WARWICK DISTRICT COUNCIL	Executive – 11 March 2015	Agenda Item No. **6**

Title	Establishing a Council Development Company for Warwick District
For further information about this report please contact	Andy Thompson (Head of Housing and Property Services)
Wards of the District directly affected	All Wards
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	September 2014
Background Papers	None

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes
Equality Impact Assessment Undertaken	No
The proposal outlined this report is to establish a Council-owned Development Company. That work will include an Equality Impact Assessment as part of determining the nature and shape of the enterprise.	

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	25.02.15	Bill Hunt
Head of Service	24.02.15	Andy Thompson
CMT	25.02.15	Bill Hunt
Section 151 Officer	25.02.15	Mike Snow
Monitoring Officer	25.02.15	Andrew Jones
Finance	25.02.15	Mike Snow
Portfolio Holder(s)	24.02.15	Councillor Norman Vincett
Consultation & Community Engagement		
The principle of forming a wholly owned company to support investment in housing has been considered and agreed by the Executive and developed further by a Council House Building Board. No further consultation beyond Council officers and Members has been undertaken at this stage as the core proposal supports wider Council strategies that have already been subject to consultation.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1. **Summary**

1.1 This report sets out the option for the Council to develop by means of establishing a Council-owned Company an additional investment vehicle to deliver affordable housing and economic development.

1.2 A report received from Price Waterhouse Coopers (PWC) in January 2013 advised that by establishing a Council-owned Housing Company the Council may be able to increase the rate and quantity of affordable housing it could develop. Since then, the Council has been able to apply the principles set out by PWC to the local circumstances within which the Council operates including the Council's position of having little municipally owned land upon which to develop yet a financially strong Housing Revenue Account (HRA).

1.2 The report :

- Considers the opportunities and risks that apply to the local circumstances of Warwick District and the Council itself of taking this course of action;
- Requests approval from the Council to prepare for the establishment of a wholly owned Council Development a Company with a remit to support on a case-by-case basis investment in social and economic development in Warwick District.

2. Recommendation

2.1 The Executive is recommended to approve in principle the proposal set out in this report, for the establishment of a wholly owned Council Development Company with a remit to support on a case-by-case basis investment in housing and economic development in Warwick District.

2.2 The Executive is recommended to agree that further work should be undertaken by Officers to develop a Formal Proposal to be presented to Executive in November for approval before the Company is set up.

2.3 The Executive is asked to note that the Housing Advisory Group (HAG), subject to a separate report elsewhere on this agenda, will provide oversight over the development of the Formal Proposal.

3. Reasons for the Recommendation

3.1 In September 2014, Executive approved a recommendation to develop further a proposition for the Council to establish a wholly Council-owned Housing Company (CHC) to increase the rate at which the Council can deliver an affordable housing development programme. Such an entity would either be funded from within the General Fund (GF) or within the HRA.

3.2 A Council House Building Board (CHBB) has been established to undertake this work, made up of senior officers from across the Council supported by regular liaison with the Portfolio Holder. This recommendation was influenced by a report prepared by PWC that set out the conceptual case for such an enterprise.

3.3 The CHBB has now applied the conceptual case set out by PWC to the particular circumstances of Warwick District, with particular reference to:

- The clear remit that any such company should focus on affordable homes
- The CHC should be wholly owned by the Council
- The local market conditions that apply to the cost of developing affordable homes in the district

- The ability of the Council to support financially the development of affordable homes
- The growing involvement of the Council in wider economic development and place shaping activity
- The legal situation around the ability of the Council to establish a company to deliver affordable housing and other complementary investment alongside the traditional route for councils to do this – through the HRA.

3.4. The need for secure, affordable housing in Warwick District remains acute. The cost to income ratio of housing for sale in the district is 9:1 while the income needed to secure a mortgage to buy a home, with a 20% deposit, is in excess of £60,000 per annum. The median income in the district is £29,297. The private rented sector has grown but the cost of rents remains high and is predicted to rise further. There is a growing body of evidence that the growth of private rented accommodation may not necessarily be of benefit to the wider economy or to the quality of life and economic prospects for many tenants. Public support for social housing remains strong.

3.5 PWC's report provided some initial estimates that suggested that over the course of the HRA Business Plan the Council could build 1,530 affordable homes by Year Thirty. These figures have now been revised by the CHBB to take account of up to date knowledge of land and construction costs as they apply to Warwick District and the impact of the Council's preference to levy social rents for municipally provided homes which affects the income available to cover the costs of development and service any debt necessary to provide the homes.

3.6 The CHBB has undertaken extensive work to clarify the cost of developing affordable homes in Warwick District and to better understand the extent of the subsidy that will be necessary to make affordable homes affordable to households unable to pay the full cost of market homes. This research shows that the cost of developing homes in Warwick District is extremely high and militates against the provision of affordable housing without extensive financial subsidy to reduce the cost of provision. Appendix A summarises this work.

3.7 The current capacity of the HRA to provide new homes is detailed below.

Warwick District Council Home Building Potential as at March 11th, 2015			
Period	New Build Homes	Right to Buy Sales	Net New Homes
2015-2016 to 2041-42 (Year 30 – HRA Business Plan)	1,253	715	538
2015-2016 to 2061-2062 (year 50 – HRA Business Plan)	2,288	1,216	1072

3.8 It has not been possible to consider the impact of a full review of the HRA Business Plan which will be completed at the end of this year, when an up to date Stock Condition Survey and a full review of how the Council repairs and maintains its homes have been completed. The outcome of this work may further affect the proportion of the HRA Business Plan, the latest review of which is the subject of a report elsewhere on this agenda that can be set aside for new homes.

3.9 The critical factor in providing more homes that are affordable and that can be let for rents in line with the Warwick Affordable Rent Policy for non-municipal housing, the social rent for council-homes or sold at a value or with a pricing mechanism that correlates with typical local incomes is the cost of development. To reduce the total cost of provision – construction and land or the purchase of existing properties (Buy to Flip) – requires some form of subsidy to allow the cost to the end user to be affordable. This principle of subsidy applies equally to housing developed via the HRA, a CHC or any other provider such as a housing association. Appendix B summarises the options open to the Council to subsidise affordable housing.

3.10 Establishing a CHC, as suggested by the PWC report, would not in itself substantially increase the rate or the quantity at which affordable homes could be added to the district's housing stock. This is because the Council has limited resources available to it outside of the HRA with which to subsidise the cost of providing homes by a CHC. It is therefore difficult to see a clear rationale for Warwick District Council establishing a CHC purely as a means of increasing the supply of affordable housing.

3..11 A high proportion of the companies that have been established by other Councils to date have all established remits that allow them to be seen as undertaking activity that is additional to or supplementary to that which the Council can provide using its specific housing powers. In the majority of cases they have also had the benefit of land provided by the Council to help support their business plans, an option not open to Warwick District Council. Appendix C summarises this research.

3.12 Establishing a CHC with a remit restricted to affordable housing may not be capable of delivering, in legal or financial terms, anything which is not already available to the Council under its existing housing powers. The key legal restriction is that there must be no cross subsidisation between Council's GF and its HRA, and using a company does not overcome this restriction. Moreover such a narrow remit would restrict the ability of a CHC to have the flexibility or scope to be able to act as positive and multi-faceted investor and provider in the other elements of place making and a range of tenures that are essential to make housing into homes and make sure that economic development and housing progress together. Examples in Warwick where the Council would benefit from having this capability are already beginning to take form.

3.13 As the Council moves ahead with the reviewing and refreshing the Sustainable Communities Strategy, developing a new Housing Strategy for 2017 onwards and looks to generate income to support essential services, expanding the remit of a CHC to embrace economic development offers some clear benefits.

3.14 A Council Development Company (CDC) would:

- Be a vehicle which demonstrates the Council's commitment to using all its powers and assets to deliver economic and housing development (for example by bringing together investment in community facilities and infrastructure)
- Give the Council a readily available investment vehicle to be able to promptly and flexibly respond to future investment opportunities, both residential and non-residential
- Provide an additional developer in the district able to complement private sector investment (for example where the ability of the Council to take a longer term view of investment or to benefit from a different range of lending criteria inherent in being a public sector body allows for schemes to come forward that traditional financiers would not be able or willing to support; counter balance cyclical economic changes that may delay otherwise viable investments)

- Allow for housing to be more widely shaped to meet the needs of the wider community than may be the case with pure free market led developments
- Help clarify within the overall GF the financial risks arising from investment in housing and economic development
- Demonstrate absolute clarity that housing developed with funds outside of the HRA (if that was the chosen route) is not part of the HRA and thus will not impact on the HRA borrowing cap.
- Allow for surpluses from the development and sale of housing and revenue from rental income to be ring-fenced for reinvestment in new homes that are affordable or which meet unmet housing market needs or to be used as a source of income to the GF.
- Provide an opportunity for the Council to enter into joint ventures, using the CDC as its vehicle for such activity.
- Act as a limited liability structure to protect financial liabilities on a specific project impacting on the rest of the Council's funding commitments.

3.15 The CDC would not replace or subsume the LLP. It would instead be another option open to the Council to use in securing, influencing and steering investment in the district. The role a CDC would have supporting economic development is similar to that of a Housing Market Renewal Pathfinder or an Urban Regeneration Company. It would be an entirely public sector entity, allowing for it to have the same accountability and public service ethos that is part of the Council as a whole but would be better able to operate with a clear sense of purpose and focus on whatever task s or projects are assigned to it.

3.16 A CDC would however have the financial ability to invest via the GF in linked housing and economic development projects (for example mixed housing and employment/retail schemes) or as a vehicle to build and operate community facilities such as a shared service 'community hub' and to allow those enterprises to be accounted for as distinct entities and so help better manage risk to the GF and creating the clarity and transparency that may help should funding be sought from partners or other investors.

3.17 The CDC would not replace development within the HRA, which is currently focused on housing for social rent. Neither would it replace the existing W2 joint venture with Waterloo Housing Association. Where the CDC would differ is that it would complement these vehicles by developing a mix of tenures at costs affordable to local people. By having the housing under the control of the Council, a number of strategic housing outcomes can be better addressed:

- Home ownership: Homes for sale would be developed, using a variety of products, to focus on those client groups currently under-served, for example first time buyers, newly single households, households with low and middle incomes, young people and down-sizers. This would extend the option of home ownership, which remains the most popular tenure, to a wider section of the community.
- Stability and sustainability for households and communities: Rental housing would be let on Assured Periodic Tenancies to provide security of tenure to address the growing social and economic problems caused by insecure tenancies and will encourage by example housing association and private sector landlords to offer longer term tenancies.

3.18 The ability to secure a proportion of any homes developed by the CDC as affordable will depend upon the terms on which the land is secured, for example through planning obligations, or the ability of the CDC to using either its own resources or those of its parent – the Council – to subsidise the cost of provision. It is therefore not possible to set out how many affordable homes the CDC will deliver.

3.19 Establishing a wholly owned CDC will require additional work to cover the following areas of work:
- Strategic
  - Establish clear terms of reference and articles of association for the CDC that fulfils the principles of a remit to support on a case-by-case basis investment in housing and economic development in Warwick District.
- Legal
  - Confirmation of the powers to undertake the proposal
  - The Council's constitutional position
  - The most appropriate model for the CDC (options include Company Limited by Shares, Company Limited by Guarantee, limited liability partnership, Community Interest Company)
  - Drafting and agreement of the various legal agreements which will be required for the establishment and operation of the CDC
  - Obtaining all necessary approvals
  - European Union procurement regulations and State Aid
- Financial
  - The capacity of the GF or the HRA to support borrowing for or by the company and the choice of which of these two funding routes is used.
  - The scope for bringing in third party funding, whether commercial investor or grant funding
- Operational
  - Determination and preparation of governance, management and operational arrangements
  - Provision of development services
  - Housing tenures which could be offered by the CDC

3.20 Funding remains available to undertake this work, £50,000 having been previously approved by Executive in September 2014 to support the technical development of a CHC. This work will be commissioned by the CHBB from legal and financial experts. The HAG will provide additional oversight and advisory input to the project, with the Portfolio Holder for Housing and Property Services reporting as necessary on progress to the Executive.

3.21 All these matters will be summarised in a Formal Proposal which it is proposed will be brought to Executive for approval in November 2015.

3.22 A Project Plan is attached to this report as Appendix D.

4. Policy Framework

4.1 A CDC may impact upon the Council's approach to the way it operates in respect of the discharge of its housing duties and responsibilities. This is because the CDC may allow for a wider range of options to be considered when the Council considers housing and economic development and will in itself represent an additional and new entity within the overall ownership and control of the Council. The precise scope and impact of the CDC will be determined in the Formal Proposal to be presented to the Executive in November 2015 when any constitutional matters will also be addressed.

4.2 The recommendation to develop a Formal Proposal for a CDC will help the Council's Fit for the Future programme by helping it to better consider how best it can maximise its ability to influence and shape the development of the district within the limited resources available.

4.3 There may also be opportunities in the future for the Council to use a CDC to make investments in housing that generate income that can be used to fund GF services. Such opportunities would need to be considered within the wider context of the impact on the wider economic and social sustainability of the district. For example, market rented housing may provide an income to the Council to offset any changes in support available from the Government. However such developments could result in fewer opportunities for affordable and owner occupied homes and may reduce the amount of money available to circulate in the wider economy.

4.4 The Sustainable Community Strategy will benefit in the following ways:

- Health and Well Being - enhancing the living environment by developing an additional option to invest in housing and economic development.
- Prosperity - contributing positively to the local economy by creating a vehicle through which the Council can, if it wishes, make investments either on its own or in partnership with others, in projects and proposals that can contribute to raising economic activity in Warwick District.
- Housing – improving the ability of the Council to provide a wider range of housing opportunities for people who cannot manage to secure a home on the open market.

5. Budgetary Framework

5.1 The CDC would be a vehicle that could be used as and when required by the Council, its owner, to deliver specific projects on a case-by-case basis. Each case would be analysed by the CDC and only progressed if it were viable and presented no insurmountable or manageable risks to the company and the Council. This means the CDC would be able to be flexible in its operation and be better able to manage risks by not being bound by a pre-ordained business plan. It also means that there is no need at this stage to capitalise or make any financial commitments to the CDC.

5.2 The proposal to move forward on establishing a CDC does not currently have an impact on the Council's Budgetary Framework. As the CDC will invest on a case-by-case basis, each proposal will at the time of consideration be assessed in the context of the Council's ability to fund or support the proposal. In short, the CDC will operate firmly within whatever Budgetary Framework prevails at the time it is considering investment opportunities.

5.3 However, there are a number of matters that will need to be considered in preparing the Formal Proposal for a CDC:

- Preparing and validating for use by the CDC the Council's Viability Assessment Model Programme to help the company make informed investment decisions.
- Accounting and tax considerations (for example the financial relationship and the need to secure tax efficiencies between the Council and the CDC)
- The cost of establishing and then operating the CDC

5.4 The budget already set aside for the development and management viability work of a CHC would be used to cover any additional costs required to successfully progress the project through its initial phases of development, including engaging a suitably qualified consultancy to undertake the legal, financial and administrative work necessary to establish the CDC.

6. Risks

6.1 A Risk Register will be established for the Formal Proposal, together with a mitigation strategy. The register will be developed as research is completed into the management, operation and development activities proposed for the CDC. The register will be monitored by the CHBB and the HAG.

6.2 By having a wholly owned vehicle, rather than a joint venture, the Council has the power to at any time, without reference to a partner, to sell the CDC's assets and wind the company up. This means that the Council is better able to control and manage its overall exposure to risk.

7. Alternative Option(s) considered

7.1. The Council could abandon the idea of establishing a CHC or a CDC. The original rationale for such an entity – of increasing the supply of affordable housing – is likely to be limited. However, having in place a vehicle able to operate at the behest of the Council alongside other investors – such as housing associations and the Council's own HRA – means that the Council would be better placed to take advantage of opportunities that cannot be delivered by other entities.

7.2 The Council could establish an independent CHC/CDC with a funded Business Plan to deliver affordable homes . This however would mean the Council making a commitment to invest before identifying whether or not opportunities for such investments either exists or are viable. The company in this instance may feel under pressure to invest to meet its targets, creating the risk of tensions between the entity and the Council and of poor investment decisions. Moreover, in the absence of any mechanism in place to provide subsidy funding, such an enterprise could not in the short or medium term provide affordable housing.

7.3 An Arms' Length Management Organisation (ALMO) could in itself act as developer of new homes funded outside of the HRA. Any borrowing undertaken by an ALMO for such activity would remain the responsibility of the Council, as the owner of the ALMO. Moreover such an entity would, for the reasons explained elsewhere in this report, not be able to develop affordable homes without access to financial subsidy from the Council, its owner, or other sources such as the Homes and Communities Agency. An ALMO could not make use of HRA balances or reserves to develop homes. While an ALMO can provide a focused housing management services, establishing an ALMO is a costly exercise and is likely to increase the overall management costs of the Council's housing stock. In recent times, the general trend been for councils with ALMOs to bring the management of their housing stock 'in-house' and to look at establishing bespoke investment vehicles where that is a solution warranted by each area's local circumstances. In the case of Warwick District Council, establishing an ALMO will not therefore in itself help increase the rate at which affordable housing can be provided.

8. Background

8.1. The legal ability of the Council to directly provide or enable housing is provided for in legislation primarily deriving from the Housing Act 1985. In summary, acting directly and not through a subsidiary or alternative structure such as a CDC:

- Rented housing must be accounted for separately from the Council's other activities – through the HRA

- The HRA must be self-financing. Surpluses can be used to provide new homes, additional repairs and maintenance or reduced rents for property and assets that ultimately are the property of the HRA.
- The Council can build and develop new homes for rent and sale through the HRA, subject to not breaching the Borrowing Cap imposed by the Government on the HRA. In the case of the Council, the Borrowing Cap is set at £13.8m.
- Directly provided rented housing must be let at sub-market rent with such housing being held within the HRA
- All rented housing provided directly by the Council, with limited exceptions relating to the use of property for the purpose of temporary accommodation or designated as supported housing, carries the Right to Buy

8.2 The Council does (pursuant to s1 Localism Act 2011) have a general power of competence to do anything that an individual can legally do as long as such action is not otherwise prohibited, either in general law or in the laws and regulations that apply specifically to local government. This means that the Council can:

- Use its "general power of competence" to develop new housing provision using funding sources other than the HRA (e.g. the General Fund, or a third party funder)
- Establish wholly owned subsidiaries, such as a CDC, to trade or invest. These subsidiaries can take any legal form provided for in general company law, with each model having its own financial and tax-related advantages and disadvantages and opportunities and risks for its parent body or shareholders. The choice of model is best informed by the detailed purpose and aims of the enterprise.
- If the Council is the sole or majority shareholder of such entities, then for the purposes of financial accounting they are counted as being 'on balance' sheet. Any debt taken on by the bodies would be considered as part of the Council's overall prudential borrowing liabilities and so may affect the ability of the Council as a whole to borrow funds.
- Borrowing by such an entity is not constrained in the way that borrowing by the HRA is restricted by the Government, as long as the company is not funded by the HRA.
- Rented housing developed and owned by a CDC may not be subject to the Right to Buy.

8.3 While there are advantages in establishing a wholly owned company, for example to provide a specific service or deliver a defined project or scheme that would benefit from the focus and ability to manage within the clear remit that such an entity would provide, the Council cannot use its general power of competence to overcome a specific prohibition within its other powers. In this case the relevant example is that there is a prohibition on the HRA being subsidised by the General Fund, and vice versa. In addition the Secretary of State has imposed a borrowing limit on the HRA. Hence if the HRA borrowing limit is such that it restricts the Council from being able to entirely fund a specific housing scheme, the Council cannot meet the funding shortfall from the Council's General Fund (whether through a company or on its own account).

8. 4 Legal advice on specific questions relating to the Council's powers to provide housing and the means of lawfully funding housing development has been taken from James Goudie QC. The recommendation set out in this report for establishing a CDC with a remit that embraces a mix of outcomes, including housing, is compliant with the legal advice received by the Council.

9 Governance

9.1 The Localism Act 2011 requires a local authority to undertake commercial activities through a separate company. This company should either be one as defined by section 1(1) of the Companies Act 2006 or a society under the Co-operative and Community Benefit Societies and Credit Unions Act 1965. A final decision on the type of entity to be chosen will be required and will be considered as part of the detailed Formal Proposal.

9.2 As any such company will be a wholly owned subsidiary of the Council, it is appropriate that the Council as the company's owner will retain rights to appoint all of the directors. The likely mix of directors will be considered further in the Formal Proposal. The operation of a local authority owned company is regulated by specific legislation. Local authority appointed directors are not permitted to receive any separate payments for their roles as directors. However, the company as well as the Council itself can indemnify directors for any liabilities incurred while properly fulfilling their directors' duties and in addition the company can purchase Director's Indemnity Insurance.

Appendix A – Housing Market Conditions in Warwick District

A.1 Estimated provision costs from site acquisition to practical completion for a range of different property types are provided in the table below.

Property Type	Site Acquisition	Cost of construction	Total Cost
One bed flat	£34,100	£78,750	£112,850
Two bed house (3 person)	£48,950	£113,750	£162,700
Two bed house (4 Person)	£55,000	£127,750	£182,750
Three bed house	£62,700	£145,250	£207,950
Four bed house	£75,900	£175,000	£250,900
Two bed bungalow	£52,800	£122,500	£175,300
Notes	These are estimates based upon average costs		

A.2 Translating those costs into monthly mortgage costs and weekly rent costs demonstrates the un-affordability of housing for many households in Warwick District.

Property type	Cost to Buy	Monthly cost – repayment mortgage over 25 years [1]	Monthly rental [2]	Median monthly income (gross)	% income (gross) to cover housing costs (buy)	% income (gross) to cover housing costs (rent)
One bed flat	£112,850	£480	£600	£2,441	20%	25%
Two bed house (3 person)	£162,700	£690	£770	£2,441	28%	32%
Two bed house (4 Person)	£182,750	£780	£770	£2,441	32%	32%
Three bed house	£207,950	£890	£950	£2,441	36%	39%
Four bed house	£250,900	£1,070	£1,300	£2,441	44%	53%
Two bed bungalow	£175,300	£750	£770	£2,441	31%	32%
Notes		Excludes insurance and other costs linked to the mortgage	Based on mortgage cost plus 12.5% to cover landlord costs and profit			
	These are estimated costs and values for a typical year at 2014-2015 values					

A.3 The tables below provide estimates of the capital and revenue subsidy likely to be needed to allow for new build housing to be affordable to people living in

[1] Assumes 20% deposit at interest of 4% figures round to nearest 10
[2] Source: Home Track average across Warwick District (February 2015)

Warwick District, allowing for 25% of gross income to be assigned to the cost of accommodation.

Property type	Cost to provide	What monthly payments of £610 over 25 years will buy	Reduction in capital value of home to be affordable to buy	Capital subsidy needed to make new homes affordable to buy
One bed flat	£112,850	£115,000	-£2,150	-£0
Two bed house (3 person)	£162,700	£115,000	£47,700	£47,700
Two bed house (4 person)	£182,750	£115,000	£67,750	£67,750
Three bed house	£207,950	£115,000	£92,950	£92,950
Four bed house	£250,900	£115,000	£135,900	£135,900
Two bed bungalow	£175,300	£115,000	£60,300	£60,300
Notes	The income of households is assumed to be the median across the area. However, it is likely that there will be an element of correlation between the size of the household, the income they have available (including any social security related income) and the size of property. This may mean that while a median income would suggest that one bed flats may be affordable, it is possible that the income of such household would be less than the median.			

Property type	Cost to provide	What 30 years of social rent will support	Reduction in capital cost to support of social rent over 30 years	What 60 years of social rent will support	Reduction in capital cost to support of social rent over 60 years
One bed flat	£112,850	£74,283	£38,567	£116,156	-£0
Two bed house (3 person)	£162,700	£92,145	£70,555	£145,931	£16,769
Two bed house (4 person)	£182,750	102,296	£80,454	£162,853	£19,897
Three bed house	£207,950	£114,358	£93,593	£182,959	£24,991
Four bed house	£250,900	£143,822	£107,078	£232,073	£18,827
Two bed bungalow	£175,300				

Note: the normal payback period for debt assumed to develop affordable housing by housing associations, which secure finance primarily from private sector lenders, is thirty years. Local authorities in the past have used a payback period of sixty years, to reflect the expected life cycle of a home and the ability of municipal landlords to access the Public Works Loans Board. The higher cost of land in Warwick District suggest that payback period of sixty years would not unduly be imprudent but would allow scope to help compensate for these additional costs.

A.4 These figures are simplistic and do not take account of such matters as financing methods and impacts and management and maintenance costs. They are presented here to demonstrate and quantify at a headline level the 'true' cost of providing homes that are affordable to the end user in a relatively high cost housing and development environment such as Warwick District.

A.5 Self-Generation of Surpluses

Surpluses generated from other activity in which the housing provider is engaged can be used to provide subsidy for affordable housing. In the case of a housing focused provider this would most likely be through the development of housing for sale or rent at full market values. This is a proven approach but to have a significant impact in terms of numbers of affordable housing provided would require considerable numbers of market housing to be developed. The tables below set out how many market homes would need to be developed to be in a position to subsidise the capital cost of a single affordable home.

Property type	Capital subsidy needed to provide one affordable home to rent	17.5% profit on a single similar property sold on the open market	Number of homes to be developed and sold to subsidise one affordable home
One bed flat	-£2,150	£13,201	0
Two bed house (3 person)	£47,700	£18,461	2.6
Two bed house (4 person)	£67,750	£17,835	3.8
Three bed house	£92,950	£20,697	4.5
Four bed house	£135,900	not available	not available
Two bed bungalow	£60,300	£19,608	3.1

Appendix B - Financially Enabling Housing to be Affordable

B.1 While there are many different ways to finance affordable housing, the principle of investing or spending money to reduce the cost of that housing remains at the core of any financial modelling. In short, subsidised housing requires subsidy. Any delivery vehicle owned by the Council in Warwick District to develop affordable housing the Council needs to be in a position to subsidise the capital cost of providing affordable housing on a simplistic cost-to-provide basis of up to £107,078 per home. There are number of ways in which this subsidy could be facilitated.

B.2 Grants from the Government

The Government through the aegis of the Homes and Communities Agency (HCA) provides limited financial support but this is on condition that rented housing in particular is let at rents set in line with the national definition of Affordable Rent – 80% of market rent. This runs counter to the Council's current approach to municipal housing in which all existing homes are to be let at social rents although rents for new build homes are to be put to Members for approval at the time each development scheme is presented for consideration.

B.3 Self-Generation of Surpluses

Surpluses generated from other activity in which a housing provider is engaged can be used to provide subsidy for affordable housing. In the case of a housing focused provider, such as a housing association or a CDC, this would most likely be through the development of housing for sale or rent at full market values. This is a proven approach but to have a significant impact in terms of numbers of affordable housing provided would require considerable numbers of market housing to be developed. For Warwick, as an example an average of 2.6 market sales homes at a total development value of circa £423,000 would need to be provided to fund sufficient subsidy for one two bedroom affordable home and 4.5 market sales at a total development value of circa £935,750 to provide one three bed home. This means that any provider – including a CED&HC - would need to invest a considerable amount of money in market sale homes to secure a limited number of affordable homes.

B.4 Direct Subsidy by the Council

The Council could provide direct subsidy. However, its ability to do this is constrained by the rules governing the use of both the GF and the HRA. In broad terms, neither can subsidise the other. What this means in practice is that the GF could not use any surpluses or balances it may have to subsidise new development by the HRA. However, it could in principle use such resources to subsidise the activity of a CDC, which as an entity solely owned by the Council would remain on the general balance sheet and so be part of the GF. The ability of the Council to follow this route would depend upon the availability of surpluses. The Council currently has no available or predicted surpluses within the GF to subsidise affordable housing.

The structure of the HRA Business Plan for the Council is that over the remaining 47 years of the plan, there is a potential surplus of £560m to invest in new homes, subject to revision at the end of this year when a full HRA Business Plan review is completed. However, these HRA funds cannot be given or transferred to the GF – including to a wholly owned CDC – and must be kept and used within the HRA for the benefit of the Council's current and future tenants. The HRA can lend to the GF but any such loan must not be on terms that are disadvantageous to the HRA.

B.5 Use of Council-owned Land

The Council could donate land it owns to affordable housing schemes to help reduce the overall cost. The CHBB has reviewed the Council's land holdings and possible development opportunities that may exist from redeveloping existing assets such as garage sites. This research has shown that Council now has limited land holdings left in its ownership and so the numbers of affordable homes provided in this way is in the future likely to be limited.

B.6 Planning Powers

The Local Plan which covers the period from 2011 to 2029 has provision for 12,860 new homes in the district, suggesting that there are opportunities here for providers to increase their holdings of affordable homes. Provisions within planning policy to require all new housing developments with ten or more properties to include 40% affordable homes (known as Section 106 Agreements) does help reduce the cost of housing provision. The Council is able to bid for such homes, either through the HRA or via a CDC.

However, developers are free to select which providers they use for the affordable housing, subject to the final agreement of the Council. In most cases, the developer wishes to secure the best possible price for the affordable housing, making the selection of the final provider influenced as much by the price the provider is willing to pay as by other considerations.

This approach does not in itself increase overall the number of affordable homes provided in the district. These affordable homes will have to be provided regardless of the Council's ability or desire to develop or acquire them itself.

There is therefore little to be gained in terms of additional affordable housing by the Council bidding for S.106 opportunities. However, there are cases where S.106 schemes are not attractive to housing associations. The Council then may have a useful role as a 'provider of last resort' to make sure that such affordable housing is not lost to the community. This could be achieved either through the HRA or where such housing does not fit the strategic objectives of the HRA via a CDC.

Appendix C: Council-owned Housing Companies

Local Authority	Company	Remit	Council-owned land available	Notes
Barking & Dagenham	'Barking & Dagenham Reside' Wholly owned council housing company	To secure the regeneration of a specific area of land in the borough	Yes	Joint Venture between Barking & Dagenham and a private external funder
Birmingham	Birmingham Municipal Housing Trust	To facilitate the construction of over 80,000 new homes by 2031.	Yes	Birmingham City Council's brand name for building new homes across Birmingham, by working in partnership with private developers
Ealing	Wholly owned council housing company	To build new homes across all tenures. To provide at least 500 new council homes in five years.	Yes	
Enfield	Wholly owned council housing company	To purchase properties to provide temporary accommodation	No	This is in response to significant number of households in temporary accommodation and the rise in private rents – this is not about building new council homes
Shepway	'Oportunitas' Wholly owned arm's length Regeneration & Housing company	To allow the council to undertake a range of activities in areas such as regeneration, housing and traded services; a wider range of housing tenures and rental levels than currently delivered by the Council; more inward investment.	Unclear	

South Cambridgeshire	South Cambs Ltd Wholly owned council housing company	Affordable rented property by leasing empty publicly owned empty homes, and redevelopment of council owned bedsits; new build market rented homes with long term tenancies.	Unclear	Pilot scheme underway to purchase properties for market rent – meet identified housing need, generate additional income for the council
South Holland	South Holland Homes Wholly owned council housing company	To build new affordable homes	Yes	
Thurrock	Gloriana Thurrock Limited Wholly Owned Subsidiary	To provide high quality homes in a mix of tenures – mostly affordable rent	Yes	
Wokingham	Wokingham Limited Wholly owned council housing company	To provide high quality, affordable housing and to deliver market housing to cross subsidise	Yes	In addition to HRA new build
Sheffield	Sheffield Housing Company A partnership between Sheffield Council (50% ownership), Keepmoat Ltd and Great Places Housing Group.	A 15 year plan to build 2,300 new homes to buy outright or through affordable rent.	Yes	35% of the new homes will be affordable housing with the remainder of the programme for private sale.
Basildon	Sempra Homes Wholly owned council housing company	To develop, rent and dispose of homes throughout the Borough across a range of tenures including private for sale, equity share and both affordable and market rented homes.	Yes	

Appendix D – Project Plan for a CDC Formal Proposal

Task	Timeframe
Strategic	
o Engage a suitably qualified consultancy to undertake the legal, financial and administrative work necessary to establish the CDC	April-May
o Establish clear terms of reference and draft articles of association for the CDC that fulfil the principles of a remit to support on a case-by-case basis investment in housing and economic development in Warwick District.	June-July
Legal	
o Confirmation of the powers to undertake the proposal	April-May
o The Council's constitutional position	April-May
o The most appropriate model for the CDC (options include Company Limited by Shares, Company Limited by Guarantee, limited liability partnership, Community Interest Company)	June-July
o Drafting and agreement of the various legal agreements which will be required for the establishment and operation of the CDC	June-August
o Obtaining all necessary approvals	June-August
o European Union procurement regulations and State Aid	June-August
Financial	
o The capacity of the GF to support borrowing for or by the company	April-June
Operational	
o Determination and preparation of governance, management and operational arrangements	July-September
o Provision of development services	July-September
o Housing tenures which could be offered by the CDC	July-September
Council Approvals	
Consultation with Councillors/Housing Advisory Group	August-September
Draft report to be complete	Early October
Executive to consider report	Mid November