WEST OXFORDSHIRE DISTRICT COUNCIL	WEST OXFORDSHIRE DISTRICT COUNCIL
Name and date of Committee	EXECUTIVE 8 FEBRUARY 2023
Subject	LOCAL AUTHORITY HOUSING FUND
Wards affected	All Wards
Accountable member	Cllr Geoff Saul – Executive Member for Housing
Accountable officer	Jon Dearing – Assistant Director Residents Services (Publica)
Summary/Purpose	To consider whether to support an application to the Local Authority Housing Fund and sign the associated Memorandum of Understanding
Annexes	None
Recommendation(s)	That the Executive resolves to: *a) Approve that an application to the Housing Support Fund be made;* *b) Authorise the Chief Executive to sign the Memorandum of Understanding (attached at Annex B);* *c) Agree that further due diligence be conducted to determine the most appropriate delivery mechanism for the Council and a further report be brought back to the Executive to consider this;* *d) Recommend to Council to allocate Capital Funding of £2m to match fund the capital grant payable by Department for Levelling Up, Communities and Local Government in the event of a direct acquisition approach;* *e) Recommend to Council to allocate Section 106 funding to support the business case up to a maximum of £40,000 per unit to gap fund the scheme to deliver affordable rents in the event of a direct acquisition approach.*
Corporate priorities	*Enabling a good quality of life for all*
Key Decision	YES
Exempt	NO
Consultees/ Consultation	

1. BACKGROUND

1.1. On 21st December 2022 the Department for Levelling Up, Housing and Communities announced a £500m capital fund to support local authorities who are facing challenges in providing move on and settled accommodation for Afghan and Ukraine families. (Prospectus attached at Annex A).

1.2. West Oxfordshire was identified as being eligible for this capital support which provides in the order of 40% capital grant towards acquisition or redevelopment of properties suitable for this cohort and their subsequent re-purposing for general affordable use.

1.3. The scheme required the Council to submit a non-binding expression of interest by 25 January 2023 (extended to 3 Feb). Upon signature of the Memorandum of Understanding (Annex B) initial grant awards will be processed with funding split between 22/23 (30%) and 23/24 (70%) although spending does not need to follow this profile.

1.4. The objective of this scheme is to relieve pressures on short term accommodation and bridging hotels with a longer term of objective to see the housing being used for more general affordable purposes.

1.5. The framework is intended to be flexible allowing local authorities to determine the best route to acquisition of stock and includes refurbishment or conversion; acquisition of new build from developers or passporting funding to housing associations.

2. MAIN POINTS

2.1. Options open to deliver this on behalf of the Council are:-

- Provide Directly;
- Provide by wholly owned LA Housing Company;
- Provide via existing Teckal Company (Publica);
- Provide via Housing Association Partners;
- Choose to turn down the offer.

2.2. There are some varying considerations between immediate short term provision and the longer term time horizon. In the longer term 'providing directly' brings with it the risk re-opening the Housing Revenue Account (HRA) and associated complications should stock be retained by the Council and used for general needs affordable housing.

2.3. In the short term issues such as HRA do not apply as refugee housing tenancies or its subsequent use as short term temporary/emergency accommodation are excluded.

2.4. Whilst we await written advice from Trowers, initial advice suggests any of the other options could negate HRA risk and an options appraisal is attached covering these at Annex C. An initial approach of holding within the Council before subsequently transferring to another vehicle is a practical solution to the time pressures imposed from this scheme announcement.

2.5. Use of a local housing association also has merit as they clearly have pre-existing support and management arrangements which could assist the ongoing utilisation of the properties irrespective of which option is chosen. Holding internally will have additional costs relating to a housing company and will require resourcing to cover management and maintenance and this element should not be understated as the government are providing no revenue support for this scheme.

2.6. An option appraisal table is attached at Annex C to aid discussion which suggests that marginally the best option is to provide via an RSL partner. Other options are slightly less favourable particularly around cost, delivery and added value. These are considered in more detail in section 3.

3. OPTIONS APPRAISAL

3.1. The option appraisal at Annex C sets out a ranking around key criteria which are all equally weighted – the appraisal is somewhat subjective in nature but is intended to aid discussion rather than deliver a definitive way forward. Cost remains a significant driver and is considered separately in sections 4 and 5.

Option 1: Provide Directly

3.2. This option provides the least protection against HRA issues. It is higher cost than the RSL approach as there is no structure to support the management, maintenance and tenancy support. There are also potential tax disadvantages holding within a Council structure.

3.3. This option offers the most control to the Council and ultimately the asset value sits on the Council accounts. Delivery and added value are less strong due to the lack of resource in this area and pressures on delivering other Council priorities but this route in the short term linked to option 2 in the long term provides a route to the Council holding a stake in housing stock.

Option 2: Provide using a LA Housing Company

3.4. This option is not highly rated in the short term due to the cost and speed of set up and it has many of the resource constraints associated with option 1 but provides a solution to the HRA risk associated with that option. In effect this could be a tool to enhance option1 model in the long term.

3.5. The added value of this approach is that it provides a vehicle which can be used in the future to deliver further affordable units and allows the Council to take a direct stake in housing stock.

3.6. Taking option 1 in the short term with option 2 in the long term does provide a highly rated option in the initial appraisal template.

Option 3: Provide using existing Teckal

3.7. Whilst on the face of it this provides advantages over option 2 in that the company is set up, Publica still lacks the maintenance and management structure to support tenants and offers a lower level of control than a singularly owned company or direct ownership.

3.8. This is the least favoured option on the appraisal template.

Option 4: Provide in partnership with Registered Provider

3.9. This option scores the highest in terms of the appraisal due in large part to having all the management and maintenance structures in place. It also scores lowest in terms of cost because of their ability and procurement expertise to acquire at better value and utilise their business model to average the cost of debt. It also scores lowest in cost terms because the Council will not need to match fund the DLUHC funding thereby mitigating capital return risk.

3.10. It scores lowest on asset value as the asset will be held by the registered provider but provides added value as more properties can be delivered for the grant offered.

3.11. Overall this option is the lowest risk option.

4. BUSINESS CASE

4.1. A business case model has been developed which considers the income and costs of the scheme which should fit all delivery models except the housing association model which is shown separately.

4.2. The business case is driven principally by the relationship between cost of acquisition of market housing whilst letting at affordable rents. Clearly without capital subsidy the business case will not work particularly at current capital financing rates but the subsidy provided by government and s 106 funding creates a sustainable business case.

4.3. It is also reliant upon assumptions made on acquisition and fit out costs together with ongoing maintenance liabilities and occupation assumptions. These require some further refinement and testing with potential providers such as RP's. Consideration of capacity to deliver these services in–house should also be given although this will likely depend on scale. It is clear that without the support of a registered provider delivery of management and maintenance will be significantly higher than set out in the model.

4.4. The model for housing association partnership is still being explored but is much simpler and passports the government funding to them. They will provide the top up capital financing themselves and will carry out all the management and maintenance with no revenue costs to the Council. Clearly they will also take the income stream to support their debt financing and will retain the asset with their stock.

4.5. In summary terms the following table set out the business case as currently estimated at year 1; Year 10, Year 20 and Year 30 in terms of its impact on the revenue account having taken account of all costs and income including capital financing charges (the largest cost with financing assumed by borrowing).

Negative is a cost to revenue account Positive is a saving	Year 1	Year 10	Year 20	Year 30	Breakeven Point for revenue account	
Net return no s.106	-£40k	-£22k	+£1k	+£30k	Year 20	
Net return s. 106 top up	-£13k	+£5k	+£28k	+£57k	Year 8	
RSL	Nil	Nil	Nil	Nil	Nil	

4.6. Over the lifetime of the asset (assumed 50 years) the overall return is calculated as being £1.1m – this has a net present value of £0.07m so in revenue respects could be regarded as neutral. However the Council will still have the assets in ownership at a current value of £4m so in the long term this represents a sound investment if the Council can manage the short term shortfall and risks associated with stockholding. Put another way it provides a positive return to the revenue account in the long term after debt costs are accounted for and leaves the Council with a debt free asset at the end of the 50 year period.

4.7. This drag on the revenue account could be mitigated by seeking to apply s 106 funding for off-site affordable housing to enhance the business case further – this would reduce the capital requirement and therefore debt financing charges. A section 106 contribution of £40k per unit would bring the break even point to 8 years and enhance the overall return.

4.8. The use of an RSL is both revenue and risk neutral.

5. FINANCIAL IMPLICATIONS

5.1. To deliver this capital investment the Council will need to borrow funds to finance the scheme and this will mean setting aside funds for debt repayment and interest charges (capital financing costs or minimum revenue provision (MRP).

5.2. The assumptions within the model are set out below:-

- Debt Financing Costs — 4.6% of capital expenditure
- Voids and Bad Debts — 6% of rent
- Maintenance — 12% of rent
- Management — 10% of rent
- Asset Replacement Fund — 11% of rent
- Inflation and rent increases — 2% per annum

5.3. Year 1 modelled income and expenditure figures are set out below without s.106 contribution.

West Refugee Housing Programme				
	Year		1	
Capital Expenditure - mkt			4,080,000	
Fit Out Costs and Expenses			260,000	
Total Capex			4,340,000	
Capital Grant			1,812,799	
s 106				
Net Capex			2,527,201	
Gross Income (Witney affordable rates)		3.9%	159,681	
Expenses				
Debt Financing		4.6%	129,586	
Rent loss		6%	9,581	
Maintenance		12%	19,500	
Miscellaneous				
Management		10%	16,250	
VAT			7,150	
Replacement Fund		11%	17,287	
			199,354	
Net Income			- 39,673	
Net Income Yield			-1.6%	

5.4. Year 1 modelled income with a s.106 contribution of £40,000 per unit (total £520k) is shown below:-

West Refugee Housing Programme			
	Year		1
Capital Expenditure - mkt			4,080,000
Fit Out Costs and Expenses			260,000
Total Capex			4,340,000
Capital Grant			1,812,799
s 106			520,000
Net Capex			2,007,201
Gross Income (Witney affordable rates)		3.9%	159,681
Expenses			
Debt Financing		4.6%	102,922
Rent loss		6%	9,581
Maintenance		12%	19,500
Miscellaneous			
Management		10%	16,250
VAT			7,150
Replacement Fund		11%	17,287
			172,690
Net Income			- 13,009
Net Income Yield			-0.6%

5.5. The financial implications of the passporting of the grant to and RSL are revenue neutral and the stock will be available for refugee and the subsequently emergency accommodation or general affordable housing use. There will be no call on the capital programme or no call on s.106 funding.

6. LEGAL IMPLICATIONS

6.1. We are awaiting written advice from Trowers on the company arrangements but initial advice suggests that initial holding by the Council is acceptable as long as tenures are either refugee or temporary accommodation arrangements.

6.2. Passporting the funding to an RSL to provide this service is acceptable under the guidance supporting the scheme. The properties will then be available for general needs use in line with other stock.

6.3. Further legal advice will be required if the Council is minded to establish a company structure to hold the properties.

7. RISK ASSESSMENT

7.1. The risk around HRA and associated issues is considered in the body of the report.

7.2. The key risks with regard to housing stock holding relate the financial risks should the assumptions around costs and voids be worse than modelled.

7.3. Whilst assumptions have been made around voids, maintenance and management costs it is clear that without an existing stock holding management regime within the organisation the Council will be exposed to risk of those assumptions being invalid.

7.4. Whilst a small holding of stock would fall outside the requirements for a housing revenue account the Council should not underestimate the requirements should it re-enter tenant management and will need to ensure that it has satisfactory arrangements with partners.

8. CLIMATE CHANGE IMPLICATIONS

8.1. There will be increased requirements to enhance properties to meet the tightening regime in respect of energy efficiency for tenancies. This is in line with the Council priority in respect of climate change but will come with additional, as yet, unknown costs.

9. ALTERNATIVE OPTIONS

The Council could choose any of the options set out in paragraph 2.1.

(END)