

Appendix 1 - High-Level Business Case

Delivery by the Council of Shared Ownership Affordable Housing

April 2021

1. Overview

In 2020 the Council became a Registered Provider ('RP') of Social Housing, in the first instance, to enable the Council to retain ownership of the Grosvenor Place accommodation for former rough sleepers. Since that time the Council has also achieved Investment Partner Status with Homes England, which means it can access grant for delivery of affordable housing.

These factors presented the opportunity for the Council to directly deliver affordable housing.

The initial priority in delivering on the Council's housing delivery commitments, has been the delivery of 39 units of supported housing accommodation which will support the Council in meeting its statutory obligations whilst providing an enhanced service for clients.

At the same time, options have been explored to take advantage of our RP and Investment Partner status and leverage our skills and assets to further add-value and enhance housing delivery. The option this capital project takes forward is the acquisition of homes from Aequus for delivery as Council Shared Ownership homes. Working closely with Aequus, the following development has been identified as being suitable:

- Two units from the Sladebrook Scheme, which is well advanced, will provide two shared ownership properties, part-financed by the Council. The original plan was to transfer these properties to another RP but which is proving problematic. However, there are benefits to retaining these properties in Council ownership. This would demonstrate commitment to Council Housing delivery, provide affordable family homes in a location with limited affordable supply

2. Strategic Objectives

The project will directly address the manifesto commitment on housing delivery as well as address identified local need by diversifying the housing offer and providing affordable homes.

The proposal addresses commitments set out in the Council's Corporate Strategy 2020-24:

- Preparing for the Future; energy efficient construction; sustainable development locations; reducing the need to travel
- Delivering for local residents: affordable housing; energy efficient homes; providing key worker housing

- Focusing on Prevention; preventative approaches; reduce health inequalities; build on local strengths

The proposal also responds to the approach set out in the Council's Homelessness & Rough Sleeping Strategy 2019-2024:

- Preventing homelessness
- Supporting vulnerable households
- Reducing rough sleeping
- Increasing accommodation options

At a national level, the proposal accords with and is driven by the government's target to deliver 130,000 affordable homes outside London by 2026.

3. Operational & Management Approach

Approach

As the name suggests, shared ownership works on the basis that a share of the property value is sold to the resident and rent is paid to the owner of the unsold 'retained' share (which in this case would be the Council). For units delivered via the planning system the Council specify the portion to be sold and place a cap on the rent charged on the retained share, to make sure the property is affordable. If 40% were to be sold and the cap on rent charged on the retained share was 1.5% of the retained share per annum, this would be expressed as an equity share arrangement of 40/1.5%.

The implication of altering the equity share arrangement is that providing a more affordable product, reduces the financial return and requires greater grant input.

In order for the Council to deliver the units, an equity share arrangement needed to be determined so that the resulting grant funding implications can be addressed. SLT and IC have been consulted on this point and were of the view that the equity share arrangement needed to be based on ensuring an affordable product was created and it is on that basis that the 40/1.5% share is recommended.

Operational Implications

Concept & Feasibility

SLT and IC were consulted and supported the initiation of negotiations with Aequus. From those negotiations, costs were identified which formed the basis of a comprehensive financial appraisal being undertaken on the schemes using development industry appraisal tools.

The assumptions used for the financial appraisal were formulated in consultation and agreement with the Council's Capital Finance Team.

The overriding principle of the financial appraisal was that whilst it was accepted that grant would be required, the revenue generated by the schemes needed to cover all the annual scheme costs from year 1. These costs would be composed of maintenance, servicing the loans etc.

The outcome of the financial appraisal is that each of the schemes outlined in this report would all be financially viable and would cover their cost from year 1, subject to one-off capital grant.

How the Model Works

The developer (Aequus) undertakes the sales and marketing of the units as shared ownership tenure

Once interested parties are found by Aequus, the Council agrees that applicants meet the eligibility criteria (in simple terms that they would be eligible to go on the Councils Homesearch Register).

Once an eligible applicant is confirmed, they purchase 40% of the value of the home from the Council and enter into a lease agreement with the Council for the remaining share, using the Homes England Model Lease.

The shared owner then pays rent as set out above.

The Council is responsible for the maintenance of the property for the first 10 years, for which allowance has been made in the financial appraisal.

4. Capital Summary

Sladebrook Road (Newbuild)

Costs	Acquisition of 2x3bed Units	765,000
	Fees*	15,500
	Total Costs	780,500
Funded by	Homes England Grant (assumed)	84,000
	B&NES Affordable Housing Grant	188,000
	Income from Sales (Month 1)	360,000
	Net Loan Requirement (annuity of 40yr term)	148,500

*acquisition costs such as legals/conveyancing, consultancy advice etc

5. Revenue Summary

There are two principal revenue elements to the scheme, the cost of operating/maintaining the asset for the first 10 years and the cost of servicing the borrowing.

All these costs will be covered by income generated by the scheme and an accountancy environment will need to be created to facilitate the ring-fencing of this income and expenditure.

6. Overall Summary and Recommendations

This project takes the significant step of establishing the Council as a direct provider of shared ownership affordable housing. It does so by delivering high quality units in locations where other affordable housing options are limited and has the added benefit of supporting Aequus.

The Council is commonly called upon to provide grant support to RP's to enable their schemes, where the Council retains no ownership. This circumstance enables the Council to deliver affordable housing with grant but with the benefit of retaining ownership of the asset. By taking this approach going forward, the Council's portfolio will increase in scale and eventually reach a point where more advanced schemes can begin cross-subsidising 'younger' schemes, thus reducing the grant and borrowing requirement.

This project also establishes the Council in its Investment Partner relationship with Homes England and enables the Council to gain valuable experience and in-house capacity for the future.