Agenda Item No. 11

WEST OXFORDSHIRE DISTRICT COUNCIL

FINANCE AND MANAGEMENT OVERVIEW & SCRUTINY COMMITTEE: WEDNESDAY 3 OCTOBER 2018

CABINET: WEDNESDAY 17 OCTOBER 2018

ACTION PLAN FOR THE DELIVERY OF AFFORDABLE HOUSING ASSOCIATED WITH THE OXFORDSHIRE HOUSING AND GROWTH DEAL

REPORT OF THE CHIEF FINANCE OFFICER

(Contact: Jenny Poole, Tel: (01285) 623313)

(The Cabinet decision will enable Officers to continue discussions with Cottsway and to update strategic finance documents for approval by a future meeting of the Council. The Finance and Management Overview and Scrutiny Committee is asked to make recommendations to Cabinet for consideration.)

1. PURPOSE

To consider a proposal which will support the Council's objective of accelerating the delivery of affordable housing in the District. The outcome would align with the Council's commitment to the Oxfordshire Housing and Growth Deal.

2. RECOMMENDATIONS

That the Committee and Cabinet consider:

(a) The principles of establishing a Revolving Credit Facility with Cottsway Housing;

(b) The principle of including provision for a Revolving Credit Facility of £10 million for delivery of affordable housing in the District within the next update to the Capital Programme, Capital Strategy and Treasury Management Strategies; and

(c) The principle of delegating the negotiation of the detailed terms for the transaction to the Head of Paid Service in consultation with the Chief Finance Officer, Monitoring Officer, Leader of the Council and the Cabinet Member for Resources.

3. BACKGROUND

3.1. Council approved its participation in the Oxfordshire Housing and Growth Deal at its meeting on 14 February 2018.

3.2. The Deal, announced in the November Budget, offers £150 million for infrastructure, £60 million for affordable housing and £5 million capacity funding. This funding, over a five year period, will support the ambition of building 100,000 new homes across Oxfordshire between 2011 and 2031 to address the county's severe housing shortage and expected economic growth. This level of housing growth is that identified by the Oxfordshire Strategic Housing Market Assessment 2014, and is consistent with that planned for in existing and emerging Oxfordshire Local Plans.

3.3. The £60 million affordable funding will support a flexible Oxfordshire-wide programme to deliver an additional 1,320 affordable homes of a range of tenures to start on site by 2021. The fund is in addition to the existing HCA Affordable Housing Programme which will continue. This gives Oxfordshire partners the opportunity to use the funding to deliver schemes according to local priorities and using a range of delivery vehicles.

3.4. The Council's has identified various sites which are likely to contribute towards the affordable home target. The challenge is to work with developers and providers of affordable housing to ensure that development starts on site by 2021. This report sets out an option which would enable Registered Providers to accelerate the delivery of affordable housing in the District.

Action Plan – Loan Funding Provision to Cottsway Housing

3.5. Cottsway Housing Ltd was established in 2001 and the Council's housing stock was transferred to the new Registered Provider.

3.6. Cottsway wants to be able to assist the Council to deliver new affordable homes in the District. However, there is a limit as to how much extra Cottsway Housing Ltd itself can invest due to bank covenants. Some discussion has taken place as to whether there is an opportunity to utilise the Council's ability to raise finance to support the delivery of additional affordable units.

3.7. Over the next 10 years, Cottsway is planning to invest £340 million within its main not-for-profit registered provider company to deliver c. 1,800 homes within West Oxfordshire District and Cheltenham Borough Council. That delivers approximately 24% of the overall affordable homes requirement for both Councils.

3.8. Cottsway has the ability, subject to lender consent (which is being sought) to set up an additional Registered Provider within the Group to enable it to develop further affordable homes without any lending restrictions. This would provide a local partner to help ensure delivery of affordable homes.

3.9. Officers have asked Cottsway to identify opportunities to deliver affordable housing, over and above the existing planned delivery in the District, assuming that £10 million of loan funding is made available by the Council. Cottsway have indicated that an additional 16 shared ownership and 32 affordable rent properties can be delivered utilising a loan facility of £10 million.

3.10. There is potential for the affordable housing provision for Service Personnel at the Brize Norton site to be delivered and managed through this new Registered Provider in the Cottsway Group.

3.11. The following benefits of this approach have been identified:

- Contribution towards Oxfordshire Housing and Growth Deal targets;
- Improved partnership working between the Council and the Registered Provider;
- Directly links the Council to new developments;
- Provides a financial return to the Council (interest on the loan);
- Facilitates the development of the Registered Provider through a competitive financing arrangement;
- Potential for additional New Homes Bonus and increased Council Tax base through deliver of additional housing;

Details of Cottsway Housing Ltd

3.12. Cottsway was formed as a result of the Large Scale Voluntary Transfer in 2001, which saw the Council disposal of its entire housing stock. As a registered housing provider, Cottsway build new homes for rent and sale and work closely with the Council to meet housing need.

3.13. Cottsway manage over 4,600 houses across Oxfordshire, Gloucestershire, Wiltshire, and Swindon and has a turnover of £31 million.

Due Diligence

3.14. Prior to the loan agreement being finalised independent due diligence will be obtained from Arlingclose, the Council's independent Treasury Management advisers.

Legal Powers

3.15. Under section 24 of the Local Government Act 1988, the Council has the power to grant loans for the purpose of a wide range of activities associated with the construction and acquisition of property which is to be privately let as housing accommodation. This power can be relied upon for the purpose of granting loans associated with activities within the Council's area.

3.16. The power under section 24 is further supplemented with the Council's additional powers identified in the Localism Act 2011.

4. ALTERNATIVES/OPTIONS

4.1. The Council could decide not to enter into loan arrangements with Cottsway and to leave the market to provide affordable housing.

4.2. The Council could establish its own housing company. However, there would be significant cost and time delay in establishing the company, especially for the company to become approved as a Registered Provider. The business case for this would be stronger if the Council held land assets which it could utilise for the provision of affordable housing.

4.3. The Council could directly provide affordable housing. However, since the transfer of housing to Cottsway Housing Ltd, the Council no longer the skills required to design, build and manage its own housing stock. The Council could enter into a contract with a Registered Provider or Providers to deliver these services on its behalf but there is no significant benefit over and above the proposed arrangements set out in this paper. In essence this would be a less efficient process as the Council would need to procure the services and it is likely there would be a profit/risk margin applied to the contract sum. The Council would also lose the income opportunity from the interest on the loan. The business case for this would be stronger if the Council held land assets which it could utilise for the provision of affordable housing.

5. FINANCIAL IMPLICATIONS

5.1. The proposal is that the Council enters into a loan agreement with Cottsway Housing Ltd whereby the Council would loan the Registered Provider £10 million over a 40 year period on an annuity basis.

5.2. The loan:

- Can be used for the acquisition and/or construction of new homes.
- Will be available for a period of five years from the date of signing.
- Can be drawn down in tranches over a five year period.

5.3. The rate of interest payable on the loan will be fixed at 0.4% above the published Public Works Loan Board (PWLB) annuity rate. This will generate a yearly interest income stream to the Council. On average, the additional income will be £21,000, for the 40 year life of the loan (i.e. circa £0.8 million).

5.4. The loan will be secured against the Registered Providers Housing Stock and other assets. A detailed loan agreement will be in place with covenants designed to ensure that the loan is used for the agreed purpose (i.e. the provision of affordable housing) and that Cottsway is prohibited from doing anything that will reduce the security available to the Council. Cabinet is asked to consider the principle of delegating the negotiation of the detailed terms for the transaction to the Head of Paid Service in consultation with the Chief Finance Officer, Monitoring Officer, Leader of the Council and the Cabinet Member for Resources.

5.5. At present, it is not expected that any state aid issues will arise from this transaction as exemption exists for social housing undertakings. However, Legal Officers will be confirming if there are any conditions which need to be satisfied in order for the exemption to be applicable.

5.6. Should Cabinet approve the principles of the proposal, the following corporate documents will need to be updated accordingly:

- Medium Term Financial Strategy;
- Capital Strategy – including Prudential Indicators;
- Council Plan;
- Treasury Management Strategy – including Prudential Indicators.

6. RISKS

6.1. The key risk areas rising from a loan of £10 million to Cottsway are as follows:

Security/Asset Cover

6.2. The loan will be secured by a first charge over properties (and other assets), structured to provide an adequate surplus over and above the value of the loan. Should there be a fall in the value of property the authority could face a possible capital loss in the event of the Registered Provider ceased to continue as a Registered Provider.

Loan Principal/Interest Repayments

6.3. Registered Providers are reliant mainly upon rental income in order to cover their annual operating costs, which will include their loan principal and interest liability to the Council. Although the Associations carry out detailed forward budgeting procedures, along with a long term Business Plan, there are factors which could affect their income that are particularly difficult to assess at present.

6.4. In addition to continuing economic uncertainty, and the possible affect upon tenant employment, changes are being made to the welfare benefit system, which involve (amongst other matters) the direct payment of benefits to recipients. This is recognised as a factor which could materially affect rent arrears, and in turn bad debts and available income/cash flow.

6.5. An inability of a Registered Provider to make its principal and interest loan on time would result in the Council's income/cash flow suffering a reduction or, at worst, total loss, at least for a period of time until matters such as asset value cover were settled.

6.6. All of the risks above will be considered on a case by case basis should Cabinet be minded to take forward this proposal.

7. REASONS

The provision of the loan complements both financial security (income generation) and the delivery of affordable homes.

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Date: 24 September 2018

Background Papers:
None