

Part I

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All Wards

WELWYN HATFIELD BOROUGH COUNCIL

CABINET – 8 OCTOBER 2019

REPORT OF THE CORPORATE DIRECTOR (HOUSING AND COMMUNITIES) AND
CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL
SERVICES)

NOW HOUSING LIMITED BUSINESS PLAN 2019-2025

1 Executive Summary

- 1.1 This report recommends that Cabinet approves the business plan for Now Housing Limited, to cover the period 2019-2025. Now Housing Limited is the council-owned housing company set up following Cabinet approval in January 2019 with the aim of helping to meet local housing need. The draft business plan is appended to this report (Appendix A).
- 1.2 The business plan has been developed following legal advice from Trowers and Hamlin, and financial advice from Savills. The plan sets out how Now Housing Ltd will help the council achieve its targets for delivering affordable housing for local people. The council's objectives are contained within its Housing, Homelessness and Rough Sleeping Strategy 2019-2024 and Housing Delivery Strategy 2019-2025.
- 1.3 The overall business plan target for additional homes is 372 over the life of the plan. To achieve this £77m of finance will be required from the council, based on the current assumptions as set out in the business plan.
- 1.4 In accordance with the objectives of Now Housing Ltd this business plan provides for a financial return to the council's General Fund. The business plan provides for an annual return which will increase each year over the life of the business plan. Based upon the current plan, a £377k return may be generated by the end of year five, although this is likely to fluctuate as the plan is refined, service level agreements are defined and interest rates are confirmed.
- 1.5 Considerable work has been carried out to assess the risks associated with the operation of Now Housing Ltd and again this has involved input from both our legal and financial advisers. The risk map is attached at Appendix B.
- 1.6 Reports on Now Housing's progress against the business plan will be shared with Cabinet through Cabinet Housing Panel and the business plan itself will be subject to annual review and fresh action planning, with a full re-write every five years.

2 Recommendation(s)

- 2.1 That Cabinet Members approve the Now Housing Limited Business Plan 2019-25.

3 Explanation

3.1 Demand for affordable housing in Welwyn Hatfield is far outstripping supply. There are currently more than 2500 households on the housing register who are waiting for social/affordable housing and more than 120 households currently living in temporary accommodation.

The council's current business plan 2018-21 identifies housing as one of its five priorities and this includes providing more affordable homes.

3.1 During 2018 the council commissioned a housing demand and affordability study so that it could understand more about what additional provision was required to meet local housing need, over and above the council's Housing Revenue Account (HRA) funded affordable housing programme.

3.2 In January 2019 the council's Cabinet approved the creation of a wholly council-owned local housing company (Now Housing Ltd), with the agreement that trading could commence after its business plan had been approved by Cabinet.

3.3 The objectives of Now Housing Ltd were agreed by Cabinet at this time. They are:

- Provide good quality, well managed homes for residents in the borough of Welwyn Hatfield which people can afford to live in and which complement the council's existing and planned housing provision.
- Support the growing local demand for a mix of housing tenures by providing intermediate, low cost home ownership or open market homes and letting sub-market and market rented homes;
- Be a financially robust company, generating a profit to be used for the purpose of providing more affordable housing and delivering financial returns to the shareholder;
- Stimulate local housing regeneration and partnership working

3.4 The targets within the business plan are in line with these objectives and also reflect the targets set out within the council's new Housing Delivery Strategy.

3.5 Importantly the business plan sets out financial provisions which are not only viable for the company but will generate additional income for the council. More information on these provisions are included in the 'Financial Implications' section of this report.

3.6 The business plan finances have initially been set based upon the provision of affordable housing only. This demonstrates the company would be viable without the need to charge market rents, and on this basis, as these activities are not market activities, the financing and loan activities are outside of the scope of state aid. Market activities would not be able to be undertaken by the company without further legal and financial advice, which may be required in future schemes to cross-subsidise the affordable units.

Business plan timescale and arrangements for monitoring and review

- 3.7 Once approved the business plan will cover the period from October 2019 until March 2025. Subsequent business plans will run for five years, commencing April 2025.
- 3.8 Progress against the business plan targets will be reported on a quarterly basis to the Shareholder Representative Group and Cabinet through Cabinet Housing Panel. It will be subject to review every year, at which time an updated 12 month action plan will be published. The action plan may also be updated within the year as and when required. The revised action plans will be agreed with the Shareholder Representative Group and reported to the Cabinet through the Cabinet Housing Panel.

Implications

4 Legal Implication(s)

- 4.1 A suitably qualified and experienced firm of external legal advisors have advised and supported officers through the process of establishing Now Housing Limited and in drafting legal agreements arising, to ensure that the council's legal position is protected at all times.
- 4.2 The Company was set up in reliance on the Council's general power of competence (Localism Act 2011) and was incorporated and registered at Companies House on 12th September 2019 under company number 12204450. The Company's current Articles are the 'Model Articles for Private Companies Limited by Shares' but work is presently being undertaken to produce a bespoke set of Articles to replace the current Articles. Work is, also, ongoing with respect to the Shareholder Agreement. Cabinet have previously delegated authority to the Corporate Director (Housing and Community) and the Corporate Director (Resources, Policy and Culture) in consultation with the Monitoring Officer, the Executive Member, Housing and Communities and the Executive Member for Resources, to finalise these legal documents.
- 4.3 Now Housing Limited is a 'Teckal company' which allows the Council to deal with the Company without having to carry out procurement processes in accordance with The Public Contracts Regulations 2015. To retain its 'Teckal' status the Company must perform more than 80% of its activities for the Council and there must be no direct private capital participation in the Company.
- 4.4 Whilst the UK remains a member of the European Union, the Company's Procurement Policy must comply with The Public Contracts Regulations 2015 and with the provisions of The Treaty on the Functioning of the European Union, including, transparency, non-discrimination and proportionality.
- 4.5 As agreed by Cabinet in January 2019 the council's Shareholder representative group will approve the documentation prior to the transfer of any monies between the council and Now Housing Limited.

5 Financial Implication(s)

- 5.1 The initial financial plan for the company demonstrates that the company is viable, will generate a return for the council, and will be able to repay debt within a 50 year period.

- 5.2 It is important to note that the business plan is based on a number of assumptions including, but not limited to:
- The number, size and type of housing provided by Now Housing Limited
 - Development costs
 - Assumed rent levels, based on the local housing allowance but with the opportunity to enhance the business plan where the Flexrent product enables increased rent levels for some households, based on their personal circumstances
 - Set up costs
 - Management and maintenance costs
 - Service Level Agreement costs, for services provided by the council to Now Housing Limited
 - The rate of interest at which the loans will be paid back to the council.
 - The estimated financing requirement of the business over the first five years is £77M.
- 5.3 These assumptions will be refined in the coming months, as service level agreements are drafted, loan agreements created, rent products agreed and schemes/sites are identified.
- 5.4 The business plan makes no assumptions on grant income. The Company may be able to apply for grant funding towards specific schemes, which would have a favourable impact on the business plan.
- 5.5 Treasury management arrangements for the company will be set out in the Shareholder Agreement and Loan Agreements. Financing of the company will require the receipt and agreement of specific scheme details, and will be drawn down as expenditure is incurred on these agreed schemes, using a flexible loan agreement. A future report will be presented at a later date setting out the processes and requesting approval for financing of the Company.
- 5.6 Now Housing Limited will be 100% loan financed through on-lending by the council and lending will be based on rates that reflect the non-commercial nature of the business which is letting homes at affordable levels. Should the company need to undertake market activities to cross-subsidise affordable units, further legal advice will need to be sought as funding and financing rates will need to be different to those assumed in the business plan, in order for it to remain state aid compliant. The current business plan assumes no market activities.
- 5.7 The Shareholder Agreement between the council and Now Housing will include the requirement for Now Housing Ltd to inform the council where any activity in which it plans to engage in will result in deviation from the current provisions set out in the business plan.

5.8 As with any private company, the business plan could be affected by unforeseen changes in the market, which may affect the longer term viability of schemes. The finances of the company and market conditions will be regularly and closely monitored. The risk is slightly reduced through the council's ability to borrow at preferential rates.

5.9 Additional taxation advice is being sought on specific areas, such as group reliefs on Stamp Duty Land Tax, VAT and Corporation Tax.

6 Security and Terrorism Implication(s)

6.1 There are no implications arising from this report.

7 Procurement Implication(s)

7.1 There are no procurement implications for the council arising directly from this report. The company will have a Procurement Policy in place, which governs how goods and services are procured.

8 Risk management

8.1 A risk map has been produced for Now Housing Limited. This is appended to this report.

8.2 The creation of Now Housing and new loan arrangements have been incorporated into the council's risk framework.

9 Climate Change Implication(s)

10 There are no direct implications arising from this report. However the objective of Now Housing are to provide good quality, affordable homes, which will include consideration of any energy efficiency measures that may be possible and consideration of appropriate methods of construction.

11 Human Resources Implication(s)

9.1 The provision of services to Now Housing Ltd by council teams will be dependent upon appropriate resources being in place to deliver these services.

9.2 The Now Housing Ltd business plan includes the cost of resources to deliver its objectives. This includes the cost of funding service level agreements with the council for managing the development and delivery of homes, management of homes, and associated back office functions.

12 Health and Wellbeing Implication(s)

12.1 There is a clear link between health and housing. The provision of quality, secure housing will have a positive impact on peoples' health.

13 Communication and Engagement Implication(s)

13.1 A communications plan will be developed to publicise the establishment of the company and the benefits it will bring to households in the borough.

14 Link to Corporate Priorities

14.1 The subject of this report is linked to the council's Corporate Priority 'Our Housing' and relates to all the objectives within this, including, being a quality landlord, meeting housing need, providing affordable homes and driving up housing quality in the borough

15 Equality and Diversity

13.1 Where new policies are developed for the local housing company, EqlAs will be completed in accordance with its Equality Policy. Now Housing's Equality Policy will reflect that of the council.

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Appendices: A: Draft Now Housing Limited Business Plan

B: Now Housing Limited Risk Map