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19 July 2017

CABINET

A meeting of the Cabinet will be held in Committee Room 1 (Pink Room) at the Arun Civic Centre, Maltravers Road, Littlehampton, on **Monday, 31 July 2017 at 5.00 pm** and you are requested to attend.

Members : Councillors Mrs Brown (Chairman), Wensley (Vice-Chairman), Bence, Charles, Clayden, Haymes, and Wotherspoon.

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

Members and Officers are reminded to make any declarations of personal and/or prejudicial interests that they may have in relation to items on this Agenda.

You should declare your interest by stating :
a) the item you have the interest in
b) whether it is a personal interest and the nature of the interest
c) whether it is also a prejudicial interest
d) if it is a prejudicial interest, whether you will be exercising your right to speak under Question Time

You then need to re-declare your interest and the nature of the interest at the commencement of the item or when the interest becomes apparent.

3. QUESTION TIME

a) Questions from the public (for a period of up to 15 minutes).
b) Questions from Members with prejudicial interests (for a period of up to 15 minutes).

4. MINUTES

To approve as a correct record the Minutes of the meeting held on 17 July 2017 (previously circulated).

5. BUDGET VARIATION REPORT

To consider any reports from the Head of Corporate Support *(Standard Item)*

6. *A27 ARUNDEL BY-PASS CONSULTATION

This report sets out a proposed Memorandum of Understanding and asks for Cabinet approval. It also updates Members on the timetable for consultation.

7. *HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN - 2017-2027

This report recommends the adoption of a new Housing Revenue Account (HRA) Business Plan for the next ten years, 2017-2027.

8. *COUNCIL OWNED PROPERTY COMPANY

At its meeting on 17th October 2016 Cabinet approved the principle and purpose of establishing a wholly owned local authority housing company (to allow greater flexibility this is now referred to as a local authority property company) subject to the production and approval of a satisfactory business case.

This report presents the finalised business case for Trisanto, the Council's arms-length property company, and an accompanying risk register which have both been subject to an independent review by our advisors. It also sets out the next steps which will need to be completed before the company can commence its trading activity.

ITEMS PUT FORWARD BY THE OVERVIEW SELECT COMMITTEE

9. OVERVIEW SELECT COMMITTEE - 25 JULY 2017

To consider any recommendations of the meeting of the Overview Select Committee held on 25 July 2017. Please note the recommendations contained in these minutes concerning the Council Owned Property Company need to be considered at Agenda Item 8. (Minutes to be circulated under separate cover).

10. **EXEMPT INFORMATION**

The Cabinet is asked to consider passing the following resolution: -

That under Section 100A(4) of the Local Government Act 1972, the public and accredited representatives of newspapers be excluded from the meeting for the following items of the business on the grounds that they may involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act by virtue of the paragraph specified against the items.

11. *DISPOSAL OF COUNCIL LAND AT CORNFIELD CLOSE, LITTLEHAMPTON (EXEMPT - PARAGRAPH 3 - INFORMATION RELATING TO BUSINESS AFFAIRS)

The purpose of this report is to seek the authority of Cabinet for the disposal of freehold land located at Cornfield Close, Littlehampton for best consideration.

Note : *Indicates report is attached for all Members of the Council only and the press (excluding exempt items). Copies of reports can be obtained on request from the Committee Manager).

Note : Members are reminded that if they have any detailed questions would they please inform the Chairman and/or relevant Director in advance of the meeting.

AGENDA ITEM NO.6

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF CABINET
ON 31 JULY 2017

PART A : REPORT

SUBJECT: A27 Arundel By-Pass Consultation

REPORT AUTHOR: Jackie Follis DATE: 19th August 2017 EXTN: 37580

EXECUTIVE SUMMARY:

There has been an ongoing request from the community for a number of years to improve the A27 locally. The pace and level of interest in this process has increased dramatically following the recent decision of Highways England not to approve proposals for Chichester. A key reason given for this was lack of agreement on a preferred route between Councils. It is, therefore, vital that there is a common approach between ourselves and Arundel Town Council is agreed. This paper sets out a proposed Memorandum of Understanding between the Councils and asks for Cabinet approval. It also updates Members on the timetable for consultation.

RECOMMENDATIONS:

1. To agree the Memorandum of Understanding between Arun District Council and Arundel Town Council which sets out common principles for working together towards a single solution for a new A27 Arundel By-Pass.
2. To note the dates for the Highways England Consultation on the A27 Arundel By-Pass.

1. BACKGROUND:

1.1 Members will be aware of the intention to improve the A27, focusing locally on a stretch of road from Chichester, through Arun and on to Worthing. This has been an ongoing process for some years.

1.2 Most recently, following an unsuccessful consultation process, Highways England made the decision that the Chichester improvements would not go ahead, due to a failure to agree a common solution. The consultation on the Worthing ‘online’ solution is taking place from 19 July 2017 to 20 September 2017.

1.3 The Leader and Chief Executive met with the Town Council at their regular liaison meeting on 5 April 2017 to discuss the way forward and common issues. The result of this and further discussion is the attached Memorandum of Understanding between the two Councils. This was agreed by Arundel Town Council Traffic Committee at their meeting on 4 May 2017 and approved at their Annual Meeting on 11 May 2017, and is attached at Appendix A.

1.4 The Leader and Chief Executive, along with the WSCC Leader and a representative from Arundel Town Council met with the Chief Executive from Highways England on 7 July 2017. At this meeting they were informed that the Arundel consultation will take place between 23 August 2017 and 18 October 2017. The detail is yet to be determined between the various parties with the Group Head of Policy being the lead for ADC on this process. The outcome will be determined by the Secretary of State in January 2018.

2. PROPOSAL(S):

1. To agree the Memorandum of Understanding between Arun District Council and Arundel Town Council which sets out common principles for working together towards a single solution for a new A27 Arundel By-Pass.
2. To note the dates for the Highways England Consultation on the A27 Arundel By-Pass.

3. OPTIONS:

a) To agree the Memorandum of Understanding

b) Not to agree the Memorandum of Understanding and consider an alternative approach

4. CONSULTATION:

Consultation has taken place with Arundel Town Council on the Memorandum of Understanding.

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council	x	
Relevant District Ward Councillors		x
Other groups/persons (please specify)		x

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial		x
Legal		x
Human Rights/Equality Impact Assessment		x
Community Safety including Section 17 of Crime & Disorder Act		x
Sustainability		x
Asset Management/Property/Land		x
Technology		x

Safeguarding		x
Other (please explain)		x

6. IMPLICATIONS:

It is recognised that the Highways England Consultation may incorporate or include routes other than the “pink/blue” route. When the proposed options are known, a further report will request agreement to this Council’s response to the consultation. It is hoped that both Arun District Council and Arundel Town Council will be able to agree a consultation response, to once again indicate to the Secretary of State that ther is unity between the two councils.

7. REASON FOR THE DECISION:

To facilitate a common approach between Arun District Council and Arundel Town Council to the forthcoming A27 By-pass consultation

8. BACKGROUND PAPERS:

Arundel Town Council Meeting Minutes 11 May 2017

Arundel Town Council/Arun District Council
Memorandum of Understanding – A27 Arundel By-Pass

Both Councils recognise the importance of working closely together on the future A27 development, with the ultimate aim of enabling all of the agencies involved to sign up to a single solution which meets the objectives set out below:

1. Support of the concept of a by-pass, on the preferred pink/blue route, to help bring the different parts of Arundel town together.

2. A final plan which should minimise the visual impact of any crossing of the flood plain through the use of a high quality design, including replanting.

3. Exploration of the synergy between road improvements and flood defences.

4. That the agreed solution should recognise and deliver against the wider strategic objectives for the area, including the economy and growth, air quality and road safety issues.

AGENDA ITEM NO.7

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF CABINET ON 31 July 2017

PART A : REPORT

SUBJECT: Housing Revenue Account (HRA) Business Plan 2017-2027

REPORT AUTHOR: Brian Pople DATE: 12 July 2017 EXTN: 37718

EXECUTIVE SUMMARY:

This report recommends the adoption of a new Housing Revenue Account (HRA) Business Plan for the next ten years, 2017-2027.

The new plan proposes that the Council utilises its financial capacity to enable the development of new homes and further investment in housing stock. As a consequence the plan proposes that borrowing be maintained at current levels and that the Council make further capital investment of £48.5 million in its proposed Capital programme to achieve the delivery of 250 new homes and a programme of improvement and redevelopment to its sheltered housing over the next ten years.

The programme will be funded from a mix of retained "1for1" Right to Buy receipts and borrowing. Although the additional borrowing will increase the level of HRA indebtedness, this increase will be partly offset by the significant amounts currently being set aside for debt repayment. However, Members should note that Arun's overall indebtedness will further increase if additional borrowing is undertaken for onward lending to the property Local Property Company. Under the terms of the Prudential Code, the Council is required to constantly review its overall level of indebtedness to ensure that if remains at a prudent level and complies with its approved Treasury Management policies.

Assuming Right to Buy sales continue at an average of 20 per annum, a programme to deliver 250 new homes over the next ten years 2018/19 to 2027/28 will ensure these homes are replaced with a net gain of 50 additional homes over the period. New homes will be procured primarily from housebuilders to fulfil developers' legal requirements to provide new affordable homes as part of larger developments under planning agreements. In addition the Council is expected to continue to develop some of its own small sites and, when prudent to do so, buy second hand properties, particularly former Council homes.

A comprehensive (100%) stock condition survey by a specialist external contractor has recently begun and is due for completion by the end of 2018. This will provide vital information to support the development of a new Asset Management Strategy, as well as future planned maintenance programmes. Expenditure on planned and reactive maintenance in 2016-17 is expected to achieve a 30:70% split. This high proportion of reactive maintenance is well outside recommended good practice. Following completion of the stock condition survey, it is essential that planned programmes are put in place. In the longer term, the Council will aim to achieve a 70:30% split between planned and reactive maintenance. A reduction in the revenue repairs budget of £200k pa has therefore been assumed, alongside the £400k increase in capital planned maintenance expenditure.

An indicative budget of £6m (funded from borrowing) over ten years, starting in 2019/20, has been included in the plan to implement a programme of improvements to sheltered housing schemes identified for retention and upgrading, including bathrooms, kitchens and communal facilities as

required. In addition options appraisal will be required for those schemes where alternative use and/or redevelopment is a possibility. It is important to note that the £6M sheltered housing improvement programme can only be funded by borrowing if the relevant works are of a capital nature. Any revenue works would have to be funded directly from revenue leading to additional expenditure in the early years of the plan where the financial model is most vulnerable.

The proposed business plan presents a realistic new starting position in terms of financial projections for the HRA, based on the best information available now. It provides for a reasonable level of new build schemes to be delivered over the medium term, while retaining some capital headroom. The underlying basis for the forecast remains prudent, though there is a risk that future costs of maintaining the existing stock may fluctuate from the levels that we have assumed in the absence of data driven by stock condition. The annual allowance for planned maintenance has however been increased in the plan in anticipation of increased expenditure being required

It will be important for the Council ty to maintain a clear view on the affordability of the HRA business plan, with regular updates to the underlying assumptions as circumstances change. This will require continuous annual monitoring of progress, and rigorous assessment of individual schemes against the plan as they are brought forward for approval.

RECOMMENDATIONS:

Cabinet is asked to recommend to Full Council:-

1. Approve the priorities set out in the HRA Business Plan under two Key Objectives (page 7) and ten year financial model and agree to use of specialist consultants to review and rewrite the plan on an annual basis and that an amount of £30K per annum be set aside for these costs in future HRA budgets.

2. Delegate authority to the Cabinet Member for Residential Services and the Director of Services in consultation with S151 Officer to acquire 250 houses over ten years. This is based on a rolling 3 year Capital funding programme of up to £15M and subject to viability, up to 30 houses a year or the equivalent of 90 over 3 years. Updates on spend will be reported via the Budget Variation reports routinely submitted to Cabinet. The preferred form of acquisition be in the following order:-
    - Purchase houses ‘off-plan’ from developments with the benefit of planning permission
    - Purchase of existing properties
    - Build on Housing owned land

3. Where appropriate, delegate authority to Cabinet Member for Residential Services and the Director of Services in consultation with the S151 Officer to approve the use of specialist legal advisors in connection with property acquisitions

4. Approve that a Rent Setting Policy and Service Charge Review be undertaken with immediate effect which will be used to support the funding of the Housing development. An amount of £20K is requested from the HRA budget to appoint specialist consultants to carry out this work.

5. Delegate authority to the Cabinet Member for Residential Services and the Director of Services, in consultation with the Group Head of Technical Services

and Group Head of Corporate Support in connection with disposal of all HRA assets (land and property), outside of Right to Buy, and that the sale proceeds reinvested back into the HRA account on all occasions.

6. Approve £400,000 funding for planned maintenance (£200K from the HRA budget, £200K transferred from existing reactive maintenance budget) is identified for the financial year 2018/19, whilst the housing stock condition survey is completed

7. Approve £6M funding for investment in the sheltered housing schemes over ten years, to ensure that they remain fit for purpose.

8. Approve an options appraisal be undertaken on sheltered housing schemes where alternative use or redevelopment could be considered and that an amount of £35K be allocated from the HRA budget to commission specialists to undertake this work.

1. BACKGROUND:

1.1 In 2012, the Council adopted its first HRA Business Plan (BP) to reflect the new self-financing system introduced by the Localism Act 2011 which replaced the previous subsidy system. The new system gave the Council freedom to fully retain the money it received in rent in order to plan and provide services to current and future tenants. However, to achieve this new status, the Council was required to make a single payment of £70.9 million to the Government, which it financed with loans from the Public Works Loans Board (PWLB).

1.2 In August 2014, the Cabinet agreed that the HRA BP should be reviewed every two years, more frequently than originally envisaged, to address any major changes. The plan was therefore reviewed in 2015 and is being reviewed again now, in 2017. This second revision coincides with the publication in February 2017 of the new Housing White Paper ‘Fixing our broken housing market’ which sets out the Government’s proposals for increasing housing supply and includes a commitment to determine a rent policy for Council and housing association landlords for the period beyond 2020 to help them borrow against future income. Whilst the outcome of the general election and changes in ministerial control (May 2017) will influence how new housing policy is developed and implemented, there is general Government support for the principle of increasing affordable housing supply including by means of providing new Council owned homes.

1.3 Five years have now elapsed since the introduction of the new regime and for some of the Council’s highest priority objectives, notably the development of new homes and improvements to the sheltered housing schemes, progress has been slower than anticipated and plans have been delayed and deferred in the light of the Government’s requirement that rents are reduced by 1% per annum for four years from 2016. Whilst the rent decrease was unexpected, the Council has, as yet, to utilise its own financial capacity which the new proposed HRA business plan will start to use to enable the development of new homes and investment in the authority’s housing stock.

1.4 To assist in the development of this new plan the Council’s Housing Consultants therefore secured advice from an additional consultant who specialises in HRA Business Plan modelling.

2. PROPOSAL:

2.1 The proposed new HRA Business Plan for 2017 -2027 is enclosed with this report. The primary objectives for the Housing Service, as reflected in the revised plan, are considered to be as follows;-

1. Increasing the housing stock
2. Ensuring housing assets are fit for purpose
3. Maximising income and making the best use of available resources

2.2 Increasing the housing stock

The development or acquisition of 150 new rented homes by 2020 was one of the Council's Corporate Plan objectives for 2013-17. Financial and operational pressures and have meant that progress has been significantly slower than anticipated with nine homes acquired, 33 new homes under development. A new more ambitious programme is now proposed to deliver 250 new homes over the next ten years 2018/19 to 2027/28. Assuming Right to Buy sales continue at an average of 20 per annum, a programme of this magnitude will ensure these homes are replaced with a net gain of 50 additional homes over the period.

2.3 To fund the new homes programme the Council will need to provide the necessary capital resources from borrowing, (see 2.15 below), and fully utilise the receipts from Right to Buy sales under the right to buy sharing agreement.

2.4 The Council had previously decided to deliver new homes at rents that were lower than affordable rents however this aim is now considered to be impractical going forward both in terms of the future financial viability of new development schemes and to ensure the Council is able to compete with other Registered Providers (RPs) . The Council therefore proposes to deliver new homes at affordable rents however, in common with many RPs; rents will be set as Affordable Rents either at 80% of Open Market Value or the Local Housing Allowance level (the maximum level at which Housing Benefit is paid) whichever is the lower. A new Rents and Service Charges Policy is required.

2.5 The Council will need to evaluate the internal and external staff management resources it will require to deliver the Development Programme. It is proposed to discontinue the use of the Council's current Development Agent.

2.6 It is expected that new homes will be procured primarily from housebuilders to fulfil developers' legal requirements to provide new affordable homes as part of larger development under planning agreements. In addition the Council is expected to continue to develop some of its own small sites and buy second hand properties, particularly former Council homes, when it is considered prudent to do so.

2.7 A clear and complimentary relationship will be required between Arun Council Housing (HRA) and the proposed new Arun Local Property Company (Trisanto), whereby Arun Housing continues to maximise the use of its land and assets to develop and acquire affordable homes within the HRA, while the Local Housing Company concentrates on commercial opportunities to develop housing for sale.

2.8 Ensuring housing assets are fit for purpose

As at February 2017 the Council owned 3,838 homes of which approximately 500 are held on a leasehold basis. Approximately 85% of the stock was built after 1945 and over 50% after 1965. The Council has no high-rise stock, however, following the Grenfell Towers Fire, checks have been carried out on Council housing that has been clad and no issues have been identified to date. Work in terms of general fire safety will continue to be carried out.

2.9 Reviewing and updating the 2012-15 Housing Asset Management Strategy was a key objective for the 2015-25 Business Plan but has yet to be actioned. The objectives from the 2012-15 Strategy therefore continue to represent the priorities for maintaining and repairing the housing stock. However, it remains a key objective to develop a new Strategy to ensure a consistent approach to the management and maintenance of all the HRA assets.

2.10 A comprehensive (100%) stock condition survey by a specialist external contractor has recently begun and is due for completion by the end of 2018. This will provide vital information to support the development of a new Asset Management Strategy, as well as future planned maintenance programmes. Ensuring adequate financial provision for stock investment is discussed at 2.15 below.

2.11 Decent Homes programmes were undertaken between 2005 and 2010 to those properties that failed to meet the standard, mainly due to the condition of kitchens and bathrooms. Continued compliance with the Government's Decent Homes Guidance remains a requirement of the 2015 Regulatory Standards. Ongoing expenditure is therefore necessary as older kitchens and bathrooms reach the end of their life and approximately 5% of the stock will require work to be undertaken each year to achieve continued compliance with the Decent Homes Guidance. £400k per annum has been included in the capital planned maintenance budget for this work, pending more detailed information from the stock condition survey.

2.12 The Council undertook a sheltered housing review in 2014 and schemes were categorised as follows and remain so in the current plan

1.Schemes which continue to meet the desired criteria for sheltered housing and are therefore recommended for retention and improvement to ensure they remain fit for purpose;
2.Schemes which offer few sheltered facilities and which are recommended to be decommissioned and returned to the general needs stock following resident consultation;
3. A small number of schemes where other options, including redevelopment potential, should be evaluated through a detailed options appraisal.

2.13 The establishment of programmes to implement the findings of the Sheltered Review was a key objective of the 2015-25 Business Plan but has not been implemented due to the rent reductions referred to in 1.3 above. Objectives for the revised Plan remain as follows to:

- Undertake detailed options appraisals for the future use of six sheltered schemes identified for alternative use including redevelopment. A budget of £35K has been included in the business plan to fund this work, with a view to appointing specialist consultants to advise the Council. It is anticipated that a re-development programme for these schemes would be agreed and implemented in stages over a number of years and a start on site is not expected before 2019-20;
- Establish and implement a programme of improvements to sheltered housing schemes identified for retention and upgrading, including bathrooms, kitchens and communal facilities as required. An indicative budget of £6m over ten years, starting in 2019/20, has been included in the business plan to fund this programme;
- Re-designate those sheltered schemes identified to change to general needs and following consultation with residents, offer priority for a transfer to alternative sheltered housing to any elderly residents who wish to move.

2.14 Expenditure on planned and reactive maintenance in 2016-17 is expected to achieve a 30:70% split. This high proportion of reactive maintenance is well outside recommended good practice for the affordable housing sector. Following completion of the stock condition survey (end of 2018), it is essential that planned programmes are put in place to tackle outstanding repairs and maintenance and reduce expenditure on reactive work. In the longer term, the Council will aim to achieve a 70:30% split between planned and reactive maintenance. A reduction in the revenue repairs budget of £200k pa has been assumed, alongside the £400k increase in capital planned maintenance identified above. This is part of shifting the emphasis from responsive repairs to planned maintenance.

2.15 The Council remains committed to developing a partnership approach to working with its main contractors notably its Reactive Maintenance and Gas Servicing contractors. Some progress has been made in working arrangements for the Reactive Maintenance contract, with the contractor now based within the Housing office. However, the contract is still currently based on the schedule of rates. The existing contract has recently been extended for a final three years during which a comprehensive contract review will be undertaken to establish smarter ways of working. It is intended that a new contract will be tendered and in place by April 2020.

2.16 Maximising income and making the best use of available resources

The proposed business plan presents a realistic new starting position in terms of financial projections for the HRA, based on the best information available now. It provides for a reasonable level of new build schemes to be delivered over the medium term, while retaining some capital headroom. The underlying basis for the forecast remains prudent, though there is a risk that future costs of maintaining the existing stock may fluctuate from the levels that we have assumed in the absence of data driven by stock condition. The annual allowance for planned maintenance has however been increased in the plan in anticipation of increased expenditure being required

2.17 The HRA financial model (section seven of the plan) projects small deficits for the next five years, as the Council meets the costs of additional repairs (pending the results of the ongoing stock condition survey) and an extended capital programme, while coping with the effects of rent reduction. However, a minimum HRA balance of around £2m is still maintained. From years six to nine the HRA is in surplus, and builds additional balances that are drawn upon to part-finance the capital programme in years ten and eleven. Over 30 years, HRA balances grow to £56.2 million.

2.18 Outstanding borrowing for the HRA capital programme (as measured by the HRA capital financing requirement) stood at £56.6m at the start of 2017/18. Borrowing to date has been mainly to fund the one off payment the Council was required to make to Government (see 1.1 above). The underlying debt comprises maturity type loans with different maturity dates. Interest rates are fixed and range from 1.99% to 3.53%, dependent on the repayment period. The Business Plan seeks to ensure that sufficient financial provision continues to be made to repay these loans. The approach taken to date provides the Council with flexibility as the requirements of the business plan change in the future and will allow debt restructuring opportunities and further borrowing to fund key objectives

2.19 The expectation is that borrowing will be maintained at current levels and that the Council will make further capital investment of £48.5 million in its proposed Capital programme to achieve the delivery of 250 new homes and a programme of improvement and redevelopment to its sheltered housing over the next ten years. This will be funded by a mixture of loans and “1 for 1” Right to Buy receipts. After allowing for provisions made to repay the existing debt, the planned new borrowing required is within the borrowing “head room” set by the Government as part of the self-financing regime. The business plan also allows for the HRA to repay or make provision for debt borrowed on an annual basis.

2.20 The plan also identifies opportunities (reflected in the action plan) for the Council to maximise its revenue income to the HRA which are summarised below ;-

1. Ensure control of all HRA assets including maximising the benefit to the HRA from the development and disposal of assets.
2. Limit the impact on the HRA where services are provided on behalf of the Council's General Fund particularly concerning temporary accommodation;
3. Assess and make provision for the likely impact on the HRA of the introduction of Universal Credit and other changes to welfare benefits;
4. Review Leasehold and Tenancy Management Services function to maximise income including a service charge review and the possibility of the disposal of some freehold assets;
5. Adopt a new Rent Setting and Service Charge Policy for existing and new homes.

3. OPTIONS:

1. Accept proposals as set out in 2.1 to 2.20 above
2. Not accept proposals as set out in 2.1 to 2.20 above
3. Set out alternative proposals to those given in 2.1 to 2.20 above

4. CONSULTATION:

4.1 The new plan has been developed in consultation with the Director of Services and the Executive Team, the Head of Housing, Housing Management and Finance staff and with the Portfolio Holder for Housing and Cabinet Member for Residential Services .

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		NO
Relevant District Ward Councillors		NO
Other groups/persons (please specify)	YES (See Above)	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	YES	
Legal	YES	
Human Rights/Equality Impact Assessment	YES	
Community Safety including Section 17 of Crime & Disorder Act		NO
Sustainability	YES	
Asset Management/Property/Land	YES	
Technology		NO
Safeguarding		NO
Other (please explain)		NO

6. IMPLICATIONS:

6.1 Financial implications

The HRA financial model presents a change in emphasis for the HRA, with much greater use of the available financial capacity for delivering additional homes and investment in the existing stock. The projections produced show that, based on what we know now, the HRA can afford the levels of investment suggested, with some room left to manoeuvre if circumstances change.

It will be important for the authority to maintain a clear view on the affordability of the HRA business plan, with regular updates to the underlying assumptions as circumstances change. This will require continuous annual monitoring of progress, and rigorous assessment of individual schemes against the backcloth of the HRA business plan as they are brought forward for approval. In delivering the Business Plan it may be necessary for the authority to adjust its approach in response to changing circumstances and emerging risks. This may mean:

- Changing the delivery profile for new units,
- Adjusting the number of units produced
- Rescheduling investments in the existing stock
- Making compensating cost reductions in other budgets
- Generating additional income
- A combination of the above measures

6.2 Rent and Service Charges Policy

Adopting a Rent and Service Charge Policy for both new and existing stock is considered critical and is an immediate objective for 2017/18. Key issues for the new policy are as follows;-

- Confirming the Council's intention to develop new homes at LHA equivalent rent levels;
- Reviewing the Council's approach to charging for services for both tenants and leaseholders;
- Reviewing and confirming how rents are set for the Council's Social Housing stock including considering whether rents should be set to reflect the fact that some properties are located in higher value areas than others;
- Confirming the Council's approach to increasing rents and service charges.

6.3 Asset Management Strategy

The current Asset Management Strategy for Arun Housing requires review. A new strategy will be developed following the completion of the Stock Condition Survey in late 2018. See 2.8 above.

7. REASON FOR THE DECISION:

To approve a revised HRA Business Plan

8. BACKGROUND PAPERS:

Equality Impact Assessment

Equality Assessment Plan 13.6.17.doc

HOUSING REVENUE ACCOUNT

BUSINESS PLAN

2017 – 2027

Developed by HCG Consultants

FINAL

ARUN
DISTRICT COUNCIL

Contents

1 Background

1.1 In April 2012, the Localism Act 2011 introduced a new financial regime for local authority housing. A new self-financing system replaced the previous subsidy system, giving Council's more freedom to borrow money and spend the income they receive from rents. To achieve this, Arun District Council made a substantial single payment of £70.9 million to the Government, which it financed with loans from the Public Works Loans Board. The financial projections within this Business Plan demonstrate that the new financial regime has enabled the Council to service these loans and generate surpluses which it will invest in its housing, services and new homes.

1.2 The Housing Revenue Account Business Plan 2015-25 set out how the Council intended to manage, maintain and invest in its housing and deliver services to its tenants and leaseholders. The self-financing regime presented opportunities for investment in the existing housing stock, in services for tenants and in new homes. The business plan therefore set out the Council's expenditure priorities for the next ten years and was prepared in the light of its strategic goals and in consultation with tenants and other stakeholders.

1.3 The self-financing regime was just one of a number of significant changes occurring at a national level which have impacted upon the Business Plan. The Localism Act 2011 introduced a range of other housing reforms including to social housing regulation, allocations and tenure reform, which affected tenants of both local authorities and registered housing providers. Major changes occurred to the way new social housing is funded. The welfare benefit system has also undergone significant changes which are impacting upon the Council's income recovery.

1.4 Other changes have occurred since 2015 in relation to assumptions within the Business Plan. The Welfare Reform and Work Act 2016 required registered providers of social housing in England to reduce social housing rents by 1% a year for 4 years from a frozen 2015 to 2016 baseline and to comply with maximum rent requirements for new tenancies. Other changes include the impact of the increased level of Right to Buy sales and the retention of the additional receipts (subject to these receipts being spent on the provision of additional housing) and trends in inflation. A White Paper published in February 2017 'Fixing our broken housing market' sets out the Government's proposals for increasing housing supply and includes a commitment to determine a rent policy for Council and housing association landlords for the period beyond 2020 to help them borrow against future income.

1.5 All the above changes have potential to impact upon the Council's major investment plans, particularly the development of new homes, improvement of its sheltered housing and other planned maintenance programmes. In August 2014, the Cabinet therefore agreed that the HRA Business Plan should be reviewed every 2 years, more frequently than originally envisaged, to address any major changes. The plan was therefore reviewed in 2015 and is being reviewed again now in 2017.

1.6 This HRA Business Plan 2017-27 reflects the outcome of that review. It reports on progress in implementing the objectives of the 2015- 25 Business Plan, sets updated key objectives for the next ten years and establishes the strategic, financial and operation framework within which these objectives will be delivered. It will be reviewed again in 2019. However financial forecasts will be updated annually, to enable the authority to identify and respond to emerging risks and opportunities in a timely manner, (1.17 below refers).

Introduction

1.7 Arun District covers 85 square miles and is located between Brighton and Portsmouth on the coast of West Sussex with the South Downs to the north and the English Channel to the south. The main urban developments are on the coast with the main centres of population in Littlehampton, Bognor Regis and Arundel. The north of the district is predominantly rural, forming part of the South Downs National Park. It is an area of contrasting economic fortunes; prosperous by national standards but with significant areas of poverty and housing need. Five of the most deprived wards in West Sussex are found in Littlehampton and Bognor Regis.

1.8 As at February 2017, the Council owns 3,323 rented homes, 51 shared ownership and 463 leasehold properties. It aims to deliver a comprehensive, integrated housing management service to all tenants and leaseholders. More information about the housing stock and housing need in the District is detailed later in this Business Plan.

1.9 The Council's Housing Strategy, Raise the Roof, was approved in December 2010 and outlines the main strategic priorities for the Council, as follows:

1. To develop balanced and sustainable communities in the Arun District;
2. To ensure through a range of housing options that everyone has somewhere to live;
3. To meet the housing and support needs of vulnerable people;
4. To improve the condition and energy efficiency of the private housing stock;
5. To manage, retain and improve the Council's own housing stock.

It is intended to develop a new Housing Strategy which will reflect the changes proposed in the recent Government White Paper regarding the development of affordable housing.

1.10 The Council has adopted its 2020 Vision for 2015-20 which has the overall aim of "Providing the best services we can afford to help you improve your life". This will be achieved by:

- Offering an improved customer experience;
- Building better relationships with other organisations;
- Providing more digital opportunities to make dealing with us easier;
- Becoming smaller but more effective.

1.11 This Business Plan aims to contribute to the delivery of these strategic priorities and to the delivery of other Council strategies including :

- Corporate Plan 2013-17
- Community Strategy
- Homelessness Strategy
- Corporate Anti-Social Behaviour Strategy
- Asset Management Strategy

How the business plan will contribute to these strategies and their delivery are discussed later in this Business Plan.

1.12 The new HRA BP model discussed in Section 7 of the plan presents a realistic new starting position for the HRA, based on the best information available now. It provides for a reasonable level of new build schemes to be delivered over the medium term, while retaining some capital headroom. The underlying basis for the forecast remains prudent, though there is a risk that future costs of maintaining the existing stock may fluctuate from the levels that we have assumed in the absence of data driven by stock condition. The annual allowance for planned maintenance has however been increased in the plan in anticipation of increased expenditure being required.

1.13 The model projects small deficits for the first five years, as the Council meets the costs of additional repairs (pending the results of the ongoing stock condition survey) and an extended capital programme, while coping with the effects of rent reduction. However, a minimum HRA balance of around £2M is still maintained. From years six to nine the HRA is in surplus, and builds additional balances that are drawn upon to part-finance the capital programme in years ten and eleven. Over 30 years, HRA balances grow to £56.2M.

1.14 The expectation is that borrowing will be maintained at current levels and that the Council will invest a further £48.5 million in its proposed Capital programme to achieve the delivery of 250 new homes and a programme of improvement and redevelopment to its sheltered housing over the next ten years. This will be funded by a mixture of loans and retained “1 for 1” Right to Buy capital receipts.

1.15 While there are significant financial risks and uncertainties associated with delivery of the plan, including future levels of inflation, interest rates, Council house sales and changes in Government Policy, there are also risks associated with a failure to the Council’s plans to improve its existing housing and develop new homes, which would impact negatively on its ability to meet housing needs and aspirations.

1.16 The key objectives of the Business Plan are summarised in Section two. Its highest priorities are to increase the Council’s housing stock by a ten year capital investment programme, including the development and acquisition of 250 new homes and to ensure existing assets remain fit for purpose, with planned programmes to redevelop and improve sheltered housing. The business plan also includes a range of other priorities to ensure ongoing improvements in the maintenance and management of the housing stock, as well as the efficient and prudent management of resources.

1.17 An action plan for delivering these objectives is detailed in section eight and this will enable progress with implementing the key areas of the plan to be subject to regular monitoring and review. A detailed review will be undertaken every two years. However in addition the Council will undertake, as a minimum, an annual update of its HRA BP forecasts, plus ongoing monitoring and review of its operational plans to ensure that:

(a) budgets are set in line with the HRA BP and the best information on financial capacity, risks and opportunities;
(b) potential risks and opportunities are identified at an early stage and assessed regularly against the backcloth set by the HRA BP;
(c) the Council is able to take early action to manage or avoid risks, maximise potential opportunities and adjust its plans.

2 Key Objectives for the Business Plan

2.1 Introduction

This section summarises the key objectives which the Housing Service aims to achieve during the period of the business plan. These objectives are discussed in more detail in later sections of the plan.

2.2 Progress with implementing the key objectives from the 2015-25 HRA Business Plan

The 2015-2025 HRA Business Plan included key objectives and an action plan to achieve them. Effective progress has been made in a number of areas, while in others implementation is still in progress. More detailed analysis of progress with implementing these objectives is included in later sections of this plan.

However, for some of the highest priority objectives, notably the development of new homes and improvements to the sheltered schemes, progress has been slower than anticipated and plans have been delayed and deferred in the light of the Government's requirement that rents are reduced by 1% per annum for 4 years from 2016. One of the key drivers for the 2017- 27 Business Plan is therefore to identify strategies which enable these objectives to be achieved.

2.3 Key objectives for the 2017-27 HRA Business Plan

The key objectives for the business plan have been developed in the light of the Council's strategic objectives for both housing and the wider community.

The overall objective for the Business Plan has been defined as:

"The HRA Business Plan will ensure the Council uses its financial capacity to deliver its key objectives of delivering new homes and maintaining and improving the existing housing stock whilst ensuring the affordability of the plan at all times."

Primary concerns for the Housing Service include:

- An annual reduction in the housing stock of about 20 dwellings, mainly due to Right to Buy sales;
- Uncertainty concerning how rents will be set and increased in the future although new legislation may provide clarity here;
- Increasing numbers of homeless households and demand for affordable homes in the district ;
- The need for significant investment in improving the existing housing stock, particularly the sheltered housing schemes, to ensure it remains fit for purpose.

The key objectives for the HRA Business Plan 2017 – 27 outlined below therefore aim to address these concerns.

2.3.1 Increasing the housing stock

The development or acquisition of 150 new rented homes by 2020 was one of the Council's Corporate Plan objectives for 2013-17. As outlined above, financial pressures have meant that progress has been slower than anticipated. Nine homes have been acquired and 33 new homes are currently under development but there is no agreed programme to build any further homes. The Corporate Plan is due to be reviewed in 2017 and the development and acquisition of new homes is expected to remain a high priority. To achieve this, new approaches are needed which make best use of the Council's available resources and this Business Plan has identified the following key tasks:

- Agree a ten year development strategy and development programme to enable the construction of an additional 250 new homes, subject to a continuous assessment of affordability;
- Review of the Council's approach to HRA borrowing and develop a new Treasury Management Strategy which makes the most effective use of the available resources within the HRA to enable the funding of a flexible and viable development programme which fully utilises the RTB receipts; that can be provided and ensures homes are completed within agreed timescales;
- To agree the principle of using additional borrowing to finance the building or acquisition of up to 250 new homes, subject to a continuous assessment of affordability, rigorous assessment of prospective schemes, and scheme by scheme approval within the financial framework set by the agreed HRA business plan and the authority's approved capital and revenue budgets;
- Maximise opportunities to acquire second hand homes (particularly former Council homes sold under the Right to Buy) to ensure the Council's development target is met and the Right to Buy receipts are fully committed;
- Develop new homes at rents set at the Local Housing Allowance to balance financial viability and affordability (new Rent and Service Charge Policy will be required);
- Establish and put in place the financial, management and legal resources necessary to implement and manage the development programme;
- Develop a clear and complimentary relationship between Arun Council Housing (HRA) and the proposed new Arun Local Housing Company, whereby Arun Housing continues to maximise the use of its land and assets to develop and acquire affordable homes within the HRA, while the Local Housing Company concentrates on commercial opportunities to develop housing for sale.

2.3.2 Ensuring housing assets are fit for purpose

The Council undertook a sheltered housing review in 2014 which made recommendations for the future management, modernisation and development of its sheltered housing to ensure it continues to meet residents' needs in the long term. The establishment of programmes to implement this review was a key objective of the 2015- 25 Business Plan but has not been implemented due to financial stringency. The Council is also undertaking a stock condition survey of all its housing stock and the following key objectives aim to ensure the Council's housing assets remain fit for purpose:

- Develop a new Housing Asset Management Strategy to ensure a consistent approach to the management and maintenance of all the HRA assets;
- Implement the recommendations of the Sheltered Housing Review including undertaking detailed options appraisals for the future use of six sheltered schemes identified for alternative use, including redevelopment;
- Establish and implement a five year programme of improvements to sheltered housing schemes identified for retention and upgrading, including heating systems, bathrooms and kitchens as required;
- Re-designate those sheltered schemes identified to change to general needs and offer priority for a transfer to alternative sheltered housing to any elderly residents who wish to move;
- Consider and make provision for the impact of the new stock condition survey within the HRA budget;
- Review and update the ten year planned maintenance programme to reflect the findings of the stock condition survey and ensure the housing stock remains fit for purpose;
- Review and re-tender the reactive maintenance contract to improve value for money and the efficient use of available resources.

2.3.3 Maximising income and making the best use of available resources

If the Council is to achieve its objectives to develop new homes and improve its existing stock at a time of financial stringency, it is critical that it puts procedures in place which maximise income and make best use of HRA resources. The following objectives have been identified as priorities to achieve improved efficiency:

- Develop a financial business plan for the HRA which is evidence based and provides a realistic yet prudent starting point for the authority to enable it to deliver its objectives over the next ten years incorporated into a 30 year HRA Business Planning Model. The new model to also enable the Council to respond to emerging issues and adapt its plans in good time
- Control of all HRA assets, including maximising the benefit to the HRA from the development and disposal of assets, including receipts from garage sites and land, outside of Right to Buy.

- Limiting the impact on the HRA where services are provided on behalf of the Council's General Fund particularly concerning temporary accommodation;
- Take account of the ongoing impact of rent reduction and changes in Government Policy including the 2017 Housing White paper "Fixing our broken housing market";
- Continuously assess and make provision for the likely impact on the HRA of the introduction of Universal Credit and other changes to welfare benefits;
- Review of the Leasehold and Tenancy Management Services function to maximise income including a service charge review and the possibility of the disposal of some freehold assets;
- Implement clear procedures for collecting leaseholder contributions to major repairs;
- Adoption of a new Rent Setting and Service Charge Policy for existing and new homes;
- Where appropriate review arrangements for purchasing legal services to enable the provision of external legal advice when it is beneficial to do so to facilitate the achievement of the Council's key objectives.

3 Who are our Customers?

3.1 Close to 4,000 households currently rent or lease a home from Arun equating to approximately 5% of all households in the Arun District. The majority of customers (85%) rent their homes; the others are leaseholders who are predominantly tenants who have exercised the Right to Buy their Council flat on a long lease. Approximately 680 individuals rent Council garages.

3.2 As at February 2017 44% of all tenants received full Housing Benefit and a further 23% received partial benefit, representing 67% of all tenants of Council homes. There has been a 1% reduction in the number of residents receiving full Housing Benefit and a 3% decrease in the numbers receiving partial Housing Benefit since October 2014 and a 4% decrease in the numbers receiving Housing Benefit overall.

3.3 Knowing and understanding who Arun's customers are now and in the future will ensure the Council is best placed to meet their needs, increase levels of satisfaction and reduce costs, particularly by getting service delivery 'right first time'. Furthermore whilst affordable housing is in short supply in Arun and demand is high, there are some homes which are much less popular than others.

3.4 This section therefore focuses on understanding more about Arun's customers, their housing needs and service requirements. Current and future demand for homes is considered and the need to hold comprehensive and current data about customers is also highlighted in Section 6.8.

3.5 Housing need and demand

3.5.1 Arun is an area of high housing need with demand for affordable homes far greater than supply and a private rented sector that is unable to meet demand for short and long term housing. There were 1,333 applicants on the Council's housing register as at 1 February 2017, all with a proven housing need. By comparison, the Council let 265 Council Homes in 2016/17 (including transfers and mutual exchanges) averaging around 22 per month representing 8 % of the Council rented stock for the year. This position inevitably means many residents find themselves in very difficult housing circumstances (including being homeless) which they cannot improve without assistance.

3.5.2 Arun's Housing Strategy, Raise the Roof, confirms that 'the demand for affordable housing is at a record high and even the cheapest housing is out of the reach of many in our community. Affordability of housing is considered a major issue, people in Arun now need nearly ten times the average income to buy an average-priced house in the district – far more than mortgage lenders will provide.' Over the life of the strategy (2010- 2015) a target of delivering 1,000 affordable homes in partnership with affordable housing providers was set. Over the five years of the strategy 1,042 new affordable homes were delivered. Whilst there is no longer a statutory requirement to produce a new strategy, the Council are intending to develop one particularly to take account of anticipated new housing legislation following the publication of the Government's Housing White Paper 'Fixing our broken housing market' in February 2017. Evidence of housing need in Arun is found in the West Sussex Strategic Housing Market Assessment (SHMA) and from the Council's Housing Register.

3.5.3 **Strategic Housing Market Assessment** (SHMA)
Arun District Council, together with the other West Sussex local authorities, commissioned consultants, GL Hearn to produce a SHMA for the West Sussex Coastal Area, including the Arun District and the report was published in May 2009. An update to the report was produced in November 2012 and GL Hearn provided updated Housing Needs Evidence for Arun in September 2016.

3.5.4 The SHMA housing needs analysis provides a snapshot of the requirements for affordable housing in accordance with Government guidance. The September 2016 Updated Housing Needs Evidence identified a significantly increased objectively assessed need (OAN) for 919 dwellings per annum (compared to 578 in November 2012) due to higher than expected population growth, driven by increased net in-migration (principally from other parts of the country).

3.5.5 The evidence also included advice on the overall mix of housing as illustrated by the table below:

Suggested broad mix of housing by size and tenure – Arun

	1 bedroom	2 bedrooms	3 bedrooms	4+ bedrooms
Market	5-10%	40-45%	35-40%	10-15%
Intermediate/Starter Homes	15-20%	50-55%	25-30%	0-5%
Affordable Rented	35-40%	35-40%	15-20%	5-10%

Source G L Hearn September 2016 Updated Housing Needs Evidence Arun DC

3.5.6 The above figures represent overall housing need in Arun and show the highest need is for one and two bedroom accommodation. As at 8 June 2017 the numbers registered on the housing waiting list reflected this as illustrated by the table below;-

ADC Waiting List as at 8.6.17		
	No. of applicants	As a percentage of the total Register
1 bed need	548	42.2%
2 bed need	500	38.5%
3 bed need	170	13.1%
4 bed need	73	5.6%
5+ bed need	6	0.4%
TOTAL	1297	

Homeless households occupying temporary accommodation as at 5 June 2017 show the highest need is for two bedroom accommodation reflecting the larger number of family household s who have been accepted by the Council compared to single ‘vulnerable’ households.

In B&B or Temporary Accommodation provided by ADC as at 5.6.17		
	No. of applicants	As a percentage of those in B&B and TA
1 bed need	22	23.1%
2 bed need	63	66.3%
3 bed need	7	7.3%
4 bed need	2	1.0%
5+ bed need	1	1.0%
TOTAL	95	

3.5.7 A growing population of older people, particularly those aged in their 70s, 80s and above, is projected to result in an increased need for specialist accommodation for older persons. The new evidence identifies a need for 2,257 units of specialist accommodation over the plan period, such as sheltered or extra care provision. This is equivalent to 113 homes per annum, and equates to 12% of the overall housing need. The report recommends that broadly 60% of provision of specialist housing should be for market, and 40% for affordable housing.

3.5.8 The latest Local Plan for Arun for the years between 2011 and 2031 is under consideration with a conclusion to this process scheduled for 2017. The number of homes planned to be delivered amount to 18,380 over this plan period or 919 homes per year, as confirmed by the SHMA review. Of these it is suggested that for the years to 2021, about 25% or 230 homes per year should be delivered as affordable homes. Although the GL Hearn Updated Housing Needs Evidence of September 2016 suggests that nearly 500 affordable homes per year should be delivered, in terms of actual delivery the 230 is considered realistic given past delivery and the overall number of homes that are intended to be delivered between 2016 and 2021.

3.5.9 The new Government White paper confirms commitment to 'ensuring an honest assessment of the need for new homes and that local authorities work with their neighbours so that difficult decisions are not ducked'. The Government therefore intends to consult on a standardised approach to assessing housing need with the intention that by April 2018, a new universal methodology for calculating an objectively assessed housing requirement will apply as a baseline for assessing five year housing land supply and housing delivery.

3.6 New Tenants and the Housing Register

3.6.1 New tenants are identified from the Council's Housing Register with applicants prioritised for housing in accordance with the Council's published Allocations Scheme. As at September 2014 approximately 1,000 applicants were registered compared to 4,876 applicants registered in November 2011. A review of the Allocations Scheme resulting in the deletion of Band D (no immediate housing need e.g. applicant's adequately housed in the private rented sector but with no long term security) is the main reason for this significant reduction in applicants. However the strengthening of the requirement to have a local connection with Arun and changes to Housing Benefit has also impacted on the numbers. As housing allocations were seldom made to applicants registered in Band D the change should not be interpreted as a reduction in real demand for homes.

3.6.2 Since the review of the Allocations Scheme numbers of applicants have risen (although not to their 2014 levels) but now seem to be on a downward trend. At 31 December 2015, 1908 applicants were registered and at the end of 2016 1838 applicants were registered. However the number registered as at 8 June 2017 has reduced to 1297. This is primarily because although demand for using is increasing, the application process now requires applicants to demonstrate they meet the Council's criteria for housing need and local connection, or that they meet one of the 'reasonable preference' categories (as set out in housing legislation which include homeless household, those in unsanitary of overcrowded housing and those needing to move on medical grounds) before they can complete an on-line application for housing.

3.6.3 Applicants are prioritised in one of 3 bands on the housing register. Applicants placed in Band A have urgent need, Band B high need and Band C moderate need. The number of applicants registered in each band is shown in the table below:

Applicants on ADC Housing Register as at 1 March 2017

Band	Number Applicants	% Applicants
A	109	8.1% (13%)
B	245	18.1% (21%)
C	996	73.8% (66%)
Total	1350	100%

Note % in brackets as at September 2014

3.6.4 The average waiting time for all applicants is approximately five years (269 weeks). Applicants in Band A and B who are housed in about a year, Band C applicants who are rehoused wait on average closer to two years. Many Band A and B applicants will wait much longer for housing. Waiting times for applicants seeking one bedroom properties are about twice as long those seeking two and three bedroom accommodation. However waiting times are a complex equation reflecting a number of factors, including housing need ,applicant preferences and the number of applicants for the different types of

3.6.5 In January 2015, 93 (approximately 2.8%) of all Arun tenants had registered an application to move to alternative housing, this number has significantly increased to 212 (approximately 6%).

3.6.6 Allocations are made using choice based lettings. The Council left Homemove, the Sussex wide choice based lettings scheme, in October 2015 and now advertises vacant properties via an Arun District choice based lettings scheme. This has improved value for money saving £25K per annum, as well as increasing efficiency, consistency, quality and local control. Staff will support applicants to register on i-Housing to be able to access the system, but once registered, the bidding process is simple to use and has not generated complaints or difficulties.

3.6.7 The cost of maintaining the housing register and running the allocations scheme to deliver an effective and transparent service to applicants is split 80 / 20 between the HRA and the General Fund (GF) , reflecting the HRA responsibility for allocating Council properties and the GF statutory homelessness duty. In 2016/17, out of a total of 412 allocations, 265 (64%) allocations were to Council properties, 147 (36%) to housing association properties. The number of housing association allocations reached a peak in 2015/16 and 2016/17, reflecting the completion of a number of new developments. However following changes in the HCA grant criteria and the Government’s emphasis on starter homes and shared ownership, there is expected to be a reduction in housing association development and no further new build developments for affordable rent are anticipated at the present time. This is expected to have a major impact on the Council’s ability to meet its homelessness duties and to increase expenditure on emergency bed and breakfast due to insufficient vacancies in temporary accommodation and general needs housing.

3.7 Profile of Current Customers

3.7.1 Information about the profile of customers is principally sourced from data collected when a housing applicant accepts a Council Tenancy and from surveys, including the Status Survey which the Council last carried out in 2008-9. Additional information may also be available from the 2011 Census. There are however significant gaps in the data currently held about many existing customers.

3.7.2 Mechanisms are expected to be established to undertake improved customer profiling and satisfaction surveys utilising the functionality provided by the new IT system. This has yet to be implemented but the next stage of the IT upgrade is expected to be introduced in March 2017, as discussed in paragraph 6.8 below.

3.8 CORE Returns

3.8.1 The Continuous Recording of lettings and sales (CORE) system records information about all housing applicants accepting the tenancy for a Council home or one provided by a Registered Provider (RP) in the Arun District. In 2014/15 the CORE returns showed that 51.7 % of homes were allocated to existing tenants transferring to alternative accommodation and 48.3% to applicants new to social housing. . The number of homes allocated to applicants accepted as homeless was 32% of all those housed.

3.8.2 Other key findings from the 2014/15 CORE returns relating to new Arun Council tenants were as follows:

- Single persons or adults with children together accounted for 72% of those housed (27% of those housed were working full or part time(compares to 44.8% District wide as at 2010);
- 8% of those housed were retired
- 135 (92%) of those housed were British or Irish, 4 households were from other groups and 8 refused to answer the question on ethnicity
- 89% had no disability related requirement (compares to 95.7% District wide as at 2010);
- Average net weekly income was £225.10 (compares to £420 District wide as at 2011);
- 4% of households contained someone over the age of 65 years).

3.9 Tenant Satisfaction ‘Status Survey’

3.9.1 The survey, which was last undertaken in 2009 and covered Council tenants only, had a 61% response rate. It revealed that only 15% of households had children under 16 years of age. A large proportion were single person households with the occupant being aged 60 or over (44%), and 19% were two person households where at least one is aged over 60.

3.9.2 Over half of all respondents identified that there was someone in their household who has a long term illness, health problem or disability which limits their daily activities or the work they can do, including problems which are due to old age (55%). In 12% of these households there was someone who used a wheelchair. Such illnesses/disabilities were more prevalent amongst those in sheltered housing (65% compared with 51% of general needs tenants), and there were more wheelchair users amongst those living in sheltered housing (17% compared with 11% in general needs housing).

3.9.3 The data confirming the ethnic profile of tenants is unreliable since so many tenants omitted to answer the question on ethnicity. However information is gathered for new or transferring tenants via the CORE returns discussed above.

3.10 Future trends

The Council Report 'Working towards a Council Vision for 2015 to 2020 sets out what the Arun District may look like in around five – six years:

- There will be 75,348 households in Arun in 2020[1], up from 66,706[2] at the 2011 Census, an 8,642 (12.9%) increase. Given population growth is projected to rise by 6.6%, average household size will drop to 2.14 in 2020, down from 2.23 at the 2011 Census;

- Using ADC's five year housing land supply April 2014 - March 2019 figures, wards are projected to grow at different rates. Whilst the figures suggest district population growth of 6.3% between 2012 and April 2019, many wards may grow by less than 5%. In contrast, Wick with Toddington (33%); Felpham East (31%); Bersted (14%); Yapton (11%); Barnham (11%); and Angmering (10%) are expected to experience double digit growth. These wards are home to major housing developments;

- Population is projected to reach 161,400 (up 6.6% from 151,400 in 2012);

- Arun will have an older population than nationally (7.3 years older). An aging population is projected to lead to an increase in residents with health problems

[1] Department for Communities and Local Government Household Projections model (2011-based).
[2] 66,706 households (i.e. with at least one usual resident). N.B. 70,472 household spaces.

- 48% will be males, 52% females
- Historically the ‘natural’ population of Arun declines as deaths exceed births; however international and, especially, internal migration accounts for the population growth
- There are apparent variations by age group, caused by two main factors: the existing population is aging and there is net inward migration of older people retiring to the district.
- There is a projected rise in households, up 8,500 to 75,300;
- Single person households will still account for 34% of all households; adults with no children 38% and households with dependent children just 22%
- Economically, Arun’s working age resident population is projected to grow just 0.9%
- Economic activity will be heavily dependent on the service sector, currently 87% in Arun.

4 Meeting Housing Needs

4.1.1 Arun's Community Strategy - Our Kind of Place 2008-2026 states that a 'Properly Housed Community' is a principal objective with the aim that in 20 years time Arun will be a 'place where everyone has a home which meets their needs and is of a decent standard, with community facilities available locally'.

4.1.2 The Council's Housing Strategy "Raise the Roof" established and delivered a target to build 1,000 new affordable homes in the Arun District between 2010 and 2015.The strategy will be reviewed pending the legislative impact of the 2017 Housing White Paper.

4.1.3 The GL Hearn's 'Updated Housing Needs Evidence', September 2016 suggests that nearly 500 affordable homes per year should be delivered. However in terms of actual delivery 230 is considered realistic by the Council given past delivery and the overall number of homes that are intended to be delivered between 2016 and 2021.

4.1.4 The new HRA regime which commenced in 2012 provides the Council with the opportunity to contribute directly to achieving these objectives by:

(i) Developing new Council homes;
(ii) Making best use of the Council stock;
(iii) Reducing under occupation.

4.2 Developing new Council Homes

4.2.1 The development of new affordable homes is currently undertaken principally by Arun's Registered Provider (RP) partners. The Homes and Communities Agency (HCA) 2011-15 Affordable Homes Programme introduced Affordable Rent as a new social housing product and the main type of new housing supply for the future. Affordable Rent housing has the same characteristics as established social housing but is required to be offered to eligible households at a rent of up to 80% of local market rents. Traditional social housing rents are lower at closer to 50% of local market rents. RPs have the choice whether to offer Affordable Rent on fixed term Assured Shorthold tenancies referred to as 'flexible tenancies' or periodic 'life time' Assured tenancies. Arun's RP partners have opted to use flexible tenancies as have the Council.

4.2.2 The Council is concerned about the affordability of homes let at Affordable Rent levels. Average incomes in Arun are relatively low compared to elsewhere in the South East with many people working in horticulture or tourism. Higher rents mean that larger numbers of residents will become reliant on benefits to enable them to pay their rent. Some households, particularly single person and larger families, due to the impact of the new Universal Credit regime, may find it difficult to meet all their basic living costs in the future. Some housing applicants are put off from bidding for RP homes because of the higher rent levels and analysis of those who have successfully bid for these homes shows that they are not always in the greatest need. Furthermore RP partners are reluctant to accept nominees from the Council who have a low income or are out of work and frequently refuse nominations on affordability grounds. The Council, in partnership with other local authorities, has and continues to challenge this approach, see section 4.3.

4.2.3 The Council had previously therefore decided to deliver new homes at rents that were lower than affordable rents and the current development and acquisition programme will provide nine new homes at social rent levels. However this aim (whilst laudable) is now considered to be impractical going forward both in terms of the future financial viability of new development schemes and to ensure the Council is able to compete with RPs for Section 106 sites ,see 4.2.7 below. The Council therefore proposes to deliver new homes at affordable rents however, in common with many RPs; rents will be set at no more than the equivalent Local Housing Allowance (LHA), the level used to calculate maximum Housing Benefit entitlement for an applicant renting in the private sector. 24 new homes will be developed at Wick and Glenlogie using LHA rents. The allowance is capped at 4 bedrooms. Current Local Housing Allowance levels are shown below:

Local Housing Allowance Levels Arun 2016/2017

	One bedroom	Two bedroom	Three Bedroom	Four Bedroom
Worthing* Weekly	£120.06	£153.02	£185.29	£246.00
Chichester# Weekly	£134.02	£168.00	£198.11	£268.03
Average ADC rents for comparison	£80.20	£91.78	£101.19	£108.94

*Worthing Area includes Bognor Regis, Eastergate/Westergate, Walberton, Barnham, Yapton, Ford, Climping, Middleton on Sea, Littlehampton, Lyminster. Rustington, East Preston, Kingston, Angmering, Ferring, Clapham, Findon (village not Findon Valley which is Worthing BC), Patching

Chichester Area includes – Arundel, Burpham, South Stoke/NorthStoke, Warningcamp, Houghton, Slindon, Poling, Aldingbourne, Madehurst

4.2.4 **Rent and Service Charge Policy**

Establishing a Rent and Service Charge Policy for new homes was a previous objective but a policy has yet to be approved. Delay was attributable in part to the Government’s decision to require all social landlords (RPs and local authorities) to implement a 4 year rent decrease with effect from April 2016, discussed in more detail in the following section. However adopting a Rent and Service Charge Policy for both new and existing stock is now considered critical and is an immediate objective for 2017/18. Key issues for the new policy are as follows;-

- Confirming the Council's intention to develop new homes at LHA equivalent rent levels;
- Reviewing the Council's approach to charging for services for both tenants and leaseholders;
- Reviewing and confirming how rents are set for the Council's Social Housing stock including considering whether rents should be set to reflect the fact that some properties are located in higher value areas than others;
- Confirming the Council's approach to increasing rents and service charges. This is an important piece of work that needs to be completed in a timely manner by someone with relevant expertise. These resources are not available internally and external consultants may therefore need to be appointed to complete this work as soon as possible.

4.2.5 **Current Development Programme**

The development or acquisition of 150 new rented homes by 2020 was one of the Council's Corporate Plan objectives for 2013-17; this was reflected in the HRA Business Plan with the aim to provide 150 new homes between the period 2015- 2020. To achieve this target an average of 30 new homes would need to be provided each year. Currently over the first two years of the programme (2015-2017) a total of 36 homes have either been provided or are under construction. This includes the acquisition of a further three former Arun Council homes in addition to the eight homes acquired before 2015. Priority is given to acquiring two bedroom family homes in Bognor and Littlehampton where they are most required for housing applicants with high levels of need.

A new development of 22 homes at Wick in Littlehampton started on site in October 2016 and is due to complete in September 2018. Two new homes will be developed at Glenlogie on land to the rear of existing premises used for homeless accommodation, with a start on site in October 2016 and completion scheduled for August 2017. A total of nine homes will be developed on land adjacent to existing Council Homes at Garden Crescent, Barnham, with a start on site August 2016 and completion in July 2017.

Arun DC Current Development Programme 2015 -2020

	1 bed	2 bed	3 bed	4 bed	Total
Wick Littlehampton	6	16			**22**
Glenlogie Bognor Regis				2	**2**
Garden Crescent Barnham		6	3		**9**
Former ADC*		3			**3**
Total	**6**	**25**	**3**	**2**	**36**

* 81 Upper Bognor Road, 14 The Oval and 17 Dorset Road.

4.2.6 The Council's failure to deliver 30 new homes per annum is attributable to a number of factors however the principle reason was the Government's decision to require all social landlords to reduce rents by 1 % per annum for four years between April 2016 and March 2020. This significant reduction in revenue income has had the effect of reducing HRA balances by £4.7M over the four year period and as a consequence this expected funding stream was not available for the development programme.

4.2.7 The Council's decision to develop new homes at social rent levels has also impacted both in revenue terms and affected the Council's ability to secure Section 106 sites. House builders seek to maximise the receipts they receive for affordable homes and therefore will prefer to work with RPs who charge affordable rents and therefore can afford to pay more.

4.2.8 The Council's Legal Team has been effective in supporting the acquisition of ex RTB properties, however possibly in part due to the area of work being new to the Council, the legal work in connection with new developments and acquisitions has been protracted. The ability to have access to specialist and timely legal support is considered to be an issue for other housing services including tenancy and leasehold management. Consideration needs to be given to providing Housing with the flexibility to access external legal services in addition to those provided corporately, as and when it is necessary.

4.2.9 The current development programme has enabled the Council to continue to benefit fully from the Government's Right to Buy agreement whereby the Council is able to use the proceeds from RTB sales to fund 30% of the cost of a replacement affordable home on a "1 for 1" basis. However the Council will need to incur additional development expenditure of approximately £8.7 million by March 2021 (over and above the current development programme) assuming RTB sales continue at 20 homes per annum. This can be achieved by the new development programme (see below) starting on site ahead of schedule and the continued acquisition of former Arun DC homes where necessary. The issue is discussed in further detail in the following section.

4.2.10 **New Development Programme**

The Government recognises that Council house building continues to provide a small but important and growing source of new homes. The current 2017 White Paper confirms that twice as many council homes were built in England in the last five years than were from 1997 to 2010. Moving forward the Council has decided to set a further target of 250 homes to be developed under a new ten year development programme commencing 2018/19. Additional individual homes may also be acquired to maximise the use of RTB receipts as referred to above.

4.2.11 On the basis of recent experience, the Council is expected to lose in the region of 200 homes under the RTB over the next 10 years therefore, a target of 250 homes by 2027/28 will mean the Council will have an overall net gain of 50 homes.

4.2.12 To enable the new programme to be delivered the Council will need to fully utilize all the available “1 for 1” receipts and, subject to affordability, undertake additional prudential borrowing. Individual schemes will be subject to rigorous assessment and approval to ensure their viability (specialised software was acquired for this purpose in 2015) and conformity with the financial projections of the HRA discussed in section 7.

4.2.13 In addition to new borrowing the viability/delivery of future schemes will also need to be assured by;

(i) Maximising the use of non RTB receipts (4.2.9 and Section 7 refers);

(ii) Developing on free land i.e. existing HRA land and Section 106 sites, in the latter case the planning policy expectation is that there is no cost attributable to the plot a new affordable home is built on and this is reflected in the price the developer pays for land;

(iii) Identifying new Section 106 sites for partnership with the Council for the development of the affordable housing element. The post of Housing Strategy and Enabling Manager is transferring in September 2017 to the staff team reporting to the Group Head of Housing and Residential Services and this will be a key responsibility for this postholder;

(iv) Acquiring second hand homes including former Council homes where it is prudent to do so.

(v) Adopting a new Rent and Service Charge Policy to include the commitment to charge rents set at Local Housing Allowance levels (4.2.4 refers) and the expectation that there will be a new rent policy for social housing landlords (housing associations and local authority landlords) for the period beyond 2020 to help them borrow against future income. The 2017 Government White Paper confirms the aim to ensure there is confidence about future income in order for social landlords to plan ahead.

(vi) Evaluate the internal and external staff management resources it will require to deliver the Development Programme. It is proposed to discontinue the use of the Council's current Development Agent and deliver this function in-house in order to save money on fees. This will assist with funding the appointment of specialist external legal advisers, which is considered essential to the efficient and timely delivery of the Development Programme.

(vii) Using Compulsory Purchase powers (CP) as a last resort where garages purchased under the Right to Buy cannot be bought back and acquisition is required to enable the development of a garage site for housing, particularly those sites where garages are unlet and/or in disrepair (Section 6.9 refers).

4.2.14 A pipeline of planning applications on surplus land within the HRA is currently being progressed. These are mostly small sites with capacity for one - six homes, most of which are constrained by neighbouring properties but are expected nevertheless to provide 20 -30 homes. Garage sites offer more potential providing the issue of the re-purchase of individual garages that have been sold can be addressed (see above) and residents' general parking concerns can be reasonably addressed as part of estate enhancements.

4.2.15 Development of Council owned land is time consuming and can be subject to considerable delays where lengthy consultation with residents and individuals is needed. The Council will need to take a more pragmatic approach to hasten delivery. Buying off plan on an approved development is currently considerably quicker than building on HRA land. This will need to happen if the Council is to achieve its target of 250 homes over the next ten years.

4.2.16 Section 5.7 highlights the need to carry out options appraisals in 2017/18 of six of the Council's sheltered schemes identified as having potential for alternative use, including development. These appraisals will enable the Council to reflect on the future use of all six schemes simultaneously and there will undoubtedly be opportunities to both improve and add to the housing stock as alternative proposals are firmed up. The potential for developing at least one Extra Care Scheme will be an important consideration particularly taking account of the Updated Housing Needs Evidence in 2016, see section 3.5.6. The Government is committed to developing a sustainable and workable approach to funding supported housing which provides value for money and works for those who use it as well as those who pay for it. The Government is expected to publish a new funding model for supported housing in 2019/20 and this will be critical for future viability.

4.2.17 The potential for delivering new Council homes as part of larger general fund developments by the Council and West Sussex Council will continue to be explored, particularly in the light of the commitment in the 2017 Housing White Paper that government will work with local authorities to help them bring forward their own sites.

4.2.18 The proposed Development Programme for HRA owned sites is detailed in the following table:

Development Programme for HRA owned sites			
Site Number	Location	Number of Units	Property Mix
1	Arundel	3	3 x 2 bed houses
2	Arundel	5	5 x 2 bed houses
3	Aldingbourne/Westergate	2	2 x 2 bed flats
4	Aldingbourne/Westergate	4	4 x 2 bed houses
5	Aldingbourne/Westergate	1	1 x 3 bed bungalow
6	Barnham	4	4 x 2 bed house
7	Bognor	2	3 x 2 bed house or 2 x 2 bed house
8	Bognor	2	2 x 2 bed house
9	Findon	3	3 x 2 bed house
10	Findon	10	8 x 1 & 2 bed houses for rent plus 2x 2bed houses for shared ownership
11	Littlehampton	6	2 x 2 bed houses and 4 x 2 bed flats
12	Barnham	5	5 x 2 bed houses
13	Yapton	6	6 x 2 bed houses
		Total 53	

4.3 Local Housing Company

A key objective for the revised business plan is to develop a clear and complimentary relationship between Arun Council Housing (HRA) and the proposed new Arun Local Housing Company Trisanto. The intention being that Arun Housing will continue to maximise the use of its own assets to develop and acquire affordable homes for rent within the HRA, and that Trisanto will develop market housing for rent and sale and affordable housing for sale (shared ownership, Starter Homes). The Council will therefore have dual drivers for development, each with clear and complementary objectives which they are aiming to achieve.

4.4 **Working with existing Registered Providers**

To meet housing need the Council is significantly reliant on opportunities to nominate housing applicants for new tenancies with RPs. In 2016/2017 147 housing applicants were rehoused by RPs in the Arun district. The Council is concerned, as referred to above, that the practice of screening nominees and refusing those on low incomes is becoming more widespread. It is therefore proposed to review the Council's Nominations Agreement with Registered Provider partners, to ensure opportunities to nominate housing applicants to other housing providers are maximised.

4. 5 **Making best use of the Council Stock.**

4.5.1 The Council has ceased the practice of offering life time tenancies to applicants under pensionable age and now offers fixed term tenancies of five and ten years, each with an additional one year Introductory Tenancy. The housing need of a tenant(s) will be evaluated approximately a year before the end of the fixed term. A tenancy may then be renewed, or alternative accommodation offered to meet current need, or ended. The first evaluations will start in 2017, when the Tenancy Strategy will also be reviewed.

4.5.2 **Tenancy Fraud**

A successful pilot project has been extended to January 2018 with a target to return eight properties to the Council (or six if a criminal prosecution is involved). The original pilot resulted in some 12 properties returned and three fraudulent Right to Buy cases being stopped (Section 6.4.8 refers).

4.5.3 **Reducing Under Occupation**

The Council has adopted an Under Occupation Scheme which offers an additional priority award of £1500 to support some residents to 'downsize' from larger to smaller accommodation. Between 2013/14 and 2015/16 a total of 44 residents were supported to downsize and a further 13 residents downsized in 2016/17 with an under-occupation grant. To qualify for a grant, tenants must move to a property that is the right size for their household, making best use of the housing stock. A desk-top review of the scheme in 2016 confirmed it was successful in incentivising people to downsize while being straightforward for staff to administer.

The Council has reviewed its Disabled Adaptations Policy and best use of housing stock will be taken into account when considering major adaptations, whilst also considering the needs of the individual client. If the current property is under-occupied, the Council will consider the current demand on the housing register for the property type & size of the client's under-occupied home. Where there is demand for this property size, particularly from applicants in Bands A & B on the housing register, the client will be asked to consider a transfer to a right-size property, either with existing adaptations or where adaptations can be installed. The individual circumstances of the client will be considered when determining whether adaptations will be refused in an under-occupied property (section 5.17 also refers).

5 Our Homes: Maintaining the Housing Stock

5.1 **The Housing Stock**
The Council owns the following properties (as at February 2017):

Dwelling type	Rented	Shared ownership	Leasehold	Total
Bedsit	169		1	170
Bungalow	358	1		359
House	1231	33		1264
Flat	1450	15	403	1868
Hostel	50			50
Maisonette	78		49	127
Dwellings Total	**3336**	**49**	**453**	**3838**
Garages	834			834
Grand Total	**4170**	**49**	**453**	**4672**

5.2 Approximately 85% of the stock was built after 1945 and over 50% after 1965. The Council has no high-rise stock and only 27 non-traditional units. Details of the geographical distribution of the housing and garage stock are included as Appendix A of the business plan.

5.3 The Housing Asset Management Strategy 20012-15 identified the following objectives for maintaining its housing stock:

"To provide Decent Homes in a pleasant and safe environment and to manage the utilisation of operational stock in the best interests of our customers and the Council's HRA. This will be achieved through:

- Meeting the Government's target to continue to maintain all units up to the Decent Homes Standard;
- Meeting all relevant statutory and regulatory requirements;
- Implementing Environmental Improvement projects;
- Delivering an excellent Repairs and Maintenance service within the constraints of the current budget;
- Ensuring void properties are returned to occupation with the minimum of delay through Choice Based Lettings;
- Carrying out all necessary property adaptations as assessed against individual customer needs, including Disabled Facilities Grants works;
- Matching demand to supply in the provision of both general needs and special purpose accommodation (e.g. Sheltered Housing) – within the constraints of funding and new development opportunities;
- Offer appropriate support for older people (via the Council's appointed provider, In Touch) and vulnerable households as well as those with particular needs."

5.4 Reviewing and updating the 2012-15 Housing Asset Management Strategy was a key objective of the 2015-25 Business Plan but this has yet to be actioned. The objectives from the 2012-15 Strategy therefore continue to represent the priorities for maintaining and repairing the housing stock. However, it remains a key objective of the 2017-27 Business Plan to develop a new Housing Asset Management Strategy to ensure a consistent approach to the management and maintenance of all the HRA assets. A comprehensive stock condition survey by a specialist external contractor has recently begun and is due for completion by the end of 2018. This will provide vital information to support the development of a new Asset Management Strategy, as well as future planned maintenance programmes.

5.5 The 2015–2025 HRA Business Plan contained a number of key objectives for the maintenance of the housing stock and progress with their implementation is included in the following paragraphs.

5.6 The proposed expenditure on repairing and maintaining the housing stock over the ten years of this Business Plan is detailed at Appendix B. The criteria and assumptions used to develop the expenditure plan are outlined in the following paragraphs.

5.7 **Sheltered Housing**

A Sheltered Housing Review was completed in April 2014 by an officer working group, which identified:

- Schemes which continue to meet the desired criteria for sheltered housing and are therefore recommended for retention and improvement to ensure they remain fit for purpose;
- Schemes which offer few sheltered facilities and which are recommended to be decommissioned and returned to the general needs stock following resident consultation;
- A small number of schemes where other options, including redevelopment potential, should be evaluated through a detailed options appraisal.

5.7.1 A key objective for the 2015-25 HRA Business Plan was therefore to obtain Member approval for a five year programme to improve and develop the Council's sheltered housing, for which initial funding of £1million per annum was included in the business plan. The programme was intended to include:

- Establishing and implementing a five year programme of improvements to sheltered housing schemes identified for upgrading, including heating systems, bathrooms and kitchens;
- Undertaking detailed options appraisals for the future use of sheltered schemes identified for further consideration, including agreeing schemes which are no longer fit for purpose and should be converted to general needs accommodation.

5.7.2 However, these plans have been delayed and deferred in the light of the Government's requirement that rents are reduced by 1% per annum for 4 years from 2016. One of the key drivers for the 2017- 27 Business Plan is therefore to identify strategies which enable these objectives to be achieved.

5.7.3 When developing the improvement programme for sheltered housing, it will be essential to plan for the long term requirements of an ageing population to ensure the sheltered housing stock will meet the demand for this type of accommodation in the future, as well as the changing needs and aspirations of older people. We will seek to explore partnership opportunities with our strategic partners to develop new extra care facilities.

5.7.4 The Council's sheltered housing schemes do not have dedicated Scheme Managers but tenants may qualify for floating support from West Sussex County Council's appointed provider, In Touch (part of the Family Mosaic Group). Arun District Council employs a Supported Housing Team who perform a range of tasks to ensure the safety and efficient day to day management of the schemes. As part of implementing the recommendations of the Sheltered Housing Review it will be necessary to consider the future provision of support and caretaking services within sheltered accommodation and how these services are financed. This should also be linked to the Council's well-being programmes, whereby the communal facilities in sheltered schemes are improved and utilised more effectively to promote health and well-being activities for older people from the local community.

5.7.5 Key objectives for this Business Plan are therefore to:

- Implement the recommendations of the Sheltered Housing Review including undertaking detailed options appraisals for the future use of six sheltered schemes identified for alternative use including redevelopment. A budget of £35K has been included in the business plan to fund this work, with a view to appointing specialist consultants to advise the Council in 2017-18. It is anticipated that a re-development programme for these schemes would be agreed and implemented in stages over a number of years and a start on site is not expected before 2019-20;
- Establish and implement a ten year programme of improvements to sheltered housing schemes identified for retention and upgrading, including heating systems, bathrooms, kitchens and communal facilities as required. A capital budget of £600,000 per annum for ten years from 2019/20 has been included in the business plan to provide this programme;
- Re-designate those sheltered schemes identified to change to general needs and following consultation with residents, offer priority for a transfer to alternative sheltered housing to any elderly residents who wish to move.

5.8 **Delivering Decent Homes**
Decent Homes programmes were undertaken between 2005 and 2010 to those properties that failed to meet the standard, mainly due to the condition of kitchens and bathrooms, to ensure that all properties met the required standard. Continued compliance with the Government's Decent Homes Guidance remains a requirement of the 2015 Regulatory Standards. Ongoing expenditure is therefore necessary as older kitchens and bathrooms reach the end of their life and approximately 5% of the stock will require work to be undertaken each year to achieve continued compliance with the Decent Homes Guidance. An additional capital budget of £400k per annum has been included in the planned maintenance budget for this work from 2018/19, pending more detailed information from the authority's stock condition survey.

5.9 The 2015-25 Business Plan placed the emphasis of future planned maintenance programmes upon central heating installations, improving energy efficiency and tackling fuel poverty through increased insulation and energy saving measures. A new Mechanical and Electrical Manager (M & E) was appointed in December 2014 to lead this programme.

5.10 A ten year programme to replace 250 older gas boilers each year was included in the Gas Maintenance Contract which began in April 2015 and the replacement programme remains on track. An urgent need to upgrade older electric heating systems was also identified and a programme to address this is about to be rolled out. Where it is possible and cost effective to do so, this may include reinstating a gas supply to those properties which currently lack it. As part of a five year planned programme, the Capital Programme for 2015-16 included funding of £600K to upgrade the communal boilers in 4 sheltered housing schemes and this work was completed in 2015. There is an on-going programme of work in connection with refurbishing sheltered housing communal heating systems.

5.11 It remains an objective to investigate opportunities to develop "green" energy sources, such as may be provided by wind or solar power. The installation of solar panels at the sheltered housing scheme at Hastings Close, Bognor Regis was included in the planned maintenance programme.

5.12 Agreeing a revised lettable standard for Arun's housing stock to ensure consistent standards are achieved for all maintenance contracts, including works to vacant homes was a key objective for the 2015-25 Business Plan. This has been completed and details of the standard were included in the brief for the stock condition survey currently underway.

5.13 The planned programme ensures compliance with legislative requirements including asbestos, the Health and Safety Rating System (HHSRS), legionella and fire precaution works, as well as revised responsibilities under the Construction (Design and Management) Regulations, which came into force on 6 April 2015. Identification of any required works in these areas is included in the stock condition survey.

5.14 Cyclical maintenance contracts will prioritise estates with a high level of reactive repair expenditure on the external envelope and include a range of works to the exterior of the property, including replacing fascias, soffits and gutters with low maintenance products, repairing paths and gates, as well as re-roofing and asbestos removal programmes.

5.15 This will include programmes of works to blocks of flats where some have been sold under the Right to Buy. The Council has historically had some difficulty in progressing these programmes when leaseholders object to the cost of the works and are reluctant to pay their contributions. Clear procedures have now been established for consulting leaseholders about major repairs and issuing invoices for the work under Section 20 of the Landlord and Tenant Act 1985 to enable major repairs programmes to proceed in a timely manner. Further work may need to be undertaken to improve procedures for collecting leaseholder contributions after an invoice has been issued and it is a key objective of the 2017-27 Business Plan to implement clear procedures for collecting leaseholder contributions to major repairs.

5.16 It is also a key objective to consider disposal of the freehold of blocks of flats where all the properties have been sold. As well as bringing in a capital receipt, this would also ensure HRA resources (in terms of both expenditure and staff time) are concentrated on HRA owned stock. This is discussed further in Section 7 below.

5.17 Disabled Adaptations

Funding for disabled adaptations of £400k per annum has been included within the ten year Planned Maintenance Programme, which was assessed as being adequate to meet anticipated demand for adaptations from Council tenants. However, the number of properties that have already been adapted for disabled tenants is at a level where some needs can now be met by transfers to an adapted property rather than new works. This budget therefore may be able to be reduced and some resources re-allocated to other priorities.

5.18 Planned and reactive maintenance

Expenditure on planned and reactive maintenance in 2016-17 is expected to achieve a 30:70% split. This high proportion of reactive maintenance is well outside recommended good practice for the affordable housing sector. Following completion of the stock condition survey, it is essential that planned programmes are put in place to tackle outstanding repairs and maintenance and reduce expenditure on reactive work. In the longer term, the Council will aim to achieve a 70:30% split between planned and reactive maintenance. The HRA Business Plan starts to place greater emphasis on capitalised maintenance by increasing capital provision for 2018/19 by £400k, while reducing the revenue budget by £200k.

5.19 The Council remains committed to developing a partnership approach to working with its main contractors over the coming years, notably its Reactive Maintenance and Gas Servicing contractors. Some progress has been made in working arrangements for the Reactive Maintenance contract, with the contractor now based within the Housing office. However the contract is still currently based on the schedule of rates. The existing contract has been extended for a final three years and then it is proposed to undertake a comprehensive contract review to establish smarter ways of working. It is intended that a new contract will be tendered and in place by April 2020.

5.20 Servicing

The Gas Servicing contract was re-tendered and a new contractor appointed in April 2015. Gas servicing and the provision of gas safety certificates are fully up to date. Servicing contracts for door entry and CCTV systems, communal TV installations, emergency lighting and fire alarms have been established for 12 months until 2018, after which a longer term contract will be re-tendered. Smoke detectors are currently repaired on an individual basis using reactive maintenance contractors and a servicing contract needs to be established to improve efficiency and value for money.

6 Our Services: Managing the Housing Service

6.1 The Council is committed to providing high quality services that meet tenants' needs and aspirations. The Council aims to deliver the services that tenants want, in the way they want, within the resources available, by working with tenants and actively encouraging feedback and involvement.

6.2 The 2015-25 Business Plan identified key areas for improving the Housing Management Service, including managing anti-social behaviour and tenancy fraud; neighbourhood management and improvement; developing opportunities for tenant involvement and scrutiny; and tenancy support. Positive improvements have been achieved in most areas and these will be detailed in the paragraphs below, as well as outlining key objectives for the 2017-27 Business Plan.

6.3 Housing Management, including managing anti-social behaviour

6.3.1 **Managing anti-social behaviour**
The need to improve the management of anti social behaviour was seen as a priority during consultation with tenants and staff about the 2012-22 Business Plan goals. Further objectives to improve the management of anti-social behaviour were included in the 2015-25 Business Plan and progress with achieving these objectives is outlined below.

6.3.2 The Anti-Social Behaviour, Crime and Policing Act 2014 introduced new measures to give victims a greater say in the way their reports of anti-social behaviour are dealt with and new injunctions and powers to tackle anti-social behaviour (ASB). The Housing ASB Policy has been updated in the light of the Council's corporate approach to implementing the Anti-Social Behaviour, Crime and Policing Act and is currently waiting member approval.

6.3.3 The 2012-22 HRA Business Plan identified improvements which could be achieved through employment of specialist staff and additional investment in IT. To support the achievement of these objectives, a Housing ASB Caseworker was appointed in March 2014 on a 2 year fixed term contract within the Neighbourhood Team of Housing Services and subsequently extended to 31 March 2017. This appointment has been very successful and from 1 November 2015, was relocated to be managed within the Community Safety Team. Following a review in autumn 2016, the post was made permanent. The post continues to be funded by the HRA to work with Council tenants.

6.3.4 The post holder manages the most serious cases of ASB, with more straightforward cases being dealt with by the Neighbourhood Housing Officers, in line with established procedures. This ensures a consistent approach to casework and brings specialist expertise to tackle complex cases, enabling both criminal and civil remedies to be used as appropriate. The postholder spends half the week based at the Police Station with the Community Safety Team and half at the Civic Centre.

6.3.5 Over the seven months between July 2016 when the current postholder was appointed and February 2017, the ASB Caseworker managed 22 cases of ASB, of which 14 cases have been resolved and eight remained open for ongoing resolution or further action.

6.3.6 The ASB arrangements are seen as working well at both operational and strategic levels. Effective co-operation and joint working between Housing, Community Safety and other agencies enables the Council to tackle significant issues which affect a number of agencies, such as rough sleeping, drug related ASB, domestic abuse and migration issues. It enables the Council to access new funding streams and to undertake cross boundary working when necessary.

6.3.7 The new Housing IT system includes new case management and workflow software which will support the work of the ASB Caseworker. This has yet to come into effect but it is hoped the next stage of the IT upgrade will enable the use of case management software to be implemented.

6.3.8 **Tenancy fraud**

The Prevention of Social Housing Tenancy Fraud Act 2013 makes subletting the whole of a social rented dwelling a criminal offence and strengthens the powers of landlords to tackle this type of tenancy fraud. Audit Commission research in 2014 entitled “Protecting the Public Purse” estimates tenancy fraud takes place in 3% of cases nationally.

6.3.9 Arun District Council formerly employed two part time Housing Benefit Fraud Officers who can investigate tenancy fraud when it applies to a tenancy where housing benefit is being paid. These posts were transferred to the Department of Work and Pensions in December 2015 with the introduction of Universal Credit.

6.3.10 A key objective of the 2015-25 HRA Business Plan was therefore to undertake a pilot project by staff secondment to establish the potential extent of tenancy fraud in Arun and agree the processes and resources which might be needed to tackle it effectively. A successful approach to tackling tenancy fraud would have a range of benefits including increasing the available housing stock and reducing the use of temporary accommodation, thus reducing costs and helping to meet genuine housing need.

6.3.11 This pilot project began in January 2016 when a member of staff was seconded to undertake the role of Tenancy Fraud Investigator for an initial 12 month period. In the first year the investigator received 91 referrals from Housing Benefit and Council Tax staff, Council contractors and neighbours. This resulted in 12 properties being returned to the Council, three fraudulent Right to Buy cases being stopped, three fraudulent housing applications being refused and three cases where housing and council tax benefit savings were made. Total savings to the authority were calculated to be £480,000 and this success has led to the post being extended for a further 12 months until January 2018. A target has been set to return a further eight properties to the Council (or six cases if a criminal prosecution is involved).

6.3.12 **Taking legal action**
An objective of the 2015-25 Business Plan to deliver ongoing training to the Neighbourhood Housing Officers to enable them to represent the Council in court in some legal matters, particularly more straightforward tenancy matters has not been implemented, although the Neighbourhood Team Leader represents the Council in some court cases. For more complex cases, specialist legal advice will continue to be required and it was therefore a further objective of the 2015-25 Business Plan to review the provision of specialist legal advice to ensure cost effective, responsive arrangements are in place to support the housing staff with more complex legal action.

6.3.14 If it is necessary to use criminal powers in relation to tenancy fraud, it will be necessary to use external, specialist housing lawyers to represent the Council. An objective of the 2017- 27 Business Plan is therefore review arrangements for purchasing legal services to enable the provision of external legal advice when it is beneficial to do so to facilitate the achievement of the Council's key objectives.

6.4 Neighbourhood Management and Improvement

6.4.1 The Council recognises the importance of neighbourhoods to residents' quality of life and aims to work with tenants and leaseholders to build and support successful communities.

6.4.2 In 2015-6 there was a successful environmental improvements programme with an agreed budget of £60k which reduced to £20k in 2016-17 to reflect reduced demand. The budget will remain at £20k for 2017-8, which is expected to be sufficient to meet any need for further environmental improvements.

6.4.3 The grounds maintenance contract for the whole Council, including HRA owned land, has recently been re-procured very successfully. Land holdings were reviewed and rationalised and areas which no longer contained any council tenants were transferred to the GRA. The contract made a total saving for the Council of about £250,000, including a £100,000 saving to the HRA, without any anticipated reduction in service quality.

6.4.4 Estate inspections are continuing on some estates, notably with regular monthly inspections on two large estates which are attended by residents, councillors and staff from the repairs, grounds maintenance and neighbourhood management teams.

6.4.5 The continuing development of neighbourhood caretaking services to improve neighbourhood management on the Council's estates was a key objective for the 2015-25 Business Plan, linked to a review of service charge policy. Following a successful pilot project in 2015, three estate caretakers have been appointed, each with a vehicle with a higher specification which enables them to be more productive, for example by collecting items of bulk rubbish. The skip hire contract was also re-procured to achieve savings in bulk refuse collection.

6.4.6 Not all blocks of flats currently receive a Caretaking service as a result of historical decisions about where the service was required. As part of an ongoing service charge review there will be an evaluation of the blocks which require a caretaking service, the cost of which will then be reflected in their service charges. There is an urgent need for the service charge review to be completed to ensure income is maximised and service costs are fully recovered from tenants and leaseholders. This is therefore a key objective of the 2017-27 Business Plan and is discussed in more detail in Section 7 below, including the possibility of disposing of the freehold of some blocks of flats where they have all been sold under the Right to Buy.

6.5 Tenant Involvement and Scrutiny

6.5.1 Tenant involvement in the development, monitoring and scrutiny of services is essential for the delivery of services that meet tenants' needs and aspirations. Initially the Housing Service made good progress in implementing its key objectives for tenant involvement and scrutiny identified in the 2012-22 Business Plan but progress has slowed since 2015.

6.5.2 A Senior Tenant Participation Officer (STPO) was appointed in 2013 to lead the development of resident involvement and scrutiny and has been successful in a number of areas. However, efforts to improve the size and diversity of the membership of Arun Tenants and Leaseholders Organisation (ATLO) have not been sustained and its membership continues to be overwhelmingly older tenants from sheltered housing. It has failed to attract interest from a younger, more diverse range of tenants and is not seen as an effective platform for meaningful resident involvement.

6.5.3 Traditional models of resident involvement, whereby most consultation takes place at formal meetings, are no longer seen as effective or of interest to most tenants. The Housing Service needs to explore the use of new technology and other new ways of working. These might include the better analysis of available data from tenant feedback, including using customer complaints, councillor and MP enquiries to learn lessons and improve procedures and ways of working. As discussed in paragraph 6.8 below, the next stage of the upgrade to the Housing IT system should present opportunities to improve customer profiling.

6.5.4 Tenant scrutiny of services, whereby tenants monitor the performance of their landlord, is an integral part of the Regulatory Framework for Social Housing in England from April 2012. The Council established a Tenant Scrutiny Panel of 8 residents. Training and support was initially provided by the Tenant Participation Advisory Service (TPAS) and the Scrutiny Panel has completed two reviews of the Complaints and Void Procedures. It is hoped to implement a new complaints procedure for housing following some necessary changes to the Council's constitution and the recommendations of the review of void management have been implemented, as far as it was practical to do so.

6.5.5 It was hoped to implement a scrutiny review of the repairs service but preliminary resident consultation failed to promote any interest in being involved in the review. However, the Scrutiny Panel could be used for further reviews in the future when there is a topic which staff and tenants identify as needing an in depth examination.

6.5.6 It was a key objective of the 2015-25 Business Plan to review the format of Tenants and Leaseholder newsletters with a view to improving communication with residents, including evaluating the potential for using alternative media such as web-based technology and social networking. This has yet to be implemented but remains an objective for the 2017-27 Business Plan.

6.6 Tenancy support

6.6.1 Sustaining tenancies and preventing homelessness are important objectives for the Council. Although the Council's current rent arrears performance is good, arrears are gradually increasing and the roll out of Universal Credit from April 2018 and other changes to welfare benefits are expected to result in further significant increases in arrears.

6.6.2 The above changes are likely to increase the financial, social and emotional pressures on tenants and their families. Specialist debt advice provided at an early stage can help tenants with budgeting and managing debt. With the benefit of specialist advice tenants are often able to maximise their incomes, reduce outgoings and avoid falling into rent arrears. In addition to the benefits to tenants and their families' specialist debt advice can often produce savings in rent arrears and legal costs that more than cover the cost of providing the service.

6.6.3 In the light of the likely impact of welfare reform, a Money Advisor was appointed to support tenants and homeless households with money management, debt advice, maximising income and access to welfare benefits. The officer appointed has extensive expertise in this area and the appointment is seen as successful in preventing homelessness.

6.6.4 Other tenancy support has been provided by the Housing Service's Temporary Accommodation Officer who provides intensive tenancy support to vulnerable homeless households when they move from temporary to permanent accommodation, with the aim of reducing the risk of future homelessness and promoting tenancy sustainment. The amount of temporary accommodation has risen from 33 units in 2014 and there are currently 66 households in temporary accommodation. It has therefore been agreed to appoint a second Temporary Accommodation Officer from 1 April 2017 for a 12 month period. This is being funded from the HRA, although the provision of temporary accommodation is a General Fund responsibility. In addition to staffing costs, the HRA is also funding the provision, repair and maintenance of temporary accommodation on behalf of the General Fund. It is therefore a key objective of the 2017-27 Business Plan to limit any negative financial e impact on the HRA where services are provided on behalf of the Council's General Fund particularly concerning temporary accommodation. This is discussed in Section 7 below.

6.7 Customer profiling

6.7.1 For an organisation to deliver excellent customer services, it needs to understand its customer base. Improved information is being collected from new tenants at sign up but limited resident profiling information is held about longer standing tenants. Improved information gathering would support initiatives to tailor services to local areas and needs.

6.7.2 The Council last undertook a Status survey to assess customer satisfaction in 2008-9 and it was an objective of the 2015-25 Business Plan to establish mechanisms for undertaking improved customer profiling and satisfaction surveys in the light of facilities provided by the new IT system. An upgrade to the IT system has recently taken place which should allow progress to be made on customer profiling and customer surveys.

6.8 Management of Garages

6.8.1 The Council currently owns 834 garages (Appendix A refers); in addition it is estimated that 332 garages (over a quarter of the original stock) have been sold.

6.8.2 680 of these 834 garages are considered lettable and there are currently 135 voids because of their repair condition, of which 28 are unfit to let. Many garages have been void for a substantial period of time. The income from the Council's garages is currently around £393,000 in 2016/17, representing a significant although reducing revenue stream due to void losses and arrears. Garage rent arrears fluctuate widely due to the timing of direct debit payments but true arrears are estimated at £2,600 at 1 March 2017, less than 1% of rent due.

6.8.3 Opportunities to redevelop some of the garage sites for new housing are discussed in Section 6 of this Business Plan and it is planned to identify which garage sites will be retained, improved or redeveloped as soon as possible. Streamlining the management of the Council's garages under a single manager to enable decisions about the future use of garage sites to be made and implemented was an objective of the 2015-25 Business Plan, but this has not been taken forward and lettings and management of garages will remain a responsibility of the Neighbourhood Management Officers. An online garage application system should now be able to be put in place following a recent upgrade to the IT system.

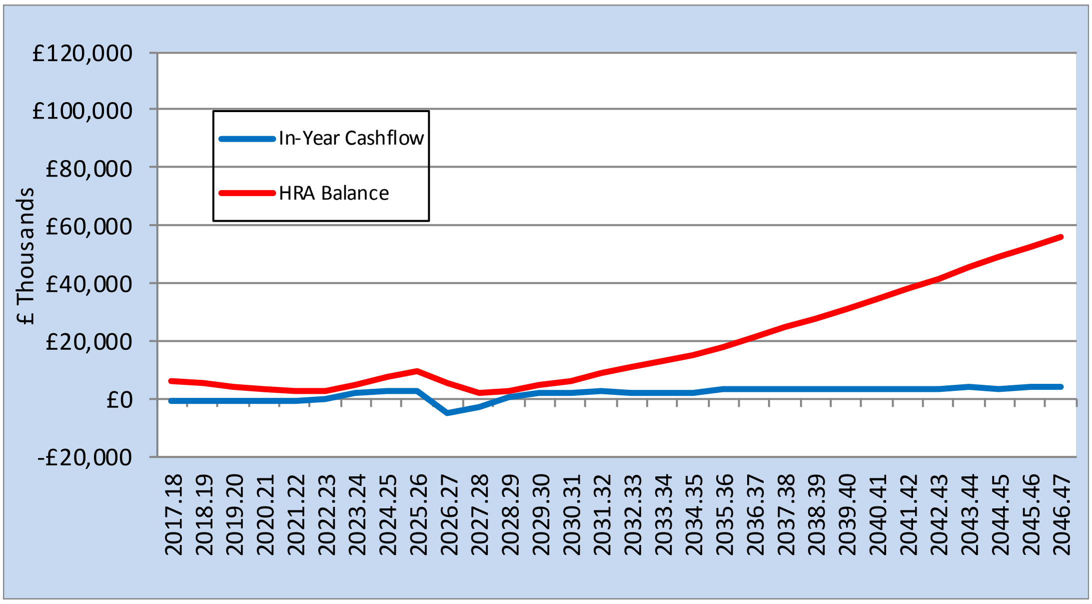
7 Resources and Financial Analysis

7.1 The draft HRA 10 year financial model is detailed below:

Year £ Thousands	2017.18 1	2018.19 2	2019.20 3	2020.21 4	2021.22 5	2022.23 6	2023.24 7	2024.25 8	2025.26 9	2026.27 10
INCOME:										
Rental Income	15,948	15,897	16,100	16,225	16,666	17,118	17,581	18,055	18,865	19,038
Void Losses	-103	-155	-157	-158	-162	-167	-171	-176	-184	-185
Grants & Other Income	650	663	676	690	704	718	732	747	762	777
Total Income	**16,495**	**16,405**	**16,619**	**16,757**	**17,208**	**17,669**	**18,142**	**18,626**	**19,443**	**19,629**
EXPENDITURE:										
General Management	-4,813	-4,728	-4,847	-4,968	-5,092	-5,219	-5,350	-5,483	-5,620	-5,761
Other Management	-158	-162	-166	-170	-174	-179	-183	-188	-193	-197
Bad Debt Provision	-60	-155	-157	-158	-162	-167	-171	-176	-184	-185
Responsive & Cyclical Repairs	-4,567	-4,510	-4,644	-4,459	-4,261	-4,388	-4,517	-4,649	-4,784	-4,921
Total Revenue Expenditure	**-9,598**	**-9,555**	**-9,814**	**-9,755**	**-9,689**	**-9,952**	**-10,221**	**-10,496**	**-10,780**	**-11,064**
Interest Paid	-1,722	-1,723	-1,814	-1,859	-1,955	-1,986	-2,067	-2,219	-2,377	-2,488
Interest Received	55	61	70	54	42	38	55	88	126	110
Depreciation	-3,573	-3,500	-3,500	-3,500	-3,500	-3,500	-3,500	-3,500	-3,500	-3,500
Net Operating Income	**1,658**	**1,687**	**1,561**	**1,696**	**2,104**	**2,268**	**2,408**	**2,498**	**2,910**	**2,686**
APPROPRIATIONS:										
FRS 17 /Other HRA Reserve Adj	-2,500	-2,500	-2,500	-2,500	-2,500	-2,000	0	0	0	0
Revenue Provision (HRACFR)	0	0	-200	-200	-200	-200	-200	-200	-200	-200
Revenue Contribution to Capital	0	0	0	0	0	0	0	0	0	-7,255
Total Appropriations	**-2,500**	**-2,500**	**-2,700**	**-2,700**	**-2,700**	**-2,200**	**-200**	**-200**	**-200**	**-7,455**
ANNUAL CASHFLOW	**-842**	**-813**	**-1,139**	**-1,004**	**-596**	**68**	**2,208**	**2,298**	**2,710**	**-4,770**
Opening Balance	6,903	6,061	5,248	4,108	3,105	2,509	2,577	4,784	7,083	9,793
Closing Balance	**6,061**	**5,248**	**4,108**	**3,105**	**2,509**	**2,577**	**4,784**	**7,083**	**9,793**	**5,023**

7.2 The financial assumptions used to develop the Business Plan are outlined in Appendix C and sensitivity analysis in Appendix D. Their implications are discussed in the following paragraphs.

7.3 The draft financial model projects small deficits for the next 5 years, as the authority meets the costs of additional repairs (pending the results of the ongoing stock condition survey) and an extended capital programme, while coping with the effects of rent reduction. However, it still maintains a minimum HRA balance of around £2m. From years 6 to 9 the HRA is in surplus, and builds additional balances that are drawn upon to part-finance the capital programme in years 10 and 11. Over 30 years, HRA balances grow to £56.2m, as shown in the chart below. This demonstrates the underlying strength of the revenue position.



7.4 The HRA business plan incorporates a capital programme that includes £42.5 million to achieve the delivery of 250 new homes, in addition to 36 units being delivered by existing schemes. It also provides for £6m to be spent from capital resources on a programme of major improvement works to the authority's sheltered housing over 10 years, starting in 2019/20, This will be funded by a mixture of loans and capital receipts, from retained proceeds from Right to Buy sales. The chart below summarises the profile of expenditure over thirty years, including the extra capital expenditure required to deliver the ten year programme of additional homes and investment in the sheltered stock, along with additional stock condition works.

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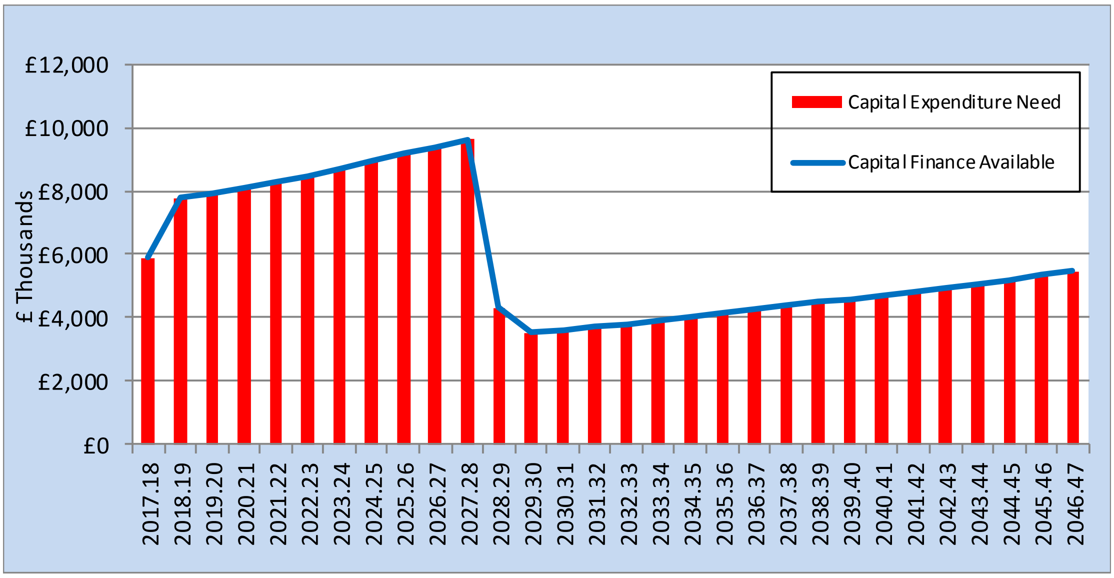
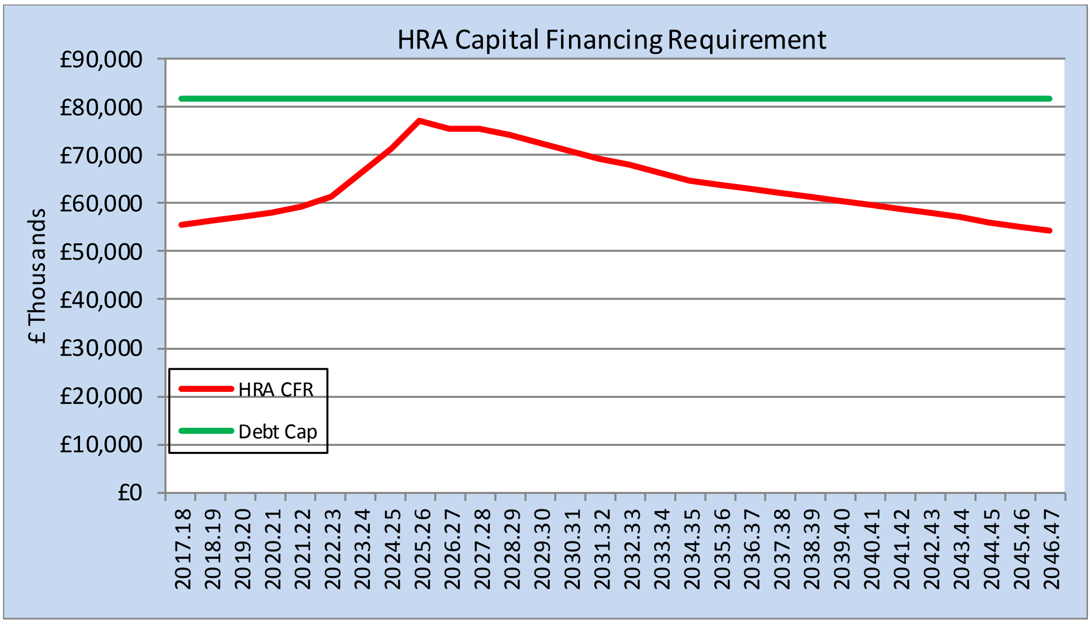


Appendix B provides further details on the proposed capital programme.

7.5 Treasury Management

Outstanding borrowing for the HRA capital programme (as measured by the HRA capital financing requirement) stood at £56.6M at the start of 2017/18. The underlying debt comprises maturity type loans with different maturity dates. Interest rates are fixed and range from 1.99% to 3.53%, dependent on the repayment period. The Business Plan seeks to ensure that sufficient financial provision continues to be made to repay these loans. The approach taken to date provides the Council with flexibility as the requirements of the business plan change in the future and will allow debt restructuring opportunities and further borrowing to fund key objectives

7.6 The Business Plan requires additional borrowing to finance the provision of 250 new homes, as well as investment in the general and sheltered stock. In total, new borrowing of £44.2m will be undertaken to fund this programme, with the balance met from a combination of capital receipts and revenue contributions. The net increase in borrowing required comes to £20m, after allowing for planned provisions made to repay the existing debt. This net increase in borrowing remains within the borrowing “head room” set by the Government as part of the self-financing regime. The business plan also allows for the HRA to repay much of the debt borrowed, as shown below:



7.7 Risk management

There are a number of risks and uncertainties associated with the business plan, which include:

- The government has proposed the introduction of a higher value asset levy on local authorities. However, there is currently little in the way of detail on the scale of the levy, or how it might operate. If the government proceeds with these plans, it is likely that the levy would have an adverse effect on the capacity of the HRA, unless measures are also introduced that mitigate the impact;
- There is uncertainty around future rent levels, after the current rent reduction period ends in 2019/20. The government has indicated that increases may be linked to CPI, and the model makes this assumption. It is, however, possible that the government will permit authorities to implement above CPI increases, for example if linked to the delivery of plans for new supply.
- Interest rates for new borrowing may increase over the period of the Business Plan, which could reduce the affordability of the planned investment programme;
- The financial model reflects updated inflation expectations. Inflation of 2.5% has been assumed for operating expenditure, in line with the council's budget-setting assumptions, while rents reduce by 1% a year until 2019/20 (in line with the requirement for rent reduction) and then increase in line with the Bank of England's medium term forecast for the consumer prices index. A reduction in CPI would reduce rental income, as well as affecting pensions and other benefits received by many Arun residents. This may be mitigated to some extent by lower increases than assumed in pay and the cost of goods and services, but the overall impact of a reduction in inflation would be to reduce the capacity of the plan unless actions are taken to reduce costs elsewhere;

- An increase in the level of right to buy sales from the assumed level (16 to 20 units a year) would reduce income to the HRA, while increasing the resources available to use for replacement homes. Conversely, a reduction in the number of sales would increase HRA income, but reduce the available capital resources, making the authority more dependent on borrowing to deliver its investment plans.
- Introduction of universal credit may impact on the authority's ability to collect rent. The model already assumes an increase in rent loss (from the current low level of 0.38% to 1%), but any further increase in non-payment would impact negatively on the HRA

The sensitivity analysis outlined in Appendix F of the Business Plan provides further information on the potential impact of some of the key risks

7.8 The Council should continue placing emphasis on managing costs and ensuring value for money within the HRA, as a way of ensuring that it maximises the capacity to maintain existing stock and provide new homes. This may involve exploring uses of new technology and alternative methods of delivery, to help reduce costs.

7.9 Adopting a Rent and Service Charge Policy to increase fairness and transparency of charges, while optimising the financial capacity of the HRA for both new and existing tenants is an immediate objective for 2017/18, see 4.2.4 above.

8 Action Plan

Year	Action	Business Plan section refers	Lead Officer
	Increasing the Housing Stock		
2017-18	Agree a 10 year development strategy and development programme to enable the construction of an additional 250 new homes commencing in 2018/19	4.2.10	
2017-18	Review of the Council's approach to HRA borrowing and develop a new Treasury Management Strategy	4.2.12	
2017-18	Agree additional borrowing of up to £44.2 million to enable the Council to deliver its business plan, which includes funding for the building or acquisition of 250 new homes and £6 million investment in Sheltered Housing	4.2.12	
Ongoing	Continue to acquire second hand homes (particularly former Council homes sold under the Right to Buy) to maximise the use of Right to Buy receipts	4.2.13	
2017-18	Adopting a Rent and Service Charge Policy for both new and existing stock	4.2.4	
2017-18	Evaluate the internal and external staff management resources it will require to deliver the Development Programme including the role of its current Development Agent and where appropriate the need to appoint specialist external legal advisers.	4.2.13	
2017-18	Develop a clear and complimentary relationship between Arun Housing (HRA) and the proposed new Arun Local Housing Company	4.3	
2017-18	Review the Council's Nominations Agreement with Registered Provider partners, to ensure opportunities to nominate housing applicants to other housing providers are maximised.	4.4	
	Ensuring housing assets are fit for purpose		
2019-20	Develop a new Housing Asset Management Strategy	5.4	
2017-18	Appoint specialist consultants to undertake detailed options appraisals for the future use of 6 sheltered schemes identified for redevelopment	5.7.5	

Year	Action	Business Plan section refers	Lead Officer
2017-18	Establish and implement a 10 year programme of improvements to sheltered housing schemes to ensure that they are fit for purpose	5.7.5	
2017-18	Re-designate those sheltered schemes identified to change to general needs	5.7.5	
2019-20	Consider and make provision for the impact of the new stock condition survey within the HRA budget	5.18	
2019-20	Review and update the 10 year planned maintenance programme to reflect the findings of the stock condition survey	5.18	
2019-20	Review and re-tender the reactive maintenance contract	5.19	
	Maximising income and making the best use of available resources		
2017-18	Implement procedures to maximise the benefit to the HRA from the development and disposal of assets, including RTB receipts, garage sites and land	4.2.13	
2017-18	Implement procedures to limit the impact on the HRA where services are provided on behalf of the Council's General Fund particularly concerning temporary accommodation	6.7.4	
2018-19	Make provision for the likely impact on the HRA of the roll out of Universal Credit and other changes to welfare benefits	7.12	
2018-19	Investigate disposal of freehold assets in blocks where all properties have been sold under the RTB	5.16	
2017-18	Implement clear procedures for collecting leaseholder contributions to major repairs	5.15	
2017-18	Where appropriate review arrangements for the purchasing legal services including the provision of external legal advice	6.4.14, 4.2.8	
2017-18	Review the format of Tenants and Leaseholder newsletters with a view to improving communication with residents, including evaluating the potential for using alternative media such as web-based technology and social networking.	6.6.6	
2018-19	Establish mechanisms for undertaking improved customer profiling and satisfaction surveys in the light of facilities provided by the new IT system	6.8.2	

9 Appendices

A. Geographical Distribution of the Housing and Garage Stock

The geographical distribution of the housing and garage stock as at February 2017 is detailed below:

Location	Rented homes	Shared ownership	Leasehold properties	Total dwellings	Garages
Aldingbourne	69	0	2	71	15
Aldwick	47	0	14	61	13
Angmering	121	0	1	122	46
Arundel	125	0	33	158	78
Barnham	92	0	9	101	27
Bersted	274	4	36	314	54
Bognor Regis	826	12	156	994	71
Clapham	16	0	0	16	5
Eastergate	34	0	12	46	6
East Preston	154	0	20	174	70
Felpham	50	2	0	52	7
Ferring	28	0	4	32	19
Findon	71	0	0	71	12
Ford	0	1	0	1	0
Houghton	2	0	0	2	0
Littlehampton	774	25	125	924	193
Middleton on Sea	115	2	4	121	17
Pagham	27	0	5	32	12
Patching	4	0	0	4	3
Poling	3	0	0	3	3
Rustington	279	2	27	308	125
Slindon	12	0	0	12	5
Walberton	41	0	0	41	28
Warningcamp	4	0	0	4	0
Yapton	155	1	5	161	25
Total	**3,323**	**49**	**468**	**3,825**	**834**

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B. 10 Year Housing Capital Programme

Year	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27
£ Thousands	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
EXPENDITURE:										
Planned Maintenance Expenditure	-1,822	-2,278	-2,334	-2,393	-2,453	-2,514	-2,577	-2,641	-2,707	-2,775
Disabled Adaptations	-400	-410	-420	-431	-442	-453	-464	-475	-487	-500
Other Capital Expenditure	0	0	-645	-665	-687	-710	-733	-757	-782	-808
New Build Expenditure	-3,656	-5,094	-4,528	-4,577	-4,691	-4,808	-4,929	-5,052	-2,693	-5,308
Total Capital Expenditure	**-5,878**	**-7,782**	**-7,928**	**-8,066**	**-8,273**	**-8,485**	**-8,703**	**-8,926**	**-6,670**	**-9,390**
FUNDING:										
Major Repairs Reserve	3,188	2,456	2,456	2,456	2,456	4,135	2,135	2,135	2,135	2,135
HRA CFR Borrowing	1,297	4,474	4,318	4,760	4,967	3,500	6,568	6,791	4,535	0
Other Receipts/Grants	519	0	0	0	0	0	0	0	0	0
HRA Reserves	874	852	1,154	850	850	850	0	0	0	0
Revenue Contributions	0	0	0	0	0	0	0	0	0	7,255
Total Capital Funding	**5,878**	**7,782**	**7,928**	**8,066**	**8,273**	**8,485**	**8,703**	**8,926**	**6,670**	**9,390**

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C. 10 Year Financial Model Key Assumptions

Inflation

- The consumer price index (CPI) has been assumed in line with the forecast produced by the Bank of England in its May 2017 inflation report. This expects inflation to increase to 2.7% during 2017, reducing to 2.6% for 2018, dropping further to 2.2% in 2019 and then settling at 2.3%.
- Rents are assumed to reduce by 1% a year in 2018/19 and 2019/20, in line with the requirement for rent reduction. From 2020/21, the model assumes that rents rise in line with CPI.
- Other types of income are assumed to rise at 2% a year, in line with the council's current budget assumptions for the HRA
- Expenditure budgets are assumed to rise at 2.5% a year, which is in line with the council's current budget assumptions for the HRA

Existing Debt

- For the authority's existing debt, the model assumes that loan repayments occur in line with the existing schedule of loans. In addition, revenue provision has been maintained in line with the council's budget assumptions, to ensure that sufficient resources are available to repay the existing loans as they mature, should the authority wish to do so.

Funding of new commitments

- The model assumes that the first call for funding the new build/ acquisition programme will be the available "1 for 1" replacement receipts from additional right to buy sales. These receipts can finance up to 30% of the new build/ acquisition programme.
- The model finances the remainder of the additional capital spending commitments funded by borrowing. It assumes that the additional debt would largely be taken in the form of PWLB loans, repaid in equal instalments over 30 years.

Other assumptions

- The number of RTB sales is expected to continue at 16 to 20 properties a year.
- Provision has been made for additional rent loss (through increases in voids and bad debts) from 2018/19
- The model allows for a notional £400,000 pa increase in capital investment for the existing stock, while the authority awaits the results of its ongoing stock condition survey. This corresponds with a £200,000

pa reduction in revenue repairs, in recognition of the authority's aim to improve the balance between revenue repairs and capital maintenance
- Additional notional provision of £6m over 10 years has been included for capital investment in the existing sheltered housing stock

D. Sensitivity Analysis

Alternative scenarios

The draft HRA 10 year financial model shown at paragraph 7.1 has been based on the best information currently available. However, as outlined in section 7, there are a number of risks and uncertainties which could influence the expenditure and income projections on which the model is based. In view of these risks, the model has been stress tested by producing a range of alternative scenarios that reflect modified assumptions.

Scenarios produced include:

- Restraining growth in the costs of housing management (excluding recharges from the general fund) to 1½% a year for five years
- The government introduces a higher value asset levy of £750,000 pa from 2018/19, which the council finances from additional borrowing
- A combination of the above scenarios

This scenario analysis shows that the HRA is still able to deliver the proposed programme within the current financial constraints, though it would require a higher level of borrowing. It would also be open to the council to take further mitigating actions, which help to improve the situation. For example, it could choose to:

- Seek further cost reductions from its revenue budgets
- Introduce service charges, where appropriate
- Modify its policy for setting aside provision for debt repayment
- Allocate other capital resources to the HRA capital programme

Other sensitivities

Changes in the underlying assumptions for the financial model can have a marked impact on the results. The section above shows that the model can accommodate a range of different scenarios. It is also important to be aware of the impacts of variations in other key assumptions. These include: fluctuations in the rate of inflation; changes in the numbers of RTB sales, and changes in interest rates.

Any such changes should be monitored and assessed as part of the ongoing management of the capital programme. For the purposes of this report, the broad effects of fluctuations in these variables are as follows:

- Lower inflation – a reduction in CPI reduces the amount of income generated by the HRA. This is likely to be mitigated partially by reduced pressure for operating costs to increase, but may also require the authority to reduce spending on housing management or repairs to maintain a prudent level of working balances.
- Higher inflation – a rise in CPI increases rental income. It also introduces pressure for costs to rise, but the overall effect is a net improvement in the revenue position.
- Higher RTB sales – an increase in RTB sales reduces the rental income generated by the HRA, thereby increasing pressure on the revenue position. A substantial increase in sales may require the authority to take mitigating action to protect HRA balances. At the same time, the authority would retain a higher level of "1 for 1" receipts, which would be available to part-fund the provision of replacement homes.
- Lower RTB sales – a drop in RTB sales increases rental income generated by the HRA, helping to protect revenue balances. However, this means that the authority would retain a lower level of "1 for 1" receipts, and may have to borrow more in order to deliver additional homes.
- Higher interest rates – an interest rate rise increases the cost of borrowing, and places pressure on HRA balances, which may require the council to take mitigating action.
- Lower interest rates – a drop in interest charges from the rates assumed would reduce the cost of borrowing and increase HRA balances.

EQUALITY IMPACT ASSESSMENT

Name of activity:	Housing Revenue Account Business Plan 2017-2027		**Date Completed:**	13 June 2017	
Directorate / Division responsible for activity:	Services		**Lead Officer:**	Brian Pople	
Existing Activity	☐	**New / Proposed Activity**	☐	**Changing / Updated Activity**	✓

What are the aims / main purposes of the activity?
To set out aims and objectives of Housing Revenue Account Business Plan for next ten years
What are the main actions and processes involved?
To set in motion a number of objectives including: • Increasing Housing Stock • Adopting a Rent Service Charge Policy • Ensuring housing assets are fit for purpose • Improving Sheltered housing • Carry out options appraisals of Sheltered Schemes • Maximising income and making best use of resources available
Who is intended to benefit & who are the main stakeholders?
Council Tenants & Leaseholders
Have you already consulted on / researched the activity?
Yes. Consulted with Director of Services and Corporate Team, Head of Housing, Housing Management and Finance staff and with Portfolio holder for Residential Services. Additionally reports have been provided by specialist consultants, Housing and Housing finance

Impact on people with a protected characteristic (What is the potential impact of the activity? Are the impacts high, medium or low?)		
Protected characteristics / groups	**Is there an impact (Yes / No)**	**If Yes, what is it and identify whether it is positive or negative**
Age (older / younger people, children)	**Yes**	Increasing housing stock and making existing properties fit for purpose where appropriate
Disability (people with physical / sensory impairment or mental disability)	**Yes**	New housing stock will be built to standards that take account of disabilities
Gender reassignment (the process of transitioning from one gender to another.)	**No**	
Marriage & civil partnership (Marriage is defined as a 'union between a man and a woman'. Civil partnerships are legally recognized for same-sex couples)	**No**	
Pregnancy & maternity (Pregnancy is the condition of being pregnant & maternity refers to the period after the birth)	**No**	
Race (ethnicity, colour, nationality or national origins & including gypsies, travellers, refugees & asylum seekers)	**No**	
Religion & belief (religious faith or other group with a recognised belief system)	**No**	
Sex (male / female)	**No**	
Sexual orientation (lesbian, gay,	**No**	

bisexual, heterosexual)		
Whilst **Socio economic** disadvantage that people may face is not a protected characteristic; the potential impact on this group should be also considered	**No**	

What evidence has been used to assess the likely impacts?
1. Some of the Council's existing sheltered accommodation currently operates with shared bathroom/shower facilities. This needs to be addressed. 2. New build properties will be built to standards that take into account disability requirements. Over a ten year period such facilities will significantly increase capacity for those with disabilities.

Decision following initial assessment			
Continue with existing or introduce new / planned activity	**Yes**	**Amend activity based on identified actions**	**Yes**

Action Plan			
Impact identified	**Action required**	**Lead Officer**	**Deadline**
Shared bathrooms	Address as part of building improvements	Group Head of Residential Services	2018 for identifying programme of improvements
Increasing Housing Stock suitable for those with disabilities	Acquiring/building new housing over 10 year period	Group Head of Residential Services	Ongoing

Monitoring & Review	
Date of last review or Impact Assessment:	Not previously carried out
Date of next 12 month review:	August 2018
Date of next 3 year Impact Assessment (from the date of this EIA):	August 2020

Date EIA completed:	13 June 2017
Signed by Person Completing:	………………………….

AGENDA ITEM NO.8

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF CABINET ON 31st JULY 2017

PART A : REPORT

SUBJECT: Council owned property company

REPORT AUTHOR: Andy Elder DATE: 14 July 2017 EXTN: 37714

EXECUTIVE SUMMARY:

At its meeting on 17th October 2016 Cabinet approved the principle and purpose of establishing a wholly owned local authority housing company (to allow greater flexibility this is now referred to as a local authority property company) subject to the production and approval of a satisfactory business case. This paper presents the finalised business case for Trisanto, the Council's arms-length property company, and an accompanying risk register which have both been subject to an independent review by our advisors. It also sets out the next steps which will need to be completed before the company can commence its trading activity, this work will be funded from the initial working capital loan.

The purpose for creating Trisanto is to develop residential housing and other appropriate schemes to generate an additional income stream for the authority via company dividends. Trisanto would be a separate legal entity wholly owned by the Council. It would have the power to undertake anything a company can do and in particular to acquire and hold land and properties.

Trisanto would be run by its Directors but their decisions would be constrained by a shareholder agreement which would define the limits the Council wants to place on the ability of the Directors to make decisions and in particular, the decisions that would need shareholder consent. The Council would be the sole shareholder and as such, decisions as to how to exercise its shareholder power would come back to the Council's Cabinet.

Statement from the Council's Group Head of Corporate Support

In considering the recommendations in this report Members should be particularly aware of the matters outlined in paragraph 1.7 and the contents of the risk register (Appendix 2). If Trisanto commences its trading activity it is likely – even if the Company is successful - to be some considerable time before any financial rewards accrue to the Council. In the short to medium term any gains (interest rate differentials or dividend payments) will be offset by the loans advanced for working capital and set-up costs.

Members need to make an assessment of all the implications of approving the recommendations of this report and to weigh the risks and additional costs (including the supplementary estimate of £1m and set-up costs currently estimated at some £120,000) on the one hand against the potential future rewards on the other.

RECOMMENDATIONS:

Cabinet is requested to recommend to Full Council that:

i) The business case at **Appendix 1** is approved.

ii) The risk register at **Appendix 2** is noted.

iii) The statement from the Council's Group Head of Corporate Support included in the Executive Summary be noted.

iv) The actions set out at paragraphs 2.1 and 2.2 are completed to enable Trisanto to commence its trading activity.

v) Approval of a supplementary estimate of up to £1M, equating to a Band D council tax of £16.82, for working capital to enable the Company to start transacting.

vi) The working capital to take the form of loans from the Council to the Company, with each loan being subject to the approval of the S.151 officer, the Chief Executive and the Deputy Leader of the Council, and the terms of each loan (including the rate of interest) to be determined by the S.151 officer.

vii) Authorisation is given to execute all required legal documentation and take such steps/actions to give effect to the business case including the Shareholder Agreement and Loan Arrangements.

viii) Cabinet will be responsible for the Council's function as shareholder, and that the substantive Directors of the company be appointed at Arun's Annual Council Meeting and the position of Councillor Directors be considered at the Council's Annual Meeting each subsequent year;

ix) The Chief Executive be authorised, in consultation with the Leader of the Council, to approve the appointment of the first directors to Trisanto Development Corporation;

x) The appointment of the Director of Place, already confirmed as Director of Trisanto Development Corporation on its incorporation in February 2017, be approved;

xi) The Council's constitution is amended at Part 3, Responsibility for Functions – The Cabinet, paragraph 2.10 (page 48/49) to add:

- To review and scrutinise the operation of any Council owned companies by working with the arms-length companies.

xii) The Council's constitution is amended at Part 3, Responsibilities for Functions, paragraph 4.1 Audit and Governance Committee (page 63/64) to add:

- To review and scrutinise the operation of any Council owned companies and Cabinet's role in overseeing this activity through monitoring reports submitted on at least an annual basis or as reported by the S.151 officer.

xiii) The Standards Committee be requested to review the Council's Code of Conduct to cover the role of Directors of companies set up by the Council.

1. BACKGROUND FOR ESTABLISHING TRISANTO

1.1 The government has reduced the funds awarded to local government in recent years, requiring councils to find greater efficiencies in the way that they provide services to meet the needs of our communities. The Council's 2020 Vision programme has identified the need to create additional revenue streams that can be used to fund those vital front line services.

1.2 Across England councils are now actively taking forward measures to establish, or are in the process of establishing, a variety of housing models to develop homes, and using a mix of financing options to fund either new housing development schemes and/or purchase existing housing on the open market. The ethos behind each of these models varies, some include developing additional affordable housing whilst others concentrate their efforts primarily on commercial activities to maximise returns to the council. The opportunity to set up a property company in Arun fits with the central government expectation that local authorities will in future play a more active role in housing delivery and in shaping their local housing market.

1.3 To date 120 councils have established their own companies to deliver new housing in their areas with the vast majority using investment from the Public Works Loan Board (PWLB) to finance their activities. Whilst most authorities have examined various capital funding options, including the issuing of bonds, the vast majority have chosen to use the flexibility and competitive rates currently offered by the PWLB.

1.4 The 2020 Vision Programme identified a number of opportunities for developing business cases to allow the Council to take forward a number of options to generate income from commercial services. One of the suggested business cases is the option to establish a property company. This idea has been progressed via a formal project overseen by a Cabinet Working Party with support from various external advisors. The project proposal is now to operate Trisanto as a commercial company to develop housing for sale and rent outside of the Housing Revenue Account (HRA), and to now translate the initial idea into commercial reality.

NEXT STEPS TO ENABLE TRISANTO TO COMMENCE TRADING ACTIVITY

1.5 Since October 2016, when Cabinet agreed the principle and purpose of establishing a local property company, officers have been working with our advisors to develop a suitably robust business case (Appendix 1).

1.6 On 10th February 2017 the Council formally registered Tristanto Development Corporation at Companies House as a private company limited by shares, with the full shareholding owned by the Council. To enable the Company to move to a position whereby it can begin to operate, following its legal incorporation, the following activities will need to be undertaken:

- Set up a Shadow Board of Directors to endorse the direction of travel and full implementation of the project plan;
- Finalise the bespoke Company articles of association, appointment of directors, the terms of funding, tax and VAT considerations etc.;

- The drafting and approval of all other documents necessary to govern the company and to manage the relationship between the Council and the Company via a Shareholder Agreement;
- Produce the necessary loan agreements from the Council to the Company, with separate agreements for capital expenditure and working capital;
- Arrange the provision of indemnities for officers and members as directors of the company board under the Local Authorities (indemnities for Members and Officers) Order 2004; and
- Produce a Service Level Agreement between the Council and the Company for the purchase of any council services.

1.7 Establishing and operating a property company owned by the Council is a new Business activity for the authority which presents a series of risks which will need to be fully assessed and appropriately managed. In addition to those risks included in the risk register (Appendix 2) there will be a need to address a number of additional potential risks which may arise from changing markets, legal, environmental and economic conditions.

In addition, the Council will need to:

- Consider all the competing borrowing requirements when assessing potential loans to the property company.
- Give the issue of Minimum Revenue Provision (MRP) careful consideration particularly if there is to be new Housing Revenue Account (HRA) borrowing.
- Take a prudent approach to all its new borrowing and cannot look at the individual elements in isolation.
- Be aware that the property company in conjunction with the proposed (HRA) new build could result in a high level of borrowing debt for the Council.

<u>There is a risk that the Council may incur significant upfront costs in advance of any returns being made due to the reliance on the property sales being the principle source of debt repayment. This has to be fully considered given the financial demand of the Vision 2020 projects and the Councils scarce resources. There is no guarantee that Trisanto will generate profits quickly or that any dividends will be returned to the Council during the early years of trading.</u>

1.8 An independent review of the business case has been undertaken as part of our due diligence work by Arlingclose a treasury management consultancy regulated by the Financial Conduct Authority (FCA). A number of their recommendations are set out below (in italics) and now enhance the risk register and inform the Business Case.

- *The potential for the Company to fail and not pay back its loan or equity finance will have a significant impact on the finances of the Council, and worst case scenario needs to be considered and the impact on the Councils financial position needs to be considered if this were to happen. We would recommend an enhancement to the current risk assessment is undertaken (note - this has been completed).*
- *Loan finance is for a mixture of revenue and capital expenditure. Whilst not a concern for the Company, this is an issue for the Council in terms of the way that it funds and accounts for these loans. The Council should ensure that it is only*

undertaking "borrowing" to fund those areas of the Council's activities that count as capital expenditure and uses a separate working capital loan agreement to fund day-to-day revenue expenditure of the Company.

- *With regard to the elements of capital expenditure, the Council should ensure that it is complying with its responsibilities under the Prudential Code. An appropriate* Minimum *Revenue Provision (MRP) policy will need to be developed and presented to the Council for approval.*
- *One of the main attractions for the Council in entering into this arrangement is the positive revenue returns that will be achieved from the Company paying interest above its (the Council's) own cost of funds. State Aid is a consideration and the rate charged to the Company should be kept under review to ensure that the relevant guidance is not being breached.*
- *Whilst the PWLB has been considered as the preferred source of funding by the Council due to the quantum and timing of borrowing it may be more efficient to use its own balance sheet resources in this low interest rate environment. Alternative sources to the PWLB can be considered once a more detailed business plan has been established.*
- *In lending large amount of money to a Company, even a Wholly Owned Company (WOC), there is a risk of loss. The Council should ensure that it has adequate protection through the structure of any loan agreements and associated governance controls. The Council should ensure that the housing provided meets the Council's own housing needs and priorities, and should therefore introduce controls to ensure this is the case.*

1.9 The activities of Trisanto would in the early years be funded by the Council through the provision of State Aid compliant loans. The Council would fund these loans either through borrowing from the Public Works Loan Board (PWLB) or from other financial institutions, where preferable (or when money is available by lending money the Council would otherwise hold on deposit). The margin on these loans would generate additional surpluses for the General Fund whilst offering Trisanto competitive loans secured against its housing stock.

1.10 The Directors of the company have a fiduciary responsibility to act in the best interest of the company and promote its long term success. Under the Companies Act 2006, promoting the success of a company means operating for the benefit of the shareholders, which in this case would be the Council. This is helpful as it minimises potential conflicts of interest for Directors.

2. PROPOSAL(S):

2.1 Powers to establish a council owned property company are contained within the Local Government Act 2003. The legislation establishes the principle that local authorities can trade, through a company, with other companies, authorities or individuals, either within or beyond the district council boundaries. Within this legislation, however trading can only be in relation to an existing function of the local authority, such as housing. The Localism Act 2011 further extended these powers, allowing local authorities to participate in trading activities not necessarily related to any existing functions of the authority. Importantly, both legislative frameworks require local authorities to establish a company structure when undertaking trading activities which have a commercial purpose. A local authority trading company would have the power, for example, to trade for profit. The legislation also requires that a detailed business case is considered by the Council and approved before any trading can commence.

2.2 In deciding to launch an arms-length property company, the Council needs to consider the objectives of Trisanto and the outcomes that could potentially be achieved. These objectives and outcomes need to be framed within the context of the 2020 Vision Programme and the Council's agreed Corporate Plan. When considering the establishment of an arms-length property company in 2016 the Cabinet Working Party identified the following potential opportunities:

- The provision of market and affordable housing (shared ownership) for the people of the Arun district;
- The cross-subsidy of market and affordable homes and the ability to provide new homes without Government subsidy;
- The use of Council assets (General Fund) for the delivery of housing;

Financial and operational considerations

2.3 All the necessary considerations in establishing and operating Trisanto are set out in the Business Case (Appendix 1). The business case assumes the Council incurs additional capital expenditure in making loan advances to Trisanto. The interest charges on the loan advances will be sufficient over the life of the company's business plan (and agreed loan period) to at least meet the Council's financing and administrative costs in borrowing money to make these advances. The Council is able to lend funds to Trisanto using the powers outlined in the business case and as long as the arrangements are deemed State Aid compliant, (i.e. effectively this means they do not provide a hidden subsidy to the company). The alternative of directly sourcing external private funding would be significantly more challenging, time consuming and would pass significant influence and potentially control over Trisanto's business activities and decisions to the lenders.

2.4 Trisanto will need to competitively procure and appoint a contractor/developer to build the properties and a sales agent to market them for sale when they are built. As the Council would be exercising control of the Company, via a Shareholder Agreement, there may be a need for it to provide guarantees under any contract entered into with a developer due to lack of any trading history of Trisanto at the beginning of its life. However, such guarantees would need to be compliant with State Aid rules and would not extend to Trisanto's liabilities and indebtedness in the future unless the Council chose to provide such guarantees.

2.5 It should be noted that Section 4(1) of the 2003 Local Government Act provides the Secretary of State with the power to impose restrictions in relation to borrowing by local authorities and under Section 4 (2) the Secretary of State can, by direction, set limits on borrowing by a particular authority for the purpose of ensuring that the authority does not borrow more than it can afford. There is therefore a risk that the Government might in future impose borrowing caps nationally and/or locally in relation to General Fund borrowing.

Company structure

2.6 Trisanto is a registered as a company limited by shares, with the Council owning 100% of the shares which enables it to trade and generate surpluses from trading activity and distribute proceeds back to the Council via dividends as the only shareholder. Although owned by the Council, Trisanto would be a separate legal entity with its own identity, staff, auditors and board of directors. However, it could have its registered office address as the Civic Offices to keep costs down and use some council support services (although the company could choose to procure such services from elsewhere).

2.7 Trisanto's primary purpose is to act as a commercial entity and make a financial return from developing housing for sale or private rent.

The Council operating as a funder to Trisanto

2.8 Trisanto will need significant funding to purchase land to develop a portfolio of properties in the open market. Therefore as well as the Council having the powers to form a property company it must also be able to provide it with necessary loan and potentially equity funding. The primary task for the Council when acting as a Funder will be to assess Trisanto's viability as an entity and the viability of each project for which loan funding is being sought. Consideration of a number of factors will be taken into account to determine whether to release loan funding to Trisanto such as the value of assets available to be used as security, state aid compliant equity verses debt ratios for the company, policy compliance and acceptable level risk exposure as the only Shareholder.

The key areas for the Council in its role as a Funder will want to be satisfied with prior to providing funding for a development are likely to include:

- that the financial modelling demonstrates that the loan will be repaid;
- that any loans accord with the Council's approved loan policies, notably with regard to security considerations;
- there is confidence that the projected rental stream can be maintained;
- that the base level sensitivities, which would in turn trigger warning signals, for Trisanto's general performance of each proposed development are properly set and that a sufficient margin is added to the base level to provide reassurance;
- that any loan is state aid compliant;

The relationship between the Council and Trisanto

2.9 The Council has a number of ways in which it can legitimately guide the activities of Trisanto, including:

- as a shareholder – appointing and removing directors, signing off its annual business plan, and signing off any changes to the Memorandum and Articles of Association;
- as a land owner – making available land, and deciding whether to dispose of particular sites to the Company. *Note – disposal of land held in the general fund must be at best consideration so as not to contravene State Aid regulations and satisfy the Councils' Local Government Act 1972 Section 123 duty*;

- as a funder – deciding whether to make loans to Trisanto. It is considered that it would be difficult for the newly formed company to secure affordable loans by any other means. *Note – loans must be set at commercial rates so as not to contravene State Aid regulations*;
- as a strategic housing authority – as when working with a housing developer, directing the required housing mix and/or the need for specialist housing on sites in line with the relevant planning policies;
- as a planning authority – as with any housing developer, assessing whether a particular proposal by Trisanto meets the Council's planning requirements;

Governance arrangements

2.10 The Council will hold 100% of the shares in Trisanto and as such will have full ownership. This enables the Council to retain sufficient control of the company. As a company wholly owned by the Council it is imperative that an appropriate governance structure is put in place to ensure sound and robust management of the company alongside protection of the Council's financial and reputational investment in the company. However, the governance must not hinder the company's commercial character and must allow it to act swiftly and pro-actively which is essential if it is to compete in acquiring land for future development projects in the open market. As sole shareholder, the Council would appoint (and can change) the directors of the company and would approve key decisions and the Company's business plan as set out in the shareholder agreement.

Cabinet would be responsible for ensuring the Company delivered all development in accordance with the agreed business plan and would receive performance reports as required by the shareholder agreement between the Council and Trisanto. The Cabinet will also be responsible for approving any variations to the delivery of the business plan; further scrutiny could also be undertaken if required by the Audit and Governance Committee. The Council as the only shareholder would appoint all the Trisanto directors.

Shareholder Agreement

2.11 The Shareholder Agreement is separate to the Articles of Association and does not have to be registered at Companies House. The Shareholder Agreement regulates the relationship between the Shareholder (Council) and the Company (Trisanto) and sets out the rights and obligations that would not normally be included in the Articles, or would not be appropriate for inclusion in the Articles.

The Shareholder Agreement can provide that the Annual General Meeting of Trisanto takes place in the Council Chamber on an evening when Full Council takes place with the shareholder (Members of ADC) being invited to attend. Trisanto will be a controlled Company, being entirely owned by Arun District Council who will approve:

- the setting of general development targets each year and the associated budget;
- appointment or removal of independent Auditors;

- any borrowing arrangement and giving security in respect of such borrowing;
- making any application for planning permission or lodging an Appeal against a planning decision;

Council objectives for setting up Trisanto

2.12 The objectives for creating the company, as endorsed by the Cabinet Working Party, is to establish suitable commercial activities to address shortfalls in the future revenue streams for the Council as set out in the Council's 2020 Vision programme. The proposed objectives for Trisanto are to:

I. Promote financial sustainability: the investment in housing, commercial realisation of assets and the delivery of related surpluses to provide a significant contribution to the Council's overall financial position;
II. Maximise housing supply and meet strategic housing priorities: both directly and through the market to facilitate strategic sites across the district;
III. Promote sustainable communities;
IV. To participate in economic delivery and regeneration through;
   a) The delivery of a portfolio of homes and sites for sale and rent including market, affordable housing for sale for (shared ownership, fixed equity, Starter Homes), self-build, custom build and schemes for the elderly;
   b) The acquisition, improvement, assembly, development and disposal of land, including General Fund land by leasehold or freehold to produce a profit for the company;

2.13 Subject to approval by Cabinet of the business case and a loan agreement for initial working capital the following activities will be undertaken to enable the company to commence trading;

- Recruitment of staff to run the Trisanto business independently and at arms-length from the Council;
- Production of the Trisanto Business Plan;
- Drafting of the Trisanto policies and procedures;
- Set up of the Trisanto bank account and independent audit arrangements;
- Set up of the Trisanto IT systems for financial accounting, development management, scheme appraisals and capital accounting (all separate from the Council);
- Registration of directors for the board/s;
- Assign the Company Secretary role;
- Operate the Trisanto website;

Fiduciary duties

2.14 The Council's fiduciary duties can be briefly summarised as acting as trustee of tax and public sector income on behalf of its rates and tax payers. The Council in effect holds money but does not own it and spends that money on behalf of its business rate and council tax payers. Taking those fiduciary duties into consideration, the Council will need to ensure that it achieves an appropriate return for the lending it provides and that it has minimised the risks and potential costs to it if Trisanto becomes insolvent and/or defaults on any loans. Ultimately, should the company be unable to repay the loan in full at the point that it ceases to trade and its assets are liquidated, then any residual loss will sit with the shareholders.

3. OPTIONS:

3.1 There is an option not to operate a Council property company – **not recommended**

3.2 To operate a Council property company to generate an additional revenue stream for the Council - **recommended**

4. CONSULTATION:

A Cabinet Working Party has undertaken detailed consultation 2016.

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (Cabinet Working Party) • Chairmen of the Overview Select Committee and Audit & Governance Committee • Overview Select Committee – 25 July 2017 • Audit and Governance Committee – 7 August 2017	✓	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial	✓	
Legal	✓	
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability	✓	
Asset Management/Property/Land	✓	
Technology	✓	
Safeguarding		✓
Other (please explain)		

6. IMPLICATIONS:

The proposed constitutional changes will determine that Cabinet will be the key strategic supervisory body of Trisanto DevCo, with ultimate responsibility for ensuring it complies with its own Business Plan.

7. REASON FOR THE DECISION:

To provide the authority to operate a property company wholly owned by the Council.

8. BACKGROUND PAPERS:

Appendix 1) Business case for the establishment of a local property company;

Appendix 2) Risk register

BUSINESS CASE FOR THE ESTABLISHMENT OF A LOCAL PROPERTY COMPANY

FINAL

ARUN DISTRICT COUNCIL

Date: 12 July 2017

Table of Contents

1. Executive Summary

1.1 Introduction

The purpose of this document is to present the rationale with supporting evidence for the establishment of a Local Property Company (LPC) at Arun. This includes the key drivers, the vision, the financial and commercial considerations, funding options and governance arrangements. It is important to note that only one high level financial model has been developed – for the build for sale scenario. This should be used for illustrative purposes only. Further detailed financial modelling will be undertaken as part of the development of the company Business Plan once the LPC begins trading.

The LPC will operate as a commercial arms-length development vehicle for the Council. Its primary aims will be to generate an additional income stream for the Council, deliver housing which may not otherwise come forward from the market and to stimulate regeneration; all of which will deliver economic advantages and benefits to Arun over the short, medium and longer-term.

On 10th February 2017 the Council formally registered Trisanto Development Corporation at Companies House as a private company limited by shares. The name Trisanto is an ancient name for the River Arun.

1.2 Background

The government has reduced the funds awarded to local government in recent years, requiring councils to find greater efficiencies in the way they provide services to meet the needs of local communities. Arun District Council's 2020 Vision Programme identified a number of opportunities for developing business cases to allow the Council to take forward options to generate income from commercial services. One of the suggested business cases is the option to establish a LPC. This idea has been progressed via a formal project initially overseen by a Cabinet Working Party with external consultancy provided by Cornerstone Assets, Arlingclose and Trowers and Hamlins (Solicitors). The project proposal is now to operate a LPC, centred on developing housing for sale and market rent and affordable housing for sale outside of the Housing Revenue Account (HRA).

Many authorities are now beginning to consider whether the housing market might be an effective way of making best use of their own assets, of creating revenue income and generating capital receipts. The opportunity to set up a LPC in Arun fits with the government's expectation that local authorities will play a much more active role in housing delivery and in shaping their local housing market.

A LPC can provide new homes for sale and market rent which could generate surpluses which can either be re-invested back into the LPC or to the Council itself. A LPC can be structured so that any surpluses from developing market housing (sale and rent) are used to subsidise affordable housing for sale (shared ownership, Rent to Buy, Starter Homes)

To date 120 councils have established a range of development vehicles to deliver new housing in their areas with the vast majority using investment from the Public Works Loan Board (PWLB) to finance their activities. Whilst some authorities have explored alternative capital funding options, including the issuing of bonds, most have chosen to use the flexibility and competitive rates offered by the PWLB.

Very few councils have generated profits/ dividends from their companies so far. Experience has shown it takes a number of years for the companies to operate before they start to generate profits.

Whilst it is likely, the requirements of Sections 1 and 12 of the Local Government Act 2003 would be met in connection to borrowing and/or lending to LPC the Council's S151 Officer will need to be satisfied with compliance with the latest Prudential Code requirements. Lending from the Council, just like a bank, would be secured against the assets of the LPC held probably under a debenture. A LPC, wholly owned by the Council, would need to provide a return to the Council which is both greater than the costs of financing a loan, and greater than the current return on cash investments.

Whilst there are some risks (Risk Register included at appendix B) for the Council in establishing a LPC, as it would be a new commercial venture, there are also very clear advantages which include the following;

- An ability to borrow for housing investment without being constrained by HRA borrowing restrictions although the rules and principles around Prudential Borrowing are applicable;
- Generate an additional revenue stream that will enable the Council to continue to deliver its services at a time of reducing government grant;
- Homes developed by a LPC for rent do not currently have to carry a Right-to-Buy although the LPC can still sell them to residents if it so wishes, with or without a discount;
- Homes owned by the LPC for rent do not have to have rents set at levels below market levels making it easier to develop without the need for subsidy;
- There is scope that, if the LPC is successful at a later stage, to bring in private investment or shareholders and so realise the value of the Council's original investment for use elsewhere. However, this may mean that the ability of the Council to control and direct the LPC's activities may be diluted;
- Increased opportunities for economic growth by direct employment in construction, through the supply chain and skills development i.e. Arun Charter Plus;
- Present the Council with an opportunity to provide substantial place leadership – supporting community development by investing in the local district and working alongside other private and public sector bodies;
- A LPC can potentially extend its operations to wider trading functions related to housing development. For example, the LPC could develop commercial buildings where this makes a suitable return and is integral on any particular site and supports the LPC's primary purpose of generating returns for the Council; and
- The LPC will be able to attract institutional investment where necessary to increase its development output if required;

The Council has a HRA development programme in place which is addressing the issue of currently losing 20-30 homes per annum through right to buy sales. The new HRA Business Plan will seek to redress this by utilising the recycling of right to buy receipts to replace the sold properties. In addition, the Council will need to manage a future funding deficit and a reduction in its New Homes Bonus. By 2021, the Council will need to be far more financially self-reliant to manage its day to day functions, and is therefore looking at options to help address this position. One of these options is the establishment of a LPC, which would be set up to run alongside the HRA development programme in a complementary rather than competitive situation.

1.2.1 **Legal powers to set up and operate a LPC**

Powers for the Council to trade are contained within the Local Government Act 2003. This legislation establishes the principle that local authorities can trade, through a company, with other companies, authorities or individuals, either within or beyond the district council boundaries. Within this legislation, however trading can only be in relation to an existing function of the local authority, such as housing.

The Local Government Act 2003 provides that in exercising the power to trade, a local authority shall have regard to guidance issued by the Secretary of State. The main objective of the guidance is to ensure that in carrying out trading activities, and by definition competing with the private sector, a local authority ensures that it is not obtaining any commercial advantage over its private sector competitors. This ensures that there are no financial or tax advantages provided to the local authority company and requires the local authority to provide greater transparency through company law requirements. These requirements also assist the local authority company in terms of State Aid and competition law compliance.

The Local Government Act 2003 provides the power for local authorities to borrow and to invest for any purpose ”relevant to its functions under any enactment” or “for the purpose of the prudent management of its financial affairs” (Section 1 and Section 12).

Section 1 (Local authority’s general power of competence) of the Localism Act 2011 allows local authorities to "do anything an individual may do". A local authority may exercise the general power of competence for its own purpose, for a commercial purpose and/or for the benefit of others. In exercising the general powers of competence, a local authority is still subject to its general duties (such as the fiduciary duty it owes its local tax payers) and to the public law requirements to exercise its powers for a proper purpose. Importantly, Section 4 of the Localism Act 2011 requires local authorities to <u>establish a company structure</u> when carrying out a "commercial purpose". As set out in paragraph 2.2, the Council's objectives are commercial: it wishes to intervene in the housing and property market to maximise supply and generate income. Therefore, the Council is required by Section 4 of the Localism Act to pursue such objectives through a company.

As the Company will be established to have a 'commercial character’, it would be unlikely to be considered a body governed by public law and so <u>would not need to follow public procurement rules</u>. Factors supporting the ‘commercial character’ of the company include that it is intended to operate competitively, take commercial decisions and bear the financial risk of its activities. This would mean that the LPC can potentially procure services (even for contract sums above the procurement thresholds) without breaching EU requirements.

1.3 Options Analysis

The options analysis considered various delivery models, including Joint Ventures and the use of Registered Providers. When considering the requirements of the Council against those various models, the LPC was identified by a Cabinet Working Party as the model most likely to deliver the aims of the Council in terms of profit generation, meeting market need and stimulating regeneration. Options were then considered around the form and governance structure of the LPC, which identified that a Company Limited by Shares (CLS) was the most suitable for the vehicle as there was no financial responsibility placed on the company directors. Further detail on the options analysis undertaken can be referred to at paragraphs 3.1 and 3.2 of the Business Case.

Land supply is a critical factor in the success of the LPC and the Council will consider a number of options for acquiring a land supply. For land where the Council has no influence then the LPC must look at suitable delivery options at the earliest opportunity so that potential income streams can be prioritised.

1.4 Financial and Commercial Considerations

The LPC will be wholly owned by the Council and will take forward and deliver on behalf of the Council investment in housing and other related property activity to deliver priority outcomes, using money borrowed from the Public Works Loan Board (PWLB) and other suitable sources to finance their activities.

The LPC would buy suitable landholdings from the Council, and the private sector, and then commission a company to design and build an appropriate development. Income for the Council would be derived through this vehicle from land receipts, sales receipts, development profit, dividend receipts, and staircaising receipts from shared ownership sales and on-lending of its finance.

The Council would borrow the money for the cost of a development, then the Council would itself lend that money to the LPC for it to deliver the development. The Council would be repaid the initial capital plus interest from the proceeds of sales and the income received by the LPC from the rents received from market rental and shared equity schemes.

Section 15 of the Local Government Act 2003 Act requires a local authority to have regard to the guidance issued by the Secretary of State. The Prudential Code, issued by CIPFA, is one such piece of guidance which the LPC and the Council will need to take into account when considering the investment plans of the company.

The Prudential Code requires a local authority to set an affordable borrowing limit and to consider the affordability of its capital spending plan's through the setting and monitoring of a number of prudential indicators. The Prudential Code ensures that through the relationship between outstanding long-term debt and the Capital Financing Requirement (CPR) that borrowing is not used to fund revenue transactions and is therefore not used to invest in anything other than capital investment transactions. The Council will therefore need to comply with the requirements of the Prudential Code when considering its investment into the LPC, so long as this is done there is no reason why it should be considered that the Council is acting u*ltra vires* through borrowing to on-lend or purchase equity in its arms-length property company.

In terms of the short-term funding required by the LPC to operate in its early days it is anticipated that this will be funded from the Council's existing cash balances. However, in light of the power conveyed in the 2003 Act, the Council could, in theory, also borrow on a short-term basis to cover this expenditure.

1.5 Governance arrangements for the LPC

The Council will solely own the LPC (preferred option); therefore the Council will hold 100% of the shares and as such will have full ownership. In operational terms however, the LPC will be arms-length from the Council and determine its commercial priorities and investment decisions through its own Business Plan. The Shareholder function of the Council will be primarily executed through the Cabinet (who will appoint the Board of Directors – this will not include any members from

Cabinet) and a Shareholder Advisory Group (comprising officers and professional advisors) which will appraise the individual development plans brought forward by the LPC.

During the set up period of the LPC, a Shadow Board will be appointed, a Board of Directors will replace this once the company becomes operational. It is proposed that the LPC will consist of one elected member, excluding members of Cabinet and the Development Control Committee, one senior officer of the Council and; up to three independent non-executive Directors.

A number of agreements will typically govern the LPC. The key agreements that apply to the LPC at the different levels include the Shareholder agreement which represents the top level of governance, Strategic Land Agreements which represent the middle level of governance and development management agreements which represent the project level of governance.

1.6 Proposed operational arrangements for the LPC

The day to day operational staff management of the LPC will be externally sourced led by a Managing Director. At project specific level, the resourcing will mainly consist of consultants (engineers, cost consultants, project managers etc.) which will allow resources to be secured against specific projects and for specific time-frames. This will also allow the LPC to deliver schemes concurrently and to dovetail appropriate projects.

There is significant flexibility in this approach and means the LPC is not committed to paying for resourcing during troughs. However the LPC will be able to resource up during peaks and bring in expertise as needed. Site finding, scheme assembly, financial appraisal, site plans, technical drawings, site surveys and planning applications will probably need to be externally resourced as those professional skills are not currently available within the Council

For completed projects, to let at a market rent or shared ownership, management services will also need to be provided. Whilst it is possible that this service could be delivered by the Council it is more likely that it will be tendered externally due to the commercial skills required for this specialist function.

1.7 Project Management for the establishment of the LPC

The Project Sponsor is Karl Roberts who will advise the Council's Corporate Management Team (CMT) of the on-going project delivery. The project is owned by Arun District Council and project managed by Andy Elder, the Housing Strategy and Enabling Manager. The project was originally supported by Cornerstone Assets in an advisory capacity and has been further supported by other consultants providing legal, financial, tax and commercial advice during the establishment and then the on-going operation of the LPC.

1.8 Conclusion

The analysis of the evidence strongly supports the view that an opportunity, through the establishment of a LPC, exists to intervene in the housing market to develop profitable housing schemes, which will in turn help support the revenue and capital requirements of the Council. This opportunity should be underpinned by strong leadership and effective governance with an appropriate process adopted for delegation, to ensure the LPC operates at arms-length from the Council.

The establishment of the LPC can allow the Council to play an active role in planning for the overall needs of the community and connecting-up planning policy, housing affordability and the wider economic needs of the residents. Additionally, the LPC is expected to generate profit which will be either reinvested in future LPC projects, or will form dividends for the Council as the main shareholder and provide sources of income through the various company activities.

The LPC is also expected to stimulate regeneration, through housing delivery, property development or in partnership with other organisations on identified projects. This is key to the economic well-being of the Council as a whole.

The primary aim of the LPC is to deliver viable commercial projects that will generate a profit for the benefit of the Council.

2. Background

2.1 Corporate Vision and strategic overview

The Corporate 2020 Vision programme, agreed by Members in July 2016, aims to establish suitable commercial activities to address shortfalls in the future revenue streams for the Council as set out in the Council's 2020 Vision programme. The 2020 Vision programme has been established to provide the strategic direction required to help the Council become a more effective and sustainable one and to enable it to meet future demands that are placed upon it. The Council is facing a challenging financial climate and changing customer expectations. It also needs to strengthen its relationships with local organisations and communities and must offer more digital opportunities to make dealing with it easier. The decisions made now must not only enable the Council to achieve savings today, but they must serve well into the future.

The establishment of a LPC in Arun is one of the key projects to support the Council in achieving its vision and meeting its objectives. The aim of the LPC is to establish a housing, property development and regeneration vehicle that can achieve future income streams for the Council by maximising commercial opportunities. In addition, it will ensure the Council can continue to promote a healthy and diverse local housing market including senior living, stimulate regeneration projects and promote sustainable communities.

2.2 Council Objectives

The Council's objectives for setting up the LPC are to:

- **Promote financial sustainability**: the investment in housing, property development, commercial realisation of assets and the delivery of related surpluses to provide a significant contribution to the Council's overall financial position. A LPC will:

    - provide for Arun a means of generating income to its general fund from commercial housing/property development activity. This could be by way of new homes for sale and market rent which could generate surpluses which could be re-invested back into the company or paid to the Council itself by way of dividends.
    - allow the Council to make a more efficient use of resources through the direct use of access to capital funding (e.g. grants, s106 commuted sums etc.), access to capital through borrowing and sites already owned by the Council to address strategic priorities and generate revenue income in the future.
    - Make use of the Councils planning powers to take forward the assembly of strategic sites for development.

- **Maximise housing supply and meet strategic housing priorities**: both directly and through the market to facilitate strategic sites across the District. A LPC will provide a crucial component in the Councils work to actively shape the local housing market by:

  - delivering profitable housing schemes to facilitate surpluses for reinvestment to support strategic housing priorities.
  - delivering housing of type and location consistent with sustainable communities.
  - providing a means of delivery of affordable housing primarily for sale (shared ownership) without future reliance on housing associations.
  - providing a means of directly achieving housing delivery on sites and of housing types which are considered to support/strengthen communities where the private sector may judge the case too marginal and as a result would not progress rapidly.
  - influencing the local housing market through taking a direct delivery role in specific sites/schemes and through the provision of new forms of tenure and specialist housing such as senior living, and
  - establishing an entity capable of responding to anticipated and future changes particularly in housing related policies and initiatives (e.g. self-build plots and Starter Homes).

- **Promote sustainable communities:** the Council's ability to promote sustainable communities will be enhanced by the capacity and function of a LPC in a number of key areas:

  - the targeted acquisition of buildings in key locations and through associated public realm and community investment;
  - the capacity to influence the local construction market to directly commission development of sites with an emphasis on retention of economic activity within the local community and creation/strengthening of skills by promoting the Arun Charter Plus brand; and
  - the ability to focus on sites that will have a wider regenerative impact to the area.

- **Participate in economic delivery and regeneration** through;

  - Delivery of a commercially focussed portfolio of homes and sites for sale and rent including market, affordable housing for sale (for shared ownership, fixed equity and Starter Homes), self-build, custom build and schemes for the elderly.
  - The acquisition, improvement, assembly, development and disposal of land, including General Fund land by leasehold or freehold to produce a profit for the company.

- **Property development**;

  - To take opportunities to develop properties that might assist with generating profit and assisting economic regeneration of an area.

2.3 Arun Charter Plus

In addition to the Council's objectives listed above, the LPC would have a commitment to deliver the Arun Developer and Partner agreement Charter Plus objectives through its developments and partners. Charter Plus is designed to help stimulate and generate economic growth and reduce carbon emissions from new residential housing developments in the Arun district. Charter Plus consists of the following objectives:

  - Raise average weekly wages in the district, which are currently lower than the County and Regional average

- Raise educational attainment and skill levels, which are currently lower that the County and Regional average.
- Improve the competitiveness and sustainability of the diverse range of small businesses in the area which make up over 80% of our business community.
- Ensure that developments conform to the principles of the energy hierarchy which is to reduce the need for energy, maximise energy efficiency, supply energy from renewable sources, where fossil fuels are to be used, use as efficiently as possible.
- Excite residents, visitors and potential investors with the intentions, plans, progress and outcomes of development.
- Promote good (if not best) practice in safe, secure and considerate working practices.

2.4 Arun Housing Market analysis

The local housing market in the Arun District has experienced mixed fortunes since the market crash of 2008. Whilst there has been considerable price volatility in the local housing market the result is that property is considerably less affordable than it was before 2008. At a local level, therefore the Council could now take a leading role in ensuring that new places are developed to meet the housing needs and demands of the district. The Council also brings democratic accountability to the process, holds the responsibility for assessing and planning housing need, and is perhaps better placed to oversee a process of parcelling out of land than the private sector.

As advised by GL Hearn in the ‘Updated Housing Needs Evidence’ report dated September 2016, there is an opportunity to increase the amount of land that is made available for development and to ensure developers build it out at the rate that homes are needed, rather than the rate at which the highest returns can be obtained.

2.5 Government Policy and current initiatives to stimulate housing supply

In the past five years, the UK Government has brought in a number of changes to planning and housing policy. These changes are complex and fast moving and have major implications for how councils provide for all housing tenure types.

Government intervention in the building sector since the financial crises of 2008 has been significant in terms of cash, but questionable in terms of its cumulative policy impact. The credit crunch and the collapse of the mortgage and land markets led to a major gap between the value of major housebuilders assets and the new market price for housing, reflected in a widespread lack of viability for current and future sites. The reaction of the government has been to try to bridge this gap through various fiscal interventions.

The range of recent and current government initiatives to increase housing supply includes the following list:

- HomeBuy Direct 2008;
- Kick Start 2009;
- Public Land Initiative 2010;
- Build Now, Pay Later 2011
- First Buy 2011;
- Get Britain Building 2012;
- Mortgage Indemnity Guarantee (MIG) 2012;
- Build to Rent Fund 2012;
- Help to Buy 2013;
- Starter Homes 2016;

Some of these initiatives support home ownership and have helped to underwrite opportunities for first time buyers. Where some of these schemes still exist, the LPC should benefit as part of its delivery and sales strategy. A number of potential new affordable housing products may be suitable for the LPC as outlined in the 2017 Housing White Paper such as Affordable private renting and discounted market sale.

3. Options analysis

3.1 Review of alternative commercial structures

There are a number of different delivery models, and tools, which could be utilised to enable the Council to intervene in the local housing market. Those that have been considered, and informed by a report commissioned for the Council by Trowers and Hamlins (May 2017), include the following:

- Local Asset Back Vehicle / Joint Ventures
- Local Housing/Property Company – **preferred option**
- New development / planning options
- Providing capital funding to Registered Partners

The table below summarises the 4 different models and highlights the rationale behind the selection of the Local Property Company as the Council's preferred option.

Vehicle	**Role**	**Advantages**	**Disadvantages**
Local Asset Backed Vehicle/Joint Ventures	This is a mid/long term venture equity partnership between a local authority (or a number of local authorities acting together and/or a local authority with other public sector bodies) and a private sector investment partner.	These types of partnerships can correct market failure and help increase commercial viability. Partnerships can help to pump-prime private sector investments, de-risk developments sites and provide essential supporting infrastructure that makes development more commercially viable.	Concern about best value from the disposal of public assets and are cautious about 'selling off the family silver' at the wrong time of the property cycle or handing over control of public assets. Private sector may have concerns about entering into a process often characterised as bureaucratic, time consuming and costly. Take up of this model has been low.

Local Housing/Property Company/Special Purpose Vehicle **Preferred option**	Owned by the Council but a separate legal entity with no impact on the Council's HRA borrowing caps or the HRA account.	Complements development within the HRA. Allows the Council to have more influence over the type of development and not constrained by the appetite of the private sector. A number of local authorities are choosing to take this route.	Costs of set up and officer time. Land supply potentially a challenge.
New Development/ Planning options	Build now pay later: Housebuilders pay for the land once the building has started. Land Assembly: Council parcels up land for sale. Land Auctions: Council works with other public sector land owners to secure planning and development of the land, splitting the returns.	BNPL aimed at managing builder's cash-flow allowing new homes to be built more quickly than would otherwise be possible. Increases competition between firms and development models. Enables local communities to capture a greater share of the land value uplift.	Would not suit smaller sites. Piecemeal approach, that would require significant resources both within the Council and externally and unlikely to be cost effective as a long term solution. Appetite from private sector may not be sufficient to sustain.
Providing capital funding to Registered Providers (RP's).	Councils using their cheap borrowing from the Public Works Loan Board to lend to housing associations for development.	Loans to associations count against a council's general fund rather than the HRA and so are not subject to the cap on borrowing. In the short term, RPs could be attractive places for Councils to invest.	Councils borrowing to make the loans would be using up some of their debt capacity from the general fund. There are also the risks in lending to housing associations, particularly on longer term loans, including pressures on rental income from welfare reforms.

The LPC is the Council's preferred investment vehicle. However, the form of a new LPC will largely determine the corporate governance structure. There are various options for the form of the LPC. It could operate as a company, either limited by shares or by guarantee, a community benefit society or possibly as a limited liability partnership.

The key decision making factors on choice of legal vehicle are based on the following:

- whether the LPC is to be trading for profit or not,
- whether it is to be charitable or not, and
- whether there is a need now or in the future for it to be able to offer a partner or partner's equity in the company.

The types of company structure are summarised in the table below, with a legal recommendation that a Company Limited by Shares (CLS) is the structure to be adopted:

Company Type	Brief definition	Advantages	Disadvantages
Company Limited by Shares (CLS) **Preferred option**	Shareholders' responsibilities for the company's financial liabilities are limited to the value of shares that they own but haven't paid for.	Company directors aren't personally responsible for debts the business can't pay if it goes wrong, as long as they haven't broken the law. Separate legal entity from its owners.	Shareholders bound by the constitution of the company which can only be changed by special resolution.
Company Limited by Guarantee (CLG)	Members (i.e. "guarantors") financially back the organisation up to a specific amount if things go wrong.	Debt repayment is limited to a specified amount.	Members have a financial responsibility for the company's debt. Members are bound by the constitution of the company.
Community Benefit Society	A community benefit society exists for community benefit, rather than the benefit of members. This is safeguarded through a legal requirement for community benefit societies to conduct their business and use profits for the benefit of the community.	Financial gain and other surpluses must be reinvested in the primary function of the business, or other activities that benefit the community.	CBSs cannot be used as investment vehicles and so are required to adhere to a number of principles that limit financial returns for investors.

	The liability of members is limited to the share capital they hold in the society (usually a nominal amount).		
Limited Liability Partnership (LLP)	A LLP has unlimited capacity and can do anything that a legal person can do. A LLP is treated as a separate legal entity from its members; it owns the business's assets and is liable for its own debts.	The partners in a LLP aren't generally personally liable for debts the business can't pay - their liability is limited to the amount of money they invest in the business. For tax purposes a LLP is treated as a partnership and each member is liable for tax on their share of the LLP's income or gains.	Partners have a financial responsibility with regards to debt up to amount they invest in the business.

3.2 Preferred Option for the Company Structure

Given that the Council has set requirements for the LPC, the most appropriate company structure, as advised by Trowers and Hamlins in their recent report would be that of a Company Limited by Shares (CLS).

A CLS would permit the LPC to:

- be set up as a non-charitable wholly owned vehicle with no other initial equity partners;
- operate at arms-length from the Council with its own Business Plan;
  retain flexibility to adapt to future changes required and in particular to enable the vehicle to enter into future development partnerships and/or take on the developer role directly;

A company limited by shares is generally viewed as the most appropriate legal form for the majority of ventures where an on-going business is to be run, due to the fact that the corporate structure is tried and tested and is underpinned by an established body of law and practice. A company limited by shares, is also the type of company with which most people tend to be familiar.

In terms of overall control and financial and tax planning, the structure of a limited company can provide considerable flexibility through the creation of different types of share and loan capital. A company can also create a floating charge over its assets which are often a requirement of external finance.

A key advantage of the CLS is that, if it is set up as a wholly owned (or at least 75% owned) subsidiary of the Council, and operating at arms-length, it can potentially claim relief for Stamp Duty Land Tax (SDLT) on transfers of land between the Council and the LPC.

3.3 National growth of council owned housing/property company's

Councils have been able to invest in new housebuilding since Section 12 of the 2003 Local Government Act gave them new investment powers. The Localism Act 2011 further confirmed their general power of competence in this area.

The reduction in revenue support grant of more than 40% in the last parliament, and the increasing reliance on New Homes Bonus and Business Rate retention have made a powerful case for councils to retain land suitable for housing and develop it out directly, creating a long-term income stream for themselves. The prolonged period of low interest rates means that many schemes that might once have been marginal are now viable. The increase in values and rents in many areas in the past three or four years have threatened that equation.

Recent research undertaken by the Chartered Institute of Housing revealed that 120 councils in England have either set up, or intend to set up, their own housing company to boost building rates in their district and generate additional income streams. So far, these companies' development plans are modest, as most companies only aim to build a couple of hundred homes over a 10-year period. The types of companies councils have chosen to set up are varied. These are companies wholly owned by the council, joint ventures with housing associations and joint ventures with private developers or institutional investors.

For many companies it is very early days, and only a very few have made any income so far. Sheffield City Council has made the most income to date, it has operated a housing company for five years and made profits of just over £430,000 in 2016. The majority are either still in the process of setting up their company, and haven't got any houses to show for their efforts yet, or are only expecting to see returns on their investments after at least five years of operating. The attitude of government towards these companies appears to be positive, at the moment, as confirmed by the 2017 Housing White Paper 2017.

Examples of council owned housing companies that have started their trading activities are included at appendix A.

3.4 Land Supply / Development Process

It is essential that the LPC has access to a sufficient supply of land to sustain its short, medium and longer term business plan objectives. In common with other Local Authorities, there is a finite supply of land immediately available and of assets that can be redeveloped. To break this down further the complete supply options would consist of the following:

- Land assembly through the planning process such as town centre regeneration, which might possibly involve compulsory purchase;
- Other public sector estates where the landowner doesn't have the capability, funds or resources to redevelop themselves;
- Private land acquisition; and

- General Fund land acquisition from the Council;

The LPC should be looking at options on land not owned by the Council as soon as possible, and needs to identify what Council land may become available for future development and when. As part of its own business plan, the LPC needs to be looking at sites immediately, so that income streams can be prioritised. Once the LPC has control over other sites, these can be planned into the supply options.

Note – it is unlikely at present that HRA land will be available to the LPC for development purposes.

The process of acquiring suitable development sites for the LPC will not be without risk. Many of the costs associated with the LPC's development programme will be incurred at the outset of a project, and may not be recovered, as not all the identified sites will be progressed for a variety of reasons. To build on any land the LPC will need to acquire planning permission, with all details approved and pre-commencement conditions discharged. Securing a planning permission will be one of many risks for the LPC and often comes at a significant cost.

At every stage, the process of securing an implementable planning permission requires investment – with no guarantee of a return (until full planning permission is granted) – with the prospect economic/market cycles will increase the risk of a downturn. The Council and its LPC will each need to determine their risk appetite in the business plan to fully engage in this process (see appendix B).

The complicated process by which homes are planned and built is underpinned at many stages by contracts and the LPC will require suitable legal support to enter into those contracts. The complexities involved in the various stages will mean that the LPC will require specialist legal advice to ensure that the company is adequately protected. The terms and conditions of these contracts, influenced by the market, create commercial pressures which will have to be regularly and thoroughly reviewed by the LPC and its advisors.

3.4.1 Consen**t – General Fund land**

The Council has the power to dispose of General Fund land under sections 123 of the Local Government Act 1972 for the best consideration reasonably obtainable. Otherwise, the disposal requires the consent of the Secretary of State. The Secretary of State has issued a General Consent (General Disposal Consent 2003) which removes the requirement for councils to seek the specific consent of the Secretary of State for any disposal of land where the difference between the unrestricted value of the interest being disposed of and the consideration accepted, i.e. the undervalue is £2 million (or less),the disposal is likely to contribute towards the achievement of well-being and the Council has complied with the Technical Appendix to the General Disposal Consent.

3.4.2 **Consent – HRA land**

Although it is unlikely that land held in the Council's HRA will be available to transfer to the LPC in the immediate future, on either a freehold or leasehold basis, its powers to do so are contained in section 32 of the Housing Act 1985. The use of Section 32 power is conditional upon obtaining the prior consent of the Secretary of State unless a General Consent is available. Where the land is not vacant the Council is limited to five disposals per financial year at market value to the LPC.

3.4.3 **Consent – undervalue land disposals**

An undervalue disposal made in connection with properties to be privately let (which would include any rental or shared ownership properties of the LPC) is likely to be regarded as financial assistance and/or gratuitous benefit under Sections 24 and 25 of the Local Government Act 1988. The Council has power to provide such assistance under Section 24 of the 1988 Act but it must obtain prior consent from the Secretary of State under Section 25 to do so unless a General Consent is available.

4. Financial and commercial considerations

The main objective of the LPC will initially be to develop and deliver market homes for rent and sale and affordable homes for sale (shared ownership). The LPC will initially borrow from the Council.

The General Consent under Section 25 of the Local Government Act 1988 allows councils to grant loans to other bodies for privately let accommodation, however, they must be at a commercial rate because any reduced rate of interest risks the legitimacy of the operation being challenged by competitors under the State Aid rules. Similarly, statute allows staff, office space, equipment and 'assistance' to be provided to other bodies, and while charges can be applied the Council is not allowed to make a profit from these services.

The LPC would be loaned the initial capital from the Council, at market rates and with that money, the LPC would buy suitable landholdings and then commission a company to design and build an appropriate development. In return for lending the money, the Council would receive an initial revenue income in the form of interest and this would be at rates higher than currently available in commercial deposit accounts. However some of the advantage gained by this interest rate differential could be offset by the requirement to make a Minimum Revenue Provision (see para 4.5).

There is a fair degree of uncertainty with regard to the timing and quantum of the required funding, particularly as developments could be subject to delays, caused by a number of factors, so a flexible approach to funding is likely to be adopted. Arlingclose (Treasury Management advisors) have recommended that the Council use internal resources in the first instance to fund loans to the LPC. When these are exhausted there will be scope to enter rolling short-term loans, available at rates close to Bank Rate to enhance portfolio flexibility, hedge in-year cash influxes and provide exposure to "lower for longer" interest rate outcomes. This debt also has little or no break cost associated with it, making it easy to reduce debt levels if funding is no longer required.

Legal advice has been sought from the law firm, Trowers and Hamlins, who have confirmed that the Council has the power to set up a commercial company to trade and provide a commercial return to the Council. This includes transferring General Fund land to the company so long as it is sold for the best consideration reasonably obtainable, or at a price which is discounted by £ 2million or less for well-being objectives.

If approval is given to enable the company to begin trading, the Council will continue to receive ongoing external legal and financial advice on issues such as:

- Setting up and training directors on the company's board;
- Tax and financial accounting and audit advice;
- Advice on whether the company's activities have any implications for council tax setting;

- Drafting of loan agreements, debentures, standing orders and other associated legal documentation;
- Advice on land transfer / appropriation and stamp duty;
- State aid;
- Advice on pensions and human resource implications;

In terms of the legal and commercial advice acquired to date, the Council has sought the services of Trowers and Hamlins (Solicitors) on the legal principles set out in this business case, they have confirmed that they see no compelling reasons as to why the company approach should not proceed to the next stage of development and commence its trading activity.

4.1 Funding routes

There are a number of funding routes available to the LPC. The Public Works Loan Board (PWLB) is the most likely source of funding as the LPC cannot borrow direct from the PWLB. The Council would take a loan from the PWLB and make a loan agreement with the LPC for individual scheme development finance which can be borrowed at reduced rates for affordable housing. Other types of housing will require lending at commercial market rates to comply with EU state aid rules. The PWLB is still seen to provide good value compared to commercial lending and is not subject to typical fees which can increase the cost of the debt. But lending can come with a (MRP) requirement, determined by the Council, which affects the commercial viability of a development.

Other sources for borrowing include the following:

- bank lending;
- insurance industry lending;
- Wealth funds, which can be accessed via brokers or directly;
- Bonds offering investment which could be marketed to other Local Authorities;
- Local Authority Pension Funds; and
- A partnership with the private sector but this is more relevant at project level.

4.2 Financial modelling

It is proposed that that the company will undertake developments for market sale, market rent and affordable housing for sale (Shared Ownership, Rent to Buy and Starter Homes).

The financial viability of market-led housing development by a wholly-owned company as detailed in this business case has been modelled by officers. This is a basic financial model showing an illustrative model for market sale housing and the potential income, costs and profit associated with this type of development. Supporting this model is a number of assumptions that will be variable on a project by project basis when the company actually commences operations.

It is proposed that the company will also develop housing for market rent and affordable housing for sale. The viability of a market rent development will be dependent on a number of variables and one of the key issues will be the terms of the loans from the Council to the Company. These terms will be determined by negotiation between the Council and the Company and the Council will need to be mindful of the risks relating to the provision of the loan:- **with the market rent model the Company will not be receiving any sale proceeds, so the repayment of the Council's loan may be deferred for**

a considerable number of years. In these circumstances the issue of MRP will need to be carefully considered (see para 4.5).

There is a risk that the Council may incur significant upfront costs in advance of any returns being made due to the reliance on the property sales being the principle source of debt repayment. This has to be fully considered given the financial demand of the Vision 2020 projects and the Councils scarce resources. There is no guarantee that Trisanto will generate profits quickly or that any dividends will be returned to the Council during the early years of trading.

Financial models will be produced on a project by project basis when the company commences operations and more detailed information is available.

To finance the operation of the LPC the Council intends to borrow funds from the Public Works Loan Board (PWLB) using its prudential borrowing powers within the general fund. It intends to on-lend this funding to the LPC to provide capital resources for investment in property and regeneration projects. The loans will be secured against the company owned assets and their repayment must be funded by the company's trading activities.

Careful consideration to the interest rate attached to the on-lending to the company is required. European Union State Aid regulations require the loans to be provided at a rate that the company could otherwise obtain from the financial markets, in order to prevent any unfair advantages over other companies providing similar services. Any uplift in the interest rates between the Council's PWLB borrowing and its on-lending to the company would generate a revenue income for the Council's general fund. The servicing of the Council loans is achieved through the generation of net rental income and the receipts arising from the sale of the properties. A detailed business plan outlining the tax and accounting implications for the Company will be developed in due course as well as a financial appraisal system that will encompass the elements of the company's objectives and purpose related to developing new homes. It is expected that there will be a dividend distribution back to the Council, however the level of distribution will be a matter for the Directors of the company to determine in line with the shareholder agreement.

The LPC will retain the properties which are not sold or made available for shared ownership, for letting under shorthold tenures at market rents and outside of the Right to Buy provisions.

4.3 Company running costs

There are three streams of running costs related to the LPC. These are the company running costs which account for day to day management, marketing activity and internal charges. These are likely to be set at a minimum level, drawing on resources where available from the Council.

The initial running cost of the LPC are likely to include a mixture of the following:

- Financial modelling assistance;
- Site finding fees;
- Costs associated with securing land options;
- Site remediation surveys;
- Site engineering and topographical studies;
- Land and title searches;
- Architectural and design fees;
- Planning fees;
- Development appraisal fees;

- Company secretary costs;
- Accountancy and booking keeping fees;
- Independent audit fees;
- Legal advice;
- Staffing costs for hiring external staff (including Managing Director);

Note - it is not possible to accurately predict actual running costs at this time.

Additional running costs are project specific, and would be funded through individual project finance.

4.4 **Profit generation and break-even**

There are different streams of return to the Council (as shareholders) and these are as follows:

- residual land value;
- return for risk (dividends on sale of units);
- development management charges; and
- interest charges (back to the council).

4.5 Minimum Revenue Provision (MRP)

If, as is anticipated, the Council undertakes borrowing (e.g. PWLB loans) to fund loans to the Local Property Company (LPC) then MRP will need to be considered. MRP is the annual revenue provision that local authorities make in respect of their debt and credit liabilities. Each local authority is required, by law, to make an amount of MRP which it deems to be prudent.

The regulations covering MRP do not specifically define what is meant by prudent provision but some general guidelines are given and local authorities are required to have regard to this guidance. In essence it is for each local authority to determine what level of MRP it deems to be prudent having regard to the guidance and to its own specific circumstances.

Currently the Council does not have any General Fund debt (see note below) and the issue of MRP has not arisen.

At some point the Council will need to formulate a MRP policy in respect of any loans made to the LPC. This will be a particularly important issue if the Council adopts the model of lending to the LPC for the purpose of building properties for rent (as opposed to for sale), as with this model repayment of the Council's loan is likely to be deferred for a considerable number of years.

MRP is an important issue and will form a key part of the financial appraisal of any prospective LPC schemes which are funded by borrowing from the Council.

Note : Unlike General Fund debt, HRA debt is exempt from the requirement to make MRP. However, the Council does have an approved voluntary revenue provision policy in respect of the HRA self-financing debt and this will be updated as and when additional borrowing is undertaken in respect of the current HRA acquisition/new build programme.

4.6 LPC Business Plan

A Business Plan for the LPC will need to be developed to cover a rolling 5 year period of investment activity, and will outline the company's planned operations. In addition, there will be individual business plans developed at project level to cover each project.

The Business Plan will be reviewed and agreed annually by the Cabinet and will cover the following:

a. Company objectives (as established in the Shareholders Agreement)
b. Governance arrangements
c. Operational plans
d. Financial model and assumptions
e. Rents, sales and development assumptions
f. Fees, on-cost, independent audit and tax
g. Funding profile and sensitivity analysis (robust testing of project proposals)
h. Corporation tax treatment and reinvestment of profits

5. Operational arrangements between the Council the LPC.

As a commercial company, a LPC will be solely owned by the Council (preferred option), therefore the Council will hold 100% of the shares and as such will have full ownership. This enables the Council to retain control of the LPC although it will operate commercially at arms-length from the Council. As such, Councillors will have no day to day control or decision making powers, other than through the Council's representative on the Company's Board of Directors and as provided in the company's constitutional arrangements.

The LPC memorandum and articles of association along with a Shareholders Agreement would essentially govern the company. The articles of association and company memorandum determine what a company can and cannot do, these will be produced and registered with Companies House while allowing a broad range of activities normally associated with property management and land development. These three directives perform the following functions:

- Memorandum of association – states that the subscribers wish to form a company and agree to become members of the company.
- Articles of association – set out the governance structure of the company, governing conduct of meetings, appointment / removal of directors and decision making and other issues.
- Shareholders agreement – sets out how the shareholders will operate with respect to the company (including distribution of profits).

The Shareholder function of the Council will be primarily executed through the Cabinet who will appoint the Board of Directors. Regular reports on company performance, finance and development activity will be submitted to Cabinet for sign-off and approval.

5.1 **State Aid**

The Treaty of the Functioning of the European Union (TFUE) defines "State Aid" as a measure which in summary:

- Amounts to a grant of public money or transfer or public resources;
- Distorts or threatens to distort competition in the European market; and
- Affects trade between the member states and the European Union;

All elements set out above must be present for State Aid to exist.

There is a potential for unlawful State Aid to arise in connection with funding or other support from the Council to the LPC. If it were to arise the LPC would be required to repay the value of the aid plus a specified interest rate. There are certain circumstances in which public sector funding can fall outside the scope of article 107 (1) of the TFEU and the State Aid regime. If the Council is acting in a way that a private lender and/or investor would in similar circumstances in a market economy, by providing a loan on commercial terms and at a commercial interest rate, properly taking into account risks and/or making an equity investment on the terms and for the return as a private investor would do – then such activity will not constitute unlawful State Aid.

The funding and equity documentation drafted by our legal advisors Trowers and Hamlins, in support of this business case, will reflect market economy conventions. This will include providing State Aid compliant rate of interest, documenting the Council's expectation for a return on its investment and incorporating the terms and conditions which a private lender/investor is likely to impose.

The European Commission is primarily concerned to ensure that investments by the Council are not hidden subsidies. It considers the following to be unlawful State Aid:

- The forgoing on a "normal" return on public funds used:
- The provision of working capital;
- The granting of financial advantage by forgoing profit or recoveries of debts owned;
- Providing guarantees on terms which would not be offered in the market;

Of particular note is that because the LPC would, at least initially, have no assets or credit history, State Aid rules would preclude the Council from providing the LPC with a guarantee for more than 80% of the financial obligations covered by that guarantee.

The European Commission does not dictate the risk relating to the investment, the period of time in which a return would be made or other matters which may be specific to a particular investment or project. However, if an investment was being made for a return which may not occur for some time it may be necessary for the Council to prove, by an independent report, that a private investor operating in a market economy would be prepared to make a similar investment on those terms an in those circumstances.

As the Council will be advancing loans to the LPC appropriate due diligence will be undertaken for each project. Even though the LPC is owned by the Council, normal practices will need to be undertaken when considering lending money to a third party organisation. This due diligence will also ensure that the interest rate being considered on the loan fully compensates the Council for the risk being taken, and that the rate is State Aid compliant.

Under European Union Law, State Aid rules must be taken into account whenever public money is given to an organisation that undertakes any commercial operation. It is important that a State Aid challenge to the Council is avoided through the application of a reasonable interest rate. The minimum rate that should be charged on the funding of the housing development will be the higher of the Council's cost of funding plus a suitable credit risk margin or the minimum required by State Aid rules. The maximum rate chargeable will be the rate that a housing development could achieve elsewhere. Once these have been determined, the Council can assess the options and determine if State Aid is being provided.

Should the Council wish to provide financial or other assistance to the LPC for private market and affordable products – either in the form of interest rates, a guarantee or otherwise – it will be important to ring-fence such funding from the market properties.

5.2 Appointment of the Board of Directors and Shadow Board

To oversee the creation of the LPC, it is proposed to establish a Shadow Board of one elected member and one officer assisted by independent advisors. Once the Company becomes operational, a Board of Directors will replace the Shadow Board. It is proposed that the elected member who joins the Shadow Board is not a member of Cabinet or the Development Control Committee to minimise members' exposure to conflict of interest situations which can carry significant penalties under the law.

A draft Shadow Board Heads of Terms has been developed. The Shadow Board will confirm the preferred reporting structures.

The role of the Shadow Board would be as follows:

- To endorse and approve the Cabinet report to set up the Company;
- To consider and review the initial business case and illustrative business plan for setting up the Company;
- To consider how the Company could further the priorities of the Council, while not at any time undermining the Company's primary commercial focus;
- To endorse an initial development programme for the Company based on potential land opportunities in the Arun and wider West Sussex area.

To ensure the LPC can operate efficiently and effectively it will be important to have the appropriate balance of skills and experience and, in particular the right business and commercial financial acumen. The LPC will be engaged in both property acquisition and ensuring that any landlord responsibilities are fulfilled in the management of the stock and provision of services to tenants. The detailed arrangements concerning the operation of the Board of Directors will be enshrined in a Shareholders Agreement, and the role and responsibilities of the Board of Directors will be set out in the company Articles of Association.

It is proposed that the LPC Board of Directors will consist of a minimum of the following:

- 1 elected member, excluding members of Cabinet and the Development Control Committee;
- 1 senior officer of the Council and;
- A maximum of 3 independent Non-Executive Directors;

The Non-Executive Directors will be recruited to bring commercial housing development and finance experience to the board (and they would be expected to attend Board meetings).

Any elected member or council officer appointed as a company director would not normally be remunerated, although it will be proposed that Non-executives Directors do receive modest remuneration. The S151 Officer and Monitoring Officer should not be appointed as Directors to ensure a clear separation of their roles in their advice to the Council. Equally, there will need to be clear separation between all officers on the Board of Directors and officers providing advice to the

Shareholders on behalf of the Council. Suitable arrangements will be made to ensure the provision of indemnities for officers and members as directors of the company board under the Local Authorities (Indemnities for Members and Officers) Order 2004 are in place.

If the Cabinet approve the Business Case, and once the bespoke Articles of Association are formally registered at Company House, the Shadow Board will be replaced with Board of Directors which will oversee the day to day operation of the company and have responsibility for development of the business and adherence to the business plan, entering into contractual arrangements and developing the internal policies. The Board of Directors may also develop processes to allow them to delegate all or some of the day to day operations of the company to appropriate advisors/staff.

There is nothing to prevent an officer of the Council also being a director of a Company. However, it is possible, that officers will also be conflicted if they were to be involved in the 'client side' of any matters between the Council and the company.

The LPC will be given sufficient autonomy to operate independently from the Council and this will be clearly set out in its Articles of Association and Shareholder agreement. Members are keen that the company has the appropriate skills and leadership to operate as a commercial entity operating independently from the Council, with the Board appointing people to the LPC for fixed times. Members are also keen to ensure that the LPC is not restricted by its Articles to operate only in the Arun district; it should be flexible and be able to trade throughout the West Sussex area.

Member Directors need to be different to those involved in Cabinet investment decisions to ensure there is no conflict of interest arising. Consideration will also need to be given to ensuring that key expertise (such as financial and legal advice) is available to inform both the Council as shareholder and the LPC.

5.3 Governance arrangements

The LPC will be governed by a number of agreements. The three key agreements that apply to the LPC at the different levels are as follows:

- Shareholder agreements (corporate agreements). These are agreements between the shareholders and the LPC and represent the top level of governance.
- Strategic Land Agreements. These are the agreements between the land owners, and the LPC, and represent the middle layer of governance.
- Development management agreement. These are the agreements between the LPC and the developers and represent the project level of governance.

An example of the relationship between the LPC and its various governance and financial flows is included at appendix C.

5.4 Financing the start-up costs; Options for finance

There are three separate funding streams concerning the LPC of which one is the start-up costs. These can then be broken down into the initial start-up costs of the company, and the start-up costs for each project. The initial outlay for the LPC will likely come from revenue costs, funded by the Council, and will cover the costs of legal fees and specific expertise to set up the company structure. Once the LPC is operating, each project will require start-up costs which funds viability assessments including architect costs, planning costs and specific advice as required unless this can be resourced internally through the Council.

If borrowing is required for start-up costs from PWLB, for example, then the borrowing will be set at a higher interest rate to reflect the level of risk involved. Borrowing may be required for project start-up costs, as it is unlikely the Council has the revenue available to fund these. The other funding streams are the running costs and working capital of the company and the project finance costs. The project finance costs will need to be borrowed to fund the specific viable projects whilst working capital is replenished through the completion of successful projects, once the initial working capital outlay has been funded.

A number of Councils who have already set-up a housing/property company have primarily used the Public Works Loan Board (PWLB) to secure capital finance for their respective housing developments. Whilst many authorities had successfully used the PWLB facility HM Treasury are beginning to raise concerns about the total accumulated level of borrowing for housing companies in England. Therefore, the LPC will need to investigate alternative external financing arrangements as part of its own business plan.

5.5 Delegated authority

Whilst the Council will retain a strategic role over the LPC in a number of ways, it is expected that the LPC will operate at arms-length from the Council in respect of identifying and delivering its development programme. It is critical to note that the LPC is a commercial business and must be able to operate as such and have sufficient flexibility on an operational level to take actions and make decisions enabling it to comply with its articles. The responsibilities of the Cabinet will be revised in the Council's Constitution to provide it with an additional responsibility to approve the borrowing requirements of any company of which the Council has a controlling interest.

The Cabinet, alongside the Stakeholder Advisory Group, will be the key strategic supervisory body with ultimate responsibility for ensuring compliance with the Business Plan and Business Case. However, the Directors have a duty to the LPC to perform in accordance with its articles of association and wider company law.

It should also be acknowledged that there is a very real possibility that conflicts of interest may arise between the requirements of the LPC and those of the Council and measures must be put in place to protect the LPC Directors from this potential conflict arising. It is therefore critical that the Directors of the LPC have a separate and distinct role from the Shareholder Advisory Group and Cabinet. This role will be without prejudice to the Council's normal decision making powers and the role of Overview Scrutiny Committee/Audit and Governance Committee as set out in the Council's constitution.

5.6 **EU Procurement – LPC as a contracting authority**

The determination as to whether the EU Procurement rules will apply to the LPC will turn on the basis upon which the LPC operates. As proposed, and to be set out in the Shareholder Agreement, the LPC will fundamentally have a 'commercial character' and will be established as a for profit company operating competitively in the market with a commercial remit and including (potentially) independent directors on the board.

Legal advice from Trowers and Hamlins suggests that it is unlikely therefore that the LPC will be a "contracting authority" for the purposes of the 2015 Regulations. This means that the LPC can procure services even for contract sums above the procurement thresholds without breaching EU requirements.

The Council's level of control over the LPC either through governance arrangements or the funding agreement, could impact on its commercial character. The question would be one of degree., i.e. whether the Council has such an influence over the LPC that it is unable to act commercially and take commercial driven decisions.

The governance, funding and other documentation between the Council and the LPC will be drafted so as to obtain an appropriate balance between control for the Council and commercial flexibility for the LPC. It will be important therefore that the <u>LPC operates independently of the Council and is not (effectively) a mere agent of it.</u>

6. Proposed operational arrangements for the LPC

The operational arrangements need to consider the staffing of the LPC for the day to day running of the company, and the ongoing management of completed projects where appropriate.

6.1 Resource implications

To enable the LPC to become operational and move into actual project development, the necessary professional staffing resources will probably need to be externally sourced.

In terms of resourcing, the key to the LPC is to bring in innovative new thinking and housing delivery experience through the executive board members or through project specific arrangements e.g. appointment of specific consultants on a project by project basis. It highly likely that external expertise will be bought in by the LPC as needed on the various development projects, this is a model used by other similar organisations to keep costs down and streamline resourcing to adapt for peaks and troughs.

6.2 Project Delivery

At project level, there will be an opportunity to establish project specific delivery vehicles, including joint venture partnerships which will allow the LPC to ring fence risk. However, this is only appropriate for schemes of a certain size, for smaller schemes there is little appetite or advantage. In terms of project delivery, the following steps will be undertaken:

1. **Sourcing of projects.**
   As part of the LPC Business Plan, a supply of sites owned by the Local Authority or other public bodies will need to be identified. These will be finite so the LPC will need to assess suitable options on other land. The project will be sourced depending on land/asset availability so it may be that a number of project sources are considered at a point in time but only one is taken forward.

2. **Due diligence and taking projects forward to development.**
   Once potential projects have been identified a viability assessment including due diligence would need to be undertaken to establish whether the project is a suitable candidate for development. This would normally involve technical support which would most likely be externally sourced.

3. **Project based investment and financing.**
Once a project has been determined to be viable and progressing to development, the LPC will need to consider the specifics of financing the project. At this point, the option to set up a Joint Venture (JV) if required would also be tested, as this could form a source of project finance. Depending on how early in the LPC lifecycle the project is, the finance could be either from Council lending or from reinvestment of profit from earlier projects, or through a JV set up.

4. **Contractor procurement.**
Contractor procurement has become significantly easier and more cost effective, taking the burden off local authority procurement teams. A number of regional and local frameworks have been set up in recent years to assist Local Authorities in the development and delivery of projects. These include a number of contractor frameworks, and frameworks to assist Local Authorities in early stages of projects to minimise and divest finance and delivery risk whilst retaining profit. Frameworks can be used for both procuring contractors and development solutions depending on the scope of the framework, this could be regulated by the Shareholder Agreement which could also stipulate the principle of ethics.

6.3 Marketing the sale properties and branding

The branding of the LPC is critical to its success. The idea behind branding would be to establish a brand that differentiates itself from the general housebuilders, whilst understanding the nuances of the target audience. Housebuilders for example regularly use the term 'Homes' as part of their brand, whilst Private Rented Sector (PRS) organisations will use the term 'Living'. It will be important that the brand is or becomes synonymous with quality homes and lifestyles.

Marketing of sale properties will depend on the size of site. There are a number of marketing options available, including the traditional routes:

- Using Land Agents – this route is recommended where the site is small and there are less than 50 units.
- Using an internally appointed sales team – this is recommended where there is a site of more than 200 homes or several smaller sites of 50+homes
- Online sales – there are a number of websites where homes can be sold direct through the website. Online marketing can reduces costs indicatively by around 0.5%.
- Combination of all or any of the above.

The marketing and sales strategy for each project will be decided at an individual project level. The brand of Trisanto will continuously be promoted for the company's developments.

6.4 Provision of the housing management service for rented properties

Where projects have been completed and consist of market rented or intermediate housing, there will be a requirement for the Company to provide a housing management service.

There are a number of options for the provision of housing management services, dependent on the type of home. These are:

1. Outsourcing to a private management company as this is a different business model and would therefore require a very specific skills mix.

2. Using one provider, sourced from either public or private sector, working directly to the LPC covering both shared ownership and private rented built by the LPC
3. Management of shared ownership housing and 2nd charge assets – a portion of the housing needs to be managed so there is a need to establish relationships to manage 2nd charge assets. Providers who do this will need to be FSA registered.
4. Potentially using the in-house Council Housing Team subject to available capacity. The service currently manages just over 3500 council homes.

It is likely that the provision of housing management services will be site specific and will be considered in more detail on a project level basis.

6.5 Exit Strategy

It is commercially prudent to scope and develop a project with an exit strategy in mind. The exit strategy would need to ensure that at least the investment costs would be recovered at point of exit. Exit points might also occur at the following points:

- Receipt of planning consents, where you knew the investment in the planning process would uplift the investment costs.
- Commencement of construction where affordable and market elements can be sold on.
- Threat of a falling market. This could mean a change to tenure mix such switching market housing to private rented housing and using difference forms of finance to back the project.

An exit strategy will form part of the LPC Business Plan and part of the project specific plans to ensure each project has a viable exit strategy.

7. Project Management for the establishment of the LPC

7.1 Project Team Roles and responsibilities

The table below sets out the project team roles and responsibilities for the delivery and establishment of the Local Property Company. There will be a requirement to appoint specialist legal advice in addition to the team below.

Name	Role	Organisation	Responsibilities
Karl Roberts	Project Sponsor	Arun District Council	Strategic Council Lead Officer – Link to Arun Corporate Management Team
Andy Elder	Project Manager	Arun District Council	Overall Project Management
Ian Doolittle	Legal Advisor	Towers and Hamlins	Project documentation and legal powers report
Harry Scarff	Advisor	Cornerstone	Commercial advice and project management

7.2 Project Governance

The project is owned by Arun District Council and project managed by Andy Elder, the Housing Strategy and Enabling Manager. The Project Sponsor is Karl Roberts who will inform the Council's Corporate Management Team (CMT) of the project delivery.

The project was initially supported by Cornerstone Assets in an advisory capacity, and has been further supported by Trowers and Hamlins (Solicitors).

8. Conclusions

The analysis of the evidence strongly supports the view that an opportunity, through the establishment of a LPC, exists to intervene in the housing and property market to develop profitable schemes, which will in turn help support the revenue and capital requirements of the Council. This opportunity should be underpinned by strong leadership and effective governance with a process for delegation, with the governance process being sufficiently agile to make a certain number of decisions prior to requiring Cabinet approval at the higher levels.

The establishment of the LPC will allow the Council to play an active role in planning for the overall needs of the community and connecting planning policy, housing affordability and the wider economic needs of the residents. Secondary to this, the LPC will be generating profit which will be either be reinvested in the LPC projects, or will form dividends for the Council as the main shareholder and provide sources of income through the various activities.

The LPC is also expected to stimulate regeneration, through housing delivery or in partnership with other organisations on identified regeneration projects. This is key to the economic well-being of the Council as whole.

8.1 Next steps

The following activities need to be completed before the Company commences any trading activity;

1) Establish Shadow Board
2) Establish supply of sites – both council owned and private
3) Comprehensive review of capacity and gap analysis to identify short, medium and long term resourcing.
4) Confirm directors liabilities
5) Confirm delegated authority levels with regards to the Council and LPC
6) Establish funding sources for start-up, working capital and project finance
7) Agree the state aid implications of the councils on-lending and loan pricing
8) Complete the Shareholder Agreement
9) Establish the Shareholder Advisory Group
10) Produce a bespoke set of Articles of Association for the LPC
11) Produce a draft Business Plan for the LPC for consideration and approval by the Board of Directors
12) Produce the Heads of Terms for the loan agreement and loan structure

9. APPENDICES

Appendix A

Examples of council owned housing company's

Sevenoaks District Council – following a 20-month detailed due diligence process, the Council incorporated Quercus 7 Limited in December 2015. This followed a report from consultants EC Harris which recommended a suitable Governance structure and purpose for the company. This enabled the Council to operate property development on a commercial basis as well as allowing the Council to invest in residential property to be leased which it is not otherwise allowed to do. The consultants have advised that operational returns from investment in property can achieve a 6% income return on investment.

In 2016, the Council approved a Shareholder Agreement and the Company Articles of Association. The Council have now appointed Chief Officers as Company Directors and a separate Trading Board to oversee the trading activities of the company comprised of Cabinet chaired by the Leader of the Council. External non-executive Directors are being recruited to the board and will be paid for their professional knowledge, commercial skills and technical expertise.

South Cambridgeshire District Council – SCDC have set up a housing company trading under the name of Ermine Street Housing to purchase and develop housing for market rent purposes. The company is limited by shares with the Council as the only shareholder. Initially the company was set up as a pilot programme for 30 properties with a working capital loan of £7m, provided by the Council which was borrowed from the PWLB. The Council makes a return on the loan it lends to their company which exceeds other forms of investment.

SCDC have recently agreed a new 5-year business plan with £100m of loans from the Council, again borrowed from the PWLB and lent to the company for developing up to 500 market rented homes with a net yield of around 4%. The loan is provided at a market rate to the company to avoid any state aid issues.

The company has a 6 person board of directors comprising of 2 officers, 2 members and 2 external appointees who are paid around £4k per annum.

The purpose of establishing the company is to create an additional revenue stream for the Council and provide additional rented homes in the area managed in an ethical manner. There is clearly great trust between the Council and the company, with only an end of year report required so long as the company is operating to agreed tolerances in its business plan.

There are currently no properties for market sale, but the new programme will include affordable housing for rent and shared ownership. The company now has a development team of mainly seconded staff from the Council and trades outside of the South Cambridgeshire DC administrative area.

Kings Lynn & West Norfolk District Council – King's Lynn and West Norfolk DC established a local housing company in May 2015, the purpose of which was to take a lead role in directly investing in new housing on land controlled by the council by embarking on a major programme of building 600 new homes.

The vision of the Council is;

- To boost the local economy by ensuring delivery over a five year period, and create new apprenticeships and training opportunities;
- Enhance an existing residential area and improve some existing sporting/recreational facilities; and
- Creating new investment returns for the Council;

The Council used expert advice from the start – having identified the need for specialist property, legal, and tax advice. Commitment for the company came from councillors and officers to the project that involved a multi-disciplinary team, project board, and regular member briefing. Contracts were signed for a hybrid approach that includes a development agreement and a building contract with incentives on sales targets and sharing of super profits. Planning permission was granted for a new road that opens up a council owned site for development with agreed funding in place.

The Council have now appointed Lovell's as their development partner to build up to 600 homes with a potential value of up to £80 million in the King's Lynn area over the next five years. Through the development management agreement, Lovell's will design and promote the new housing on behalf of the Council and will be contracted to build the new homes. As part of its commitment to investing in local companies, the company will provide a range of job and training opportunities locally including the creation of a number of new apprenticeships and the safeguarding of a significant number of existing apprenticeship places. Lovell will also deliver a range of short training courses and a programme of visits for local school, college and university students.

The new housing company has recently made a planning application for 130 new homes which will be the first tranche of new housing with construction work is due to start later this year, subject to the scheme successfully completing the planning process. The new two-, three-and four-bedroom houses will comprise 110 homes for sale and 20 affordable homes.

Guildford Borough Council – set up a local housing company in 2016 for two main reasons firstly to address the shortage of rented accommodation within reach of local people and to generate a revenue income for the General Fund. The company will offer a range of tenures but not Affordable Rent. The Board of Directors comprise both officers and members from the Council and external non-executive members who bring a range of technical skills and knowledge to the company. The Council investment in the company is currently arranged as 75% loan and 25% equity but in the longer term, it is envisaged that this will move to a ratio of 60:40.

Appendix B

Risk Register Introduction

Local authorities have a fiduciary duty to local tax payers and need to be prudent about putting local tax payers' money at risk. For this reason, authorities are required to prepare a detailed business case before embarking on trading ventures such as a local property company (LPC). As part of preparing the business case for the LPC the Council has assessed the risks involved in the proposed enterprise. Cabinet will ultimately need to decide whether those risks are proportionate to the potential returns and determine whether it should proceed.

The Council's Risk Appetite Statement details **the level of risk the Council is prepared to tolerate or accept in the pursuit of its strategic objectives.**

The two specific elements of the Council's Risk Appetite Statement that need to be considered when establishing the LPC are Transformational Change and Development and Regeneration.

> ***Transformational Change -*** *the environment in which the Council operates is continually changing through both external and internal factors and demands. Change projects provide the Council with an opportunity to establish longer term benefits and continual improvement in the delivery of value for money services. The Council recognises that this may require increased levels of risk and is comfortable accepting such risk, subject to ensuring that risks are managed appropriately.*
>
> ***Development and Regeneration -*** *the Council has a continuing obligation to invest in the development and regeneration of the district. To be progressive and innovative in meeting this obligation the Council is willing to accept a higher appetite for risk whilst ensuring that the risks and benefits to be gained are fully understood in order that informed decisions are made.*

In respect of the LPC, the strategic objective is to generate an additional income stream for the Council. The acceptance of risk is subject to ensuring that all the potential benefits and risks of establishing a LPC are fully understood, and that appropriate measures are identified to mitigate those risks. It is critical that Members fully understand the risks associated with this venture and carefully consider those in conjunction with the potential rewards/ returns prior to giving approval for the LPC to commence operating.

If approval is given for the LPC to commence operating then each development proposal will be considered on a scheme-by-scheme basis. Due to the nature of this venture, the return on investment to the Council will be long-term and therefore will not provide any financial contribution to the requirements of the 2020 Vision. The objective is for the LPC to provide a vehicle for the Council to become financially self-sufficient in the future.

Risk analysis and risk assessments are essential processes to aid the LPC in the achievement of its objectives. Because of these processes, a Risk Register has been produced. Each risk has been assessed to consider the likelihood and impact of its occurrence and an overall risk score has been assigned. Any control measures and mitigating actions to reduce the risk are also detailed in the register.

In addition to the risks set out in the Risk Register there is a risk that the Council may incur significant upfront costs in advance of any returns being made due to the reliance on property sales/rents being the principal source of debt repayment.

The legal structure of the Company may also expose the Council to the liabilities of the Company if it fails at any point in the future. To protect the Council from default suitable protections will be put in place over the structure of any loans to the Company. This could be provided through a debenture type arrangement, which would provide a first charge over the assets of the Company.

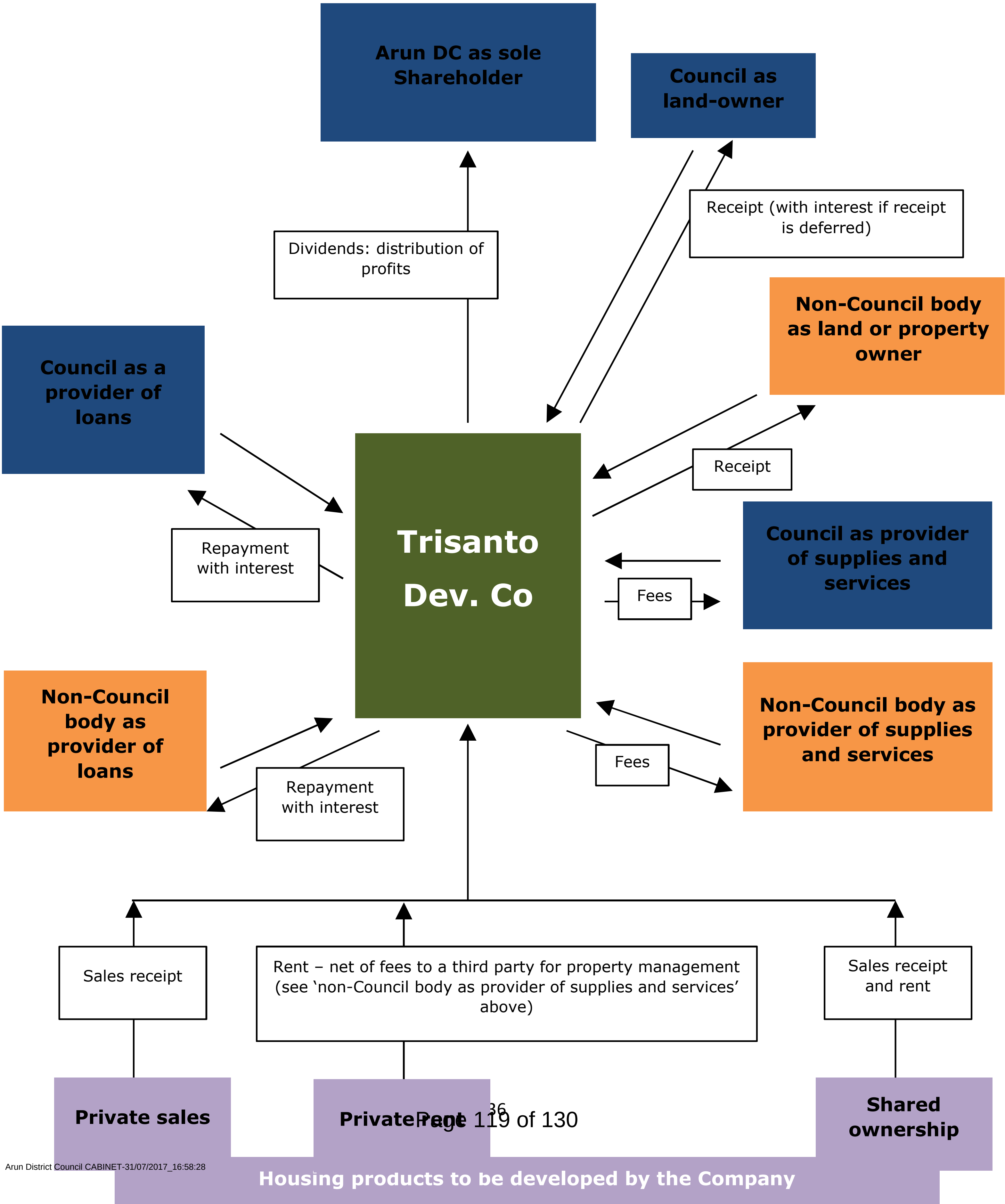
The Council will ensure that a robust sensitivity analysis is undertaken to ensure all potential risks in the housing market are adequately modelled, and that a financial plan is developed and reviewed to protect the Council's revenue budget.

The risk register is a live document which will be regularly reviewed by the Stakeholder Advisory Group (SAG) as there will be a need to address a number of additional significant risks which may arise from changing market, legal, environmental and economic conditions.

The risk register itself is contained in a separate Excel document which accompanies this appendix.

Appendix C

Potential financial cash-flows between the Company and the Council



Appendix D

Local Property Company – SWOT analysis

Strengths	Weaknesses
• Knowledge of the district and its potential development opportunities including opportunities to acquire public sector land; • Ability to secure funding at competitive rates via PWLB; • The company can make a significant contribution to the Council's plans to generate new income streams; • Long term capital growth and scope to repay loans in longer term;	• Lack of Council owned developable land; • Low potential sale values compared to much of West Sussex; • Lack of in-house experience of housing development/construction; • Historic perception of the Council not being 'commercial'; • Lengthy timescale before significant numbers of homes are available; • Lack of scalability to develop economies of scale; • Competing with developers/ the private sector who have more knowledge and experience within the market;

Opportunities	Threats
• Income generation for the general fund; • Increase of high quality housing in the district; • Support for local people to rent or buy a home; • Introduction of suitably skilled external non-executive directors; • Company will be able to deliver various elements of the Arun Charter Plus initiative;	• Significant competition already in the local market; • Inability to attract suitable staff and board members; • Challenge from private sector over 'state aid'; • The 'not in my back yard' syndrome and other adverse publicity; • Land values increase and make development unviable; • Government clampdown on Council companies/prudential borrowing; • Potential impact of Right To Buy extension on new rented housing; • Increase in interest rates; • Brexit affecting housing market; • Inaccurate or misleading development appraisal assumptions used; • Unavailability of experienced board members; • Reputational risk to the Council.

Risk Profile

	4 Certain			12	
	3 Probable			4, 11, 13, 14	2,5
	2 Possible		20, 23, 24	1,3,7,16,17,18, 19, 22, 25	6,8, 15, 21, 26, 27,
LIKELIHOOD	1 Unlikely			10,	9
IMPACT		1 Insignificant	2 Marginal	3 Significant	4 Severe

Risk No	Risk Scenario Title
1, 13	Market
2, 26	Property
3, 21, 27	Commercial
15	Public Relations
4, 22, 23	Finance
17,18, 19	Legal
5	Pipeline
6, 14, 16	Governance
7, 25	Resources / Staffing
8	Approvals
9	Political Change
10	Regulatory Change
24	Audit Control
20	Employment
11,12,	Brexit

Draft Risk Register for Arun Property Company

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
1	2	3	**6**	Property development is not a business as usual function for the LA so there will be inexperience. Lack of market knowledge, and market trends.	Local market does not support the establishment of LPC	Council and company	Undertake detailed market research and review existing policies to establish that there is sufficient opportunity in the market. Identify other opportunities that allows the LPC to maintain its commercial viability.

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
2	3	4	**12**	Identified sites are earmarked for other uses or sold to private developer because the LPC is unable to secure them in time. LPC is not able to source adequate funds for purchase (if required)	Existing asset/Development opportunities are limited	Company	Undertake detailed review of all existing and surplus assets for development opportunity, including public assets not controlled by the district council. Identify other opportunities that allows the LPC to maintain its commercial viability.
3	2	3	**6**	Lack of experience in the sector and market means commercial proposal is unrealistic.	Proposed LPC financial model not commercially viable	Company	Ensure robust options are developed and priced to test commercial viability. Run sensitivity analyses. Ensure market and opportunity is understood. Review the options and undertake further commercial assessment. Review other opportunities such as extending the scope of the LPC external to the LA.

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
4	3	3	**9**	Government funding is limited, reducing or not available. Bids for funding are not accepted.	Alternative funding sources are inadequate	Company	Ensure that the model is not dependent on external funding sources and can sustain itself using the established pipeline. Review funding sources, and identify projects that will sustain the company, prioritise projects that make commercial sense.
5	3	4	**12**	The number of sites and/or development opportunities is finite, proposed projects are not commercially viable or sustainable.	Pipeline is not sufficient to sustain company	LPC delivers the immediate projects, pipeline dries up affecting funding sources and LPC is disbanded. Will affect the Company.	Ensure a robust pipeline is identified within the district, if the pipeline is finite, develop a plan for resourcing and managing the wind down and ongoing management if any. Ensure there is a robust resource plan in place and a close down plan in the event that projects dry up. Review ongoing management opportunities for commercial viability.

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
6	2	4	8	Experienced board members are unavailable or engaged on other projects. Projects are not prioritised highly enough and are not supported.	Company governance is ineffective	LPC fails to deliver on projects. Affects both the Council and the Company.	Ensure robust governance structures are established including board and executive structure, team resourcing and thresholds. Board reshuffle if appropriate, and assess project team for efficiencies.
7	2	3	6	Lack of experienced staff, secondment opportunities are not attractive.	Company staffing is inadequate	Company	Identify the ebbs and flows within the programme to manage the resourcing. Develop a core team and supplement with secondments from the Local Authority/contractors/consultants/associates where appropriate. Outsource not urgent activities to consultants/contractors or put on hold. Look at secondment opportunities. Ensure there is career progression, training etc. for staff to motivate.

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
8	2	4	8	Members don't buy into the LPC proposal so it is not supported.	Business case not approved by Cabinet	Council and the Company.	Ensure that robust options analysis and financial analysis is undertaken to support the commercial case. Ensure that adequate market research has been done and that there is sufficient pipeline to support the LPC. Ensure the business case is well drafted and executed. Review of business case and seek clarification on where the issues are. Develop a strategy to address these issues.
9	1	4	4	Council is not prepared for the impact of national policy change.	Changes in central government policy and the new planning bill have significant impact on deliverability of schemes	Council and the Company.	Ensure staff and project team are kept abreast of policy changes and understand the impact of these. Run models of different policy change scenarios to assure project viability. Understand funding streams and ability to access, identify projects within the programme that are not affected by policy and can be fast tracked to maintain momentum.
10	1	3	3	Council is not prepared for the impact of regulatory changes.	Changes in EU or national law impacts on deliverability of schemes	Council and Company.	Identify schemes that can be fast tracked to avoid any changes in law to maintain momentum. Maintain 'horizon scanning' to provide early warning of any potential regulatory change and prepare accordingly.
11	3	3	9	Brexit outcome leads to uncertainty in the markets	Outcome of the Brexit process for the housing and property market	Projects could be delayed and momentum is lost. Main impact is on the Company.	The Shareholder Advisory Group will require the Company to advise them of any operational and delivery issues.

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
12	4	3	12	Brexit affect: Change in government leadership	Outcome of the Brexit negotiations once the UK leaves the EU	Company.	Monitor the current political situation. Ensure project viability is suitably robust to withstand fluctuations in cost and price, with built in buffers. Engage with developers to test appetite early in the process, and begin marketing. .
13	3	3	9	Insufficient pipeline of land sites acquired by the company	Company cannot compete effectively in the marketplace against existing developers	Company	Acquire sites outside of Arun and West Sussex area
14	3	3	9	Unable to attract appropriately skilled and experience Directors	Poor governance decisions and lack of commercial skills in the Board	Company	Small Shadow Board will need to be expanded
15	2	4	8	Reputational risk to the Council	Company fails or operates in a manner to cause a PR issue for the Council	Council as shareholder	Appropriate controls in the Shareholder Agreement
16	2	3	6	Shareholders attempt to exert excessive influence over the operational running of the company	Tensions created between the council and company	Council and company	Strict adherence to the Shareholder Agreement

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
17	2	3	6	Possibility of challenges to state aid	Inadequate assessment of the state aid rules and regulations	Council	To review as part of the Shareholder Agreement
18	2	3	6	Failure to arrange adequate insurance cover for the Company's liabilities/assets	Failure to purchase sufficient policy cover	The council and company could both be subject to a legal challenge	Ensure that the Council arranges for the Indemnity insurance of the officer and member directors
19	2	3	6	Failure to comply with Company law	Failure to commission appropriate legal advice as part of the company formation and trading activity	Council and company both affected and could face prosecution.	The Council is acquiring sufficient legal advice as the business case is developed
20	2	2	6	Consideration of employment law including TUPE implications	Insufficient attention paid to employment law and regulations	Council and company both affected if this is not managed properly.	Review of the Shareholder Agreement
21	2	4	8	Property Company failure	Inadequate operational controls in place	Council and company both affected.	Regular review of the company performance by its Directors and Shareholder Advisory Group

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
22	2	3	6	Insufficient financial controls in place	Inadequate planning and agreements in place between the Council and company	Council and Company both affected.	Appointment on Non-executive Directors to the Board. Review of Shareholder Advisory Group.
23	2	2	4	Company credit rating	In its early days the company will have no track record on which it can seek finance from any institution other than the Council	This will initially impact on the Company.	The Council could act as guarantor provide insurance to mitigate the potential risk
24	2	2	4	Challenge from Council's external auditors	Failure to communicate the company's activities to the external auditors	Council and company both could face action.	It will be necessary to follow CIPFA Code of Practice on local authority accounting. All transactions applicable to the company can be identified using unique transaction records and coding structures. Council's External Auditor's to be kept fully informed in relation to the company business plan activities.
25	2	3	6	Lack of capacity to manage additional workload	Insufficient staffing resources to progress development opportunities and pipeline activity	Company	Careful programming of available internal staff resources and recruitment of external advisors, consultants and staff.

Risk No	Likelihood	Impact	Risk Rating Likelihood x Impact	Vulnerability	Trigger	Risk Consequences /Affecting Council or Company or both	Current Controls/Mitigating Actions
26	2	4	8	Poor investment acquitsions	Insufficient scrutiny of individual development projects by the Shareholder Advisory Group.	Poor investments will impact on the business of the Company but will impact on both the Council and company over the longer term.	Each development opportunity will be reviewed initially by the company Board before being referred to the Shareholder Advisory Group for appraisal then to Cabinet for final sign-off and approval.
27	2	4	8	Poor rate of return on property development deals	Sales returns and delays/failure to attract tenants to occupy new properties.	Council and company will both be affected.	Each development opportunity will need to present a satisfactory Net Present Value (NPV) return for the company in accordance with the expectations set out in the business plan.