external advice.

### **3. Preferred option**

- 3.1 A number of alternative scenarios have been considered as part of the development which are presented to the Committee for consideration. Independent scrutiny of the proposals is required to determine which of these options best matches the Council's criteria for approval. The recommendation is therefore to seek independent legal and financial advice from a housing specialist prior to submitting a recommendation to Policy & Resources Committee.

#### **4. Alternative options considered**

4.1 Not to seek independent advice. A number of alternative scenarios have been considered as part of the proposals which are presented to the Committee for consideration. Independent scrutiny of the proposals is required to determine which of these options best matches the Council's criteria for approval. Without such scrutiny, the Council runs the risk of incurring costs for the development of schemes for which it does not have sufficient capacity or understanding. Under statutory guidance published by the then Ministry for Communities and Local Government (MHCLG) in January 2018, Councils must demonstrate the capacity, skills and culture to undertake major investments. As these are new types of property investment for the Council, independent advice is considered essential.

#### **5. Implications**

##### **5.1 Financial Implications**

The report proposes a commitment of £10,000 as a maximum sum at this stage. This can be funded from the City Plan Housing for Vulnerable Tenants Reserve which has a balance of £402,083.

##### **5.2 Legal and Governance implications**

There are no specific implications arising at this stage. Detailed legal and governance implications will need to be considered as part of subsequent reports for consideration of the Committee and the Policy & Resources Committee.

##### **5.3 Risk implications**

None arising from this report.

##### **5.4 Corporate/Policy implications**

The Council has previously agreed targets for increasing the number of affordable homes and reducing the cost of temporary accommodation by reducing the need for placements in bed and breakfast and other high-cost accommodation.

##### **5.5 Equality implications**

There are no direct implications arising from this report.

##### **5.6 Human Resources implications**

There are no implications arising from the report.

##### **5.7 Health and Safety implications**

None arising directly from the report.

##### **5.8 Social, Environmental and Economic Implications**

The need for housing at sub-market rents has been set out in the report. Further considerations will include the mix of types and tenures of the properties needed to best match the needs of communities in Worcester.

**Ward(s):**

**All**

**Contact Officer:**

**Shane Flynn – Tel: 01905 722536**

**Email [shane.flynn@worcester.gov.uk](mailto:shane.flynn@worcester.gov.uk)**

**Background Papers:**

**None**