

APPENDIX Q

WAVERLEY BOROUGH COUNCIL

COMMUNITY OVERVIEW AND SCRUTINY COMMITTEE - 22 MARCH 2011

EXECUTIVE – 29 MARCH 2011

Title:

WAVERLEY INITIATIVES LTD

[Portfolio Holder: Cllr Keith Webster]

[Wards Affected: All]

Summary and purpose:

The Council set up Waverley Initiatives Ltd as a wholly owned company with scope to carry out activities that will be of benefit to the Waverley community and support the Council's objectives. In February, the Council agreed that the first venture to be considered by Waverley Initiatives could be in respect of rented housing, where the Council would transfer some 40 HRA homes to the company.

Having undertaken detailed analysis of the business case and the impact of the transfer on the HRA, it has been concluded that the financial advantage to the Council is marginal.. More importantly, the Secretary of State has now indicated that he is not minded to grant consent for the transfer of properties at this time in the run up to the new Self-financing regime.

The Council therefore cannot proceed with the rented housing proposal for Waverley Initiatives Ltd.

How this report relates to the Council's Corporate Priorities

This report relates to three of the Council's Corporate Priorities namely: **Improving Lives** – Improving the quality of life for all, particularly the more vulnerable within our society; **Subsidised affordable housing** – Working for more affordable housing to be built and managing council housing well; and **Value for money**.

Equality and Diversity Implications:

There are none arising from this report.

Climate Change Implications:

There are no Climate Changes Implications arising from this report.

Resource/Value for Money Implications:

Once the detailed Business Plan for Waverley Initiatives was populated with actual data from Waverley's housing stock, rather than assumptions, it became clear that the business case for Waverley combined with the impact on the HRA was not of sufficient overall financial benefit to warrant the risks and associated work load involved with running the company as a landlord.

The proposal presented to Members in February required £2.1m of capital receipts, currently held by the Council for affordable housing, to be lent to the company. As it has not proved possible to obtain consent to the trickle transfer programme, the 2.1m now becomes available for the Council to spend. This report proposes that officers report back to Members with a range of options for how the Council can utilise this funding in the most effective way in the future.

Legal Implications:

The Council cannot dispose of HRA homes to Waverley Initiatives without the formal consent of the Secretary of State.

Introduction

1. In February 2011, the Council received a report from the Executive, which outlined a business case for the transfer of homes from the Council to Waverley Initiatives Ltd. The Council had previously established Waverley Initiatives Ltd as a wholly-owned company that has the potential for delivering services to the Waverley community and supporting the Council in pursuit of its wider corporate objectives.
2. Waverley Initiatives Ltd is essentially a 'social enterprise'; and the directors are: the Leader of the Council; the Deputy Leader and Finance Portfolio-holder; the Housing Portfolio-holder (Chairman of the Board); the Chief Executive and Head of Housing. The Company Secretary is the Head of Democratic Services.
3. As the affordable housing arena is facing significant changes in the foreseeable future initiated by the Government, it was considered that Waverley Initiatives could be a vehicle through which the Council could seize the advantage
4. The rationale behind this particular venture relating to social housing can be summarised as follows:
 - i. the HRA would not need to make revenue or capital investment in the homes that are transferred to the company – as the company would have been funding the requisite investment to bring them up to a lettable standard and meet the Decent Homes Standard;
 - ii. the Council would receive a capital receipt for each property transferred to Waverley Initiatives Ltd;
 - iii. the monies that the HRA saved as a result of passing void properties to the company and the capital receipts received, could have been reinvested in the Council's retained tenanted stock and so more programmed capital works would have been done to occupied homes and such investment would also contribute towards meeting the Decent Homes Standard;
 - iv. the properties transferred would remain in the social rented sector;

- v. the assets passed to Waverley Initiatives Ltd would still be retained within the control of the Council because the company is owned by the Council. Where the Council has transferred assets to a provider of Social Housing, they become the property of a separate legal entity over which the Council does not have control and the assets appear on that organisation's balance sheet. By transferring property to Waverley Initiatives Ltd, the Council would be helping to build an asset base of an organisation it owns. Similarly, transferring rented homes meant that Waverley Initiatives Ltd would have a steady revenue income;
- vi. the company would have had more flexibility over rent setting and be able to operate with more flexibility than the Council;
- vii. it had been the intention of the Board of Directors to complete works to Waverley Initiatives' homes to a higher letting standard than is currently achieved by the Council;
- viii. the Self-financing opening debt would potentially have been reduced as a consequence of reducing stock numbers in the HRA;
- ix. Waverley Initiatives would have repaid the loan with a fixed return over time.

Waverley Initiatives Ltd – Business Plan

5. The initial business case for this venture was explored and an indicative business plan formulated. This business plan contained a series of assumptions but indicated that Waverley Initiatives could be a viable proposition in respect of rented homes. The indicative business plan was considered by the Executive and Council in February 2011. At that time, it was concluded that it was important to refine the business case to reflect the actual properties identified to be transferred and to seek advice on the taxation position of these proposals.
6. Since then, officers have been populating the business plan with costs relating to the management and maintenance of actual properties and rent levels.
7. Whilst Waverley Initiatives would have generated a surplus of something in the order of £100,000 per year, the Housing Revenue Account would lose in the order of £60,000 per year and therefore the net benefit to Waverley in the round would have been £40,000 per annum in the early years.
8. This work has led officers to conclude that the benefits for Waverley and its community are not significant enough to justify pursuing this new venture unless any other major financial advantages were evident, such as a large reduction in transferred debt under the self-financing framework. The clear message from the Secretary of State is that, if approval was granted, this would not be the case.

Formal Consents

9. In order for this proposition to be implemented, the Council needed formal Consent from the Secretary of State for Communities and Local Government to dispose of property. On 17th March 2011, the Department of Communities and Local Government advised officers that it had considered the application for consent for the disposal of Council owned homes. Officials advised that they were not minded to grant Secretary of State consent in the run up to the new Self-financing regime because of the potential impact on debt redistribution.

Conclusion

10. The proposal for Waverley Initiatives to venture into the affordable housing arena was in response to the Government's new freedoms and flexibilities around housing tenures and rents. It also made sense to try to reduce the impact of self-financing opening debt on the HRA. There was a good prospect that Waverley Initiatives could make a reasonable return on the capital employed and make a return to the Council.
11. Although it is now clear that Waverley Initiatives cannot proceed with Trickle Transfer, this exercise has proved useful for a number of reasons:
 - Waverley Initiatives Ltd now has a robust business model template against which future business opportunities can be evaluated;
 - the investigation into the business elements of Waverley Initiatives – VAT implications, Corporation Tax, Stamp Duty Land Tax and group relief etc will be useful when considering future business opportunities; and
 - the development potential and business case for the development of a number of small sites in the Council's ownership has been assessed and this will enable officers to make recommendations about their future use in due course.
12. Waverley Initiatives remains as a company wholly owned by the Council and has the potential to be used for other social enterprise initiatives, as and when the opportunities arise.

Recommendations

It is recommended that

1. the report be noted and that the Council will not be pursuing a programme of Trickle Transfer to Waverley Initiatives; and
2. officers be requested to report back to Members with a range of options for how the Council can utilise the capital receipts currently earmarked for affordable housing in the most effective way in the future.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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