



Fit for the future

creating a prosperous and healthy Torbay

June 2017

DRAFT - Housing Rental Company – Policy
Framework Document

Housing Rental Company – Policy Framework Document

1.1 Background

On 22 September 2016, Council agreed the principle of setting up a new wholly owned housing company to develop and own homes with the overarching aim of maximising income back to the Council as well as supporting objectives set out in the Council's Housing Strategy.

Following the decision taken in September 2016 a number of options have been explored, and proposals have evolved. At this time Council would now like to limit this Policy Framework to the establishment of a Housing Rental Company (abbreviated to RentCo).

The principal objective of RentCo will be to support the objectives of the Council to enable ambitious and progressive delivery of the Council's Housing Strategy.

The Council wants to raise the bar on delivery and ensure that it supports the housing needs of local people, through a variety of tenures and house types to enable the provision of and choice of homes, where people can thrive.

Other key objectives of RentCo would be to increase standards in the private rented sector, and to increase the level of adapted accommodation to allow more people with care and support needs to live in specialist housing. The Council will use its own stock where appropriate to provide a greater flexibility in meeting its strategic housing needs and statutory obligations.

The Current Housing Position

Torbay covers an area of 62.9 square kilometers and has approximately 59,000 households with 50% in Torquay, 37% Paignton and 13% Brixham. The Council does not currently retain any social housing stock.

Detailed statistical information concerning Torbay's housing needs is set out in a November 2015 report produced by the Council entitled 'Torbay Housing and Health Needs Assessment'.

Some of the salient points from that report are:

- There is a higher percentage of home ownership in Paignton and Brixham than the situation in England as a whole¹;
- There is a lower percentage of social rented housing than England as a whole in the 3 towns² (Torquay, Paignton and Brixham);
- There is a significantly higher percentage of private rented accommodation in Torbay than England³;
- The average (median) sale price in Torbay in 2014 was £169,250 (2009 £155,000) ⁴;
- The average (median) sale price in Torbay in 2014 per property type was as follows - Detached £246,000, Semi-detached £179,084, Terraced £150,500, Flats/Maisonettes £112,000 (overall average in 2014: £169,250) ⁵;
- In 2015 the average (median) earnings of Torbay residents who are full time workers were around £5,450 p.a. less than England as a whole at £22,380⁶.
- In 2014, 7.7 times the average (median) annual salary is needed to buy the average priced house in Torbay, higher than the equivalent across England⁷, meaning housing is less affordable in Torbay compared with England ⁷;
- Because of the lower average earnings an increasing number of Torbay residents are living in private rented accommodation;
- In 2015/16, there were 410 net housing completions (additional housing units provided). In the 6 years to 2015/16 there was an average of 360 net housing completions a year in Torbay. (*N.B. These figures are rounded to the nearest 10*)⁸.
- Between 2010/11 and 2015/16 505 affordable homes were delivered in Torbay; and

¹ Census 2011, www.nomisweb.co.uk

² Census 2011, www.nomisweb.co.uk

³ Census 2011, www.nomisweb.co.uk

⁴ Land Registry, House price statistics for small areas, www.ons.gov.uk

⁵ Land Registry, House price statistics for small areas, www.ons.gov.uk

⁶ Annual survey of hours and earnings, www.nomisweb.co.uk, Figures are gross annual pay

⁷ Ratio of median house price to lower quartile earnings, Land Registry and the Annual Survey of Hours and Earnings, Table 577, earnings relate to the respondents place of work rather than place of residence.

⁸ Torbay Council

- The social housing register shows that a rising trend of applicant households – 1,690 in January 2013 rising to 2,266 by March 2017. The greatest need is for 1 bedroom dwellings 56%, 2 bedroom dwellings 26%, 3 bedroom dwellings 12% and 4 bedrooms or more - 6%.

1.2 Objective

The principal objective of RentCo will be to support the objectives of the Council to enable the ambitious and progressive delivery of the Council's housing strategy which may include:

- (i) Increasing the number of affordable homes delivered;
- (ii) Increasing standards in the private rented sector;
- (iii) Providing greater flexibility when dealing with housing needs for local people;
- (iv) Increasing the level of adapted accommodation to allow more people with care and support needs to live in specialist housing;
- (v) Unlocking stalled sites in and around the town centre to assist with regeneration and increase footfall in the areas town centres; and
- (vi) Assisting with regenerating areas of deprivation;
- (vii) Provide a private sector leasing option for private landlords.

Whilst there is the potential for RentCo to provide revenue income to the Council in the future, this is not the main objective of this policy framework. It is however important to set out that any decisions will be cost neutral to the Council over the lifetime of that home or group of homes (i.e. over a maximum of 25 years).

1.3 Scope

RentCo:

Council will be asked to determine the level of prudential borrowing it wishes to make available to the company by way of a loan.

Working Capital:

Working capital/set up funding for the company will be made available to them by way of a loan from the Council. Others opportunities for working capital/set up funding will be explored.

RentCo will be able to source funding alternative to that provided by the Council, however, the decision to issue share capital and/or to take out loans would be a matter reserved to the Council as shareholder.

Each phase for RentCo will need to demonstrate that:

- It is delivering the outcomes of the Housing Strategy;
- any financial reliance on the Council will not damage the Council's service delivery;
- The business case/phase demonstrates long term viability and that it will be at least cost neutral cost neutral to the Council over the lifetime of that home or group of homes (i.e. over a maximum of 25 years);

- Any company or business that RentCo propose to work with to deliver schemes will be; financially sound, committed to housing standards and have good governance arrangements in place.

Prudential borrowing drawdowns

RentCo will initially be financed by the Council using a prudential loan.

The Prudential Borrowing will need to be in line with the Councils Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy. The Council and RentCo will work together to ensure there is appropriate levels of cash flow.

1.4 Strategy

RentCo:

Council will be asked to approve the prudential borrowing for RentCo, as part of the approval of this Policy Framework. Drawdowns against this borrowing will be approved by the Council for each phase undertaken.

RentCo will be expected to provide a business case for each phase as part of the drawdown process, which, inter alia will outline how the phase will meet the outcomes of the Housing Strategy as well as the performance targets for the phase. It is envisaged that a phase will be a substantial proposal.

RentCo may act as its own letting agent, or it may commission this service from elsewhere for the properties it owns. There is nothing in this strategy which limits RentCo in acting as a letting agent for itself, or for others, however a decision to act for others in this way is a reserved matter for the Company.

RentCo will be required to seek approval from the Council for selling any part of the business unless authorised through any adopted Business Plan.

1.5 Locations

Torbay will be the main location for acquisitions of rental properties so that this directly delivers the Housing Strategy within Torbay. However, there is a finite and limited supply of land and property within the local area, and of that supply only a small proportion may be available for purchase at any time.

Consequently, a slightly wider travel to work area may be considered for acquisitions as there is an evidence base which demonstrates that such investment in this area has a positive impact on Torbay's economy, which indirectly supports the outcomes of the Housing Strategy.

1.6 Target Assets

RentCo

All properties where it can be demonstrated that their acquisition assists in delivering the Housing Strategy.

1.7 Assessment of risks

A rigorous assessment of all risks is required for each business case put forward by RentCo.

The risks will be measured and an assessment made of the likely future performance of the proposal. This will be carried out based on, inter alia, the ranges of likely future rental growth, voids of the property, together with the projected disposal price/capital value at the end of the period, over which the cash flow analysis is being measured.

1.8 Governance Arrangements:

There shall be three Directors of RentCo. These Directors shall all be employees of the Council, or any of its wholly owned companies, whilst ensuring that at all times at least two of the Directors are directly employed by the Council.

Rent Co will be controlled by Reserved Matters, including approval of its business plan.

An annual report of the work of RentCo shall be presented to Council.

Any support that the Council provides to RentCo (e.g. back office services) must be provided on at least a full cost recovery basis.

1.9 Decision Making

This Policy Framework stipulates that the following decisions, which in part, comprise of Reserved Matters of the company, are outside of Policy Framework, consequently this means that these decisions will be made by Council not the Executive;

- 1.9.1 Varying in any respect the Articles or the rights attaching to any of the Shares in the Company.
- 1.9.2 Varying the quorum provisions for Director or Shareholder meetings.
- 1.9.3 Permitting the registration (upon subscription or transfer) of any person as a member of the Company other than the Council.
- 1.9.4 The creation, allotment or issue of any shares or the variation of any rights attaching to any Share
- 1.9.5 Granting any option or other interest (in the form of convertible securities or in any other form) over or in its Shares capital, redeeming or purchasing any of its own Shares or effecting any other reorganisation of its Shares capital.
- 1.9.6 Issuing any loan capital in the Company or entering into any commitment with any person with respect to the issue of any loan capital.
- 1.9.7 Making any borrowing arrangement, other than from the Council.
- 1.9.8 Passing any resolution for its winding up or presenting any petition for its administration (unless it has become insolvent).
- 1.9.9 Changing the nature/scope of the Company's Business or commencing any new business by the Company which is not ancillary or incidental to the Business.
- 1.9.10 Approving any Business Plan prepared by the Board.
- 1.9.11 Taking any action or decision which would not be consistent with any adopted Business Plan and/or any approved Business Case.
- 1.9.12 Forming any subsidiary or acquiring shares in any other company or participating in any partnership or joint venture (incorporated or not).
- 1.9.13 Selling any part of the Business unless authorised through any adopted Business Plan.
- 1.9.14 Amalgamating or merging with any other company or business undertaking.
- 1.9.15 The provision of letting agency services to others.
- 1.9.16 Creating or granting any Encumbrance over the whole or any part of the Business, undertaking or assets of the Company or over any Shares in the Company or agreeing to do so other than liens arising in the ordinary course of business or any charge arising by the operation or purported operation of title retention clauses and in the ordinary course of business.
- 1.9.17 Making any loan (otherwise than by way of deposit with a bank or other institution the normal business of which includes the acceptance of deposits or in the ordinary course of business) or

- granting any credit (other than in the normal course of trading) or giving any guarantee (other than in the normal course of trading) or indemnity (other than in the normal course of trading).
- 1.9.18 Altering any mandate given to the Company's bankers relating to any matter concerning the operation of the Company's bank accounts other than by the substitution of any person nominated as a signatory by the party entitled to make such nomination.
- 1.9.19 Entering into any arrangement, contract or transaction (including the appointment of any agent or intermediary to conduct any of the Company's Business) outside the normal course of its business.
- 1.9.20 Making or permitting to be made any change in the accounting policies and principles adopted by the Company in the preparation of its audited and management accounts where such change would have an impact on the EBITDA.
- 1.9.21 Declaring or paying any dividend or making any other distribution (by way of capitalisation, repayment or in any other manner) out of the Company's distributable profits or any of its reserves other than an interim dividend in accordance with the Articles.
- 1.9.22 (a) Making the initial decision for the Company to have its own employees
(b) Granting any pension rights (Local Government Pension Scheme) to any director, officer, employee, former director, former officer or former employee, or any member of any such person's family.
- 1.9.23 Dismissing any officer or employee in circumstances in which the Company incurs or agrees to bear redundancy or other costs in excess of £50,000 in total and dismissing any Director.
- 1.9.24 Instituting, settling or compromising any material legal proceedings (other than debt recovery proceedings in the ordinary course of business) instituted or threatened against the Company or submitting to arbitration or alternative dispute resolution any dispute involving the Company.
- 1.9.25 Factoring or assigning any of the book debts of the Company.
- 1.9.26 Establishing or amending any profit-sharing, Shares option or other incentive scheme (other than bonus schemes) of any nature for directors or employees of the Company.
- 1.9.27 Agreeing to remunerate (by payment of fees, the provision of benefits-in-kind or otherwise) any officer of the Company at a rate in excess of £50,000 per annum or increasing the remuneration of any such person to a rate in excess of £50,000 per annum or otherwise in accordance with any adopted Business Plan or Business Case.
- 1.9.28 Entering into or varying any contract of employment providing for the payment of remuneration (including pension and other benefits) in excess of a rate of £50,000 per annum or increasing the remuneration of any staff (including pension and other benefits) to a rate in excess £50,000 per annum.
- 1.9.29 Making any agreement with any revenue or tax authorities or making any claim, disclaimer, election or consent exceeding £100,000 for tax purposes in relation to the Company or its Business.
- 1.9.30 The acquisition or disposal of any land, buildings and/or other assets where such acquisition or disposal is not within the approved Business Plan of the Company or any approved business case.
- 1.9.31 To receive and approve Business Cases for developments/phases and therefore approve drawdowns of loans in accordance with the Prudential Borrowing limit set by Council.