

FULL COUNCIL REPORT

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Service Area	Housing
Committee Division	Council
Exempt/Non Exempt	Non-exempt
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To: Mayor, Ladies and Gentlemen

GELLIDEG HOUSING CO-OPERATIVE PROJECT

PURPOSE OF THE REPORT:

To update Council on the proposal to develop a Housing Co-operative project in partnership with Merthyr Valleys Homes on the Gellideg Estate and to request Council's approval to utilise the Council's Prudential Borrowing facility to support the scheme's financing arrangements.

1.0 INTRODUCTION AND BACKGROUND

- 1.1 Merthyr Valleys Homes (MVH) is seeking to develop a housing solution for Taff Fechan House, a block of three bedroom flats at Gellideg, which have been vacant for several years.
- 1.2 Following an options appraisal for the properties, the Board of MVH has agreed to explore the re-development of the flats, with a view to bringing Taff Fechan House back into use for housing.
- 1.3 The scheme, which would operate as a housing cooperative model aims to i) vary the tenure mix within the estate, ii) create a housing tenure type compatible with the social enterprise culture present in Gellideg and iii) increase the number of households in employment in the Gellideg community.

- 1.4 The scheme has also been identified as an integral aspect and source of match funding within the Council's Vibrant and Viable Places Regeneration Programme.

2.0 CO-OPERATIVE HOUSING MODELS

- 2.1 In the UK housing co-operatives have traditionally been developed for people in housing need using public subsidy to finance their development, with rental costs similar to social rent levels. There is little demographic difference between households living in the traditional type of co-operative in the UK and those living in general housing association properties, but the greater social and well-being benefits experienced by households living in co-operative housing are well documented. Housing co-operative tenants experience higher tenant satisfaction levels, improved financial management skills, increased community capacity and enhanced support arising from daily life within a co-operative housing structure.
- 2.2 The traditional co-operative model outlined at 2.1, where public subsidy is used to develop the co-operative, does not, however, provide a mechanism to increase the number of working households within a community, which is a key aim of the Taff Fechan project. Consequently, Merthyr Valleys Homes, in partnership with the Council, has explored alternative co-operative models

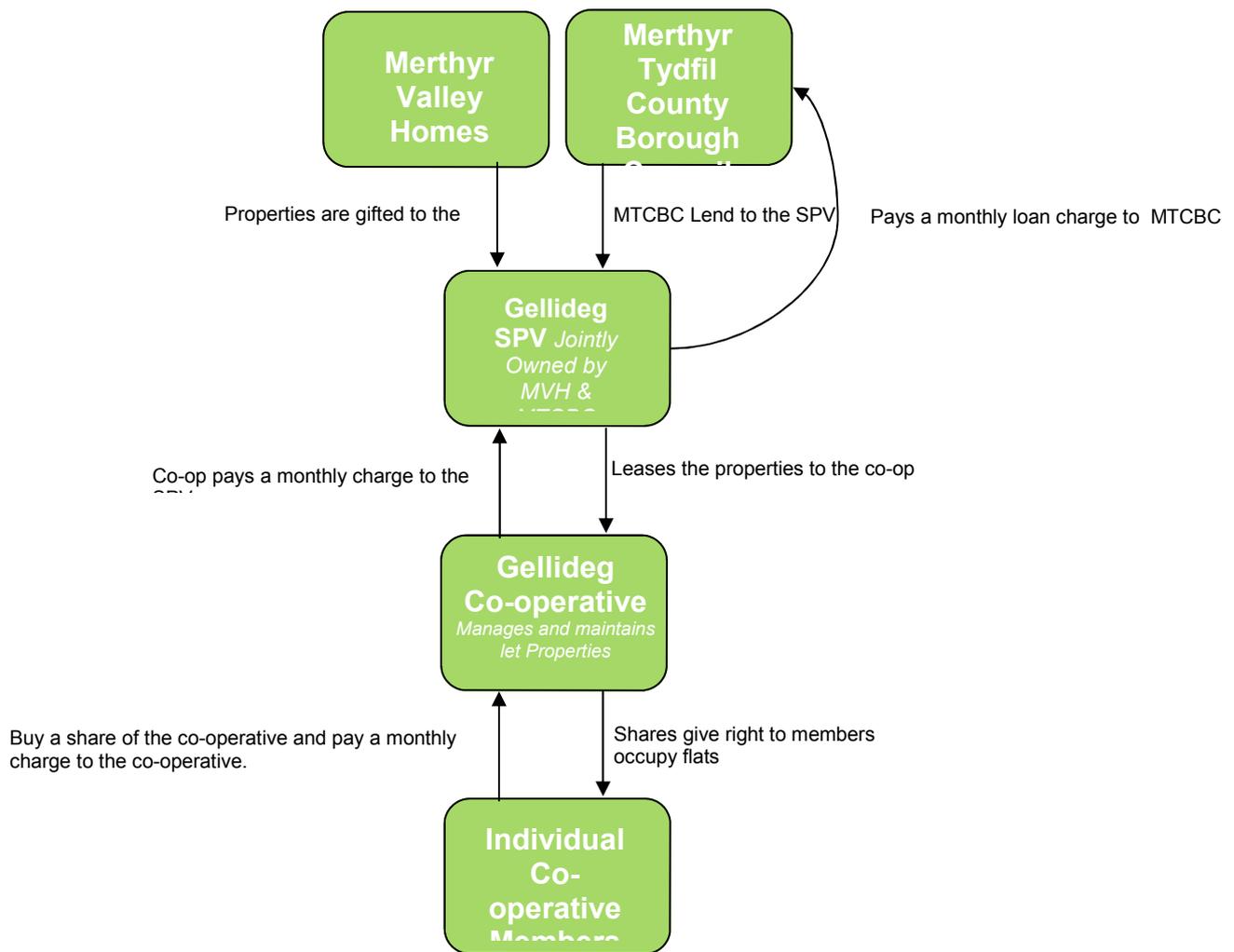
3.0 LEASEHOLD AND OWNERSHIP CO-OPERATIVES

- 3.1 A housing leasehold cooperative (without public subsidy) is formed when people join with each other on a democratic basis to own or control the housing and/or related community facilities in which they live. Usually they do this by forming a not-for-profit co-operative, where the value of the co-operative membership reflects both the popularity of the scheme and how much the membership cost in the first place in a similar way to the owner occupied model.
- 3.2 In many countries co-operative housing that is not subsidised by the state is a very popular form of tenure. In Bergen in Norway for example, the ownership co-operative housing model is well established and many households buy and sell their co-operative membership (which is their right to live in the property) in a similar way to owner occupiers selling their properties. It is also estimated that there are over 1 million ownership co-operatives in America, with the co-operative ownership and co-operative leasehold model operating in many blocks of flats in New York.
- 3.3 It is intended to use the 'without subsidy, grant free' co-operative model for the Taff Fechan project, as it has the potential to achieve each of the aims set out for the scheme i.e. bringing the empty flats back into use and allowing allocations to people who are working and seeking tenure security.
- 3.4 The co-operative model under development will:
- Offer rents below market rent, that remain affordable in the long term. (Members of the co-operative will have no reason to substantially increase monthly charges outside of the agreed repayment plan to the Special Purpose Vehicle (SPV))

- Provide all members will have limited liability, with no personal liability for the co-operative loan from the SPV (the co-operative is responsible for paying off any loan). This can often make it possible for persons whose income might not qualify them for an individual mortgage to buy a membership in a co-op.
- Provide security of housing tenure not available in the private rented market for those households who cannot obtain a mortgage or a sufficient deposit to purchase.
- Provide security of tenure, where members own the cooperative together and have the security of being able to remain in their homes for as long as they wish, as long as they meet their monthly obligations, and abide by the co-op bylaws, rules, and regulations.
- Provide the potential to extend skills and services. By establishing cooperative procedures and working together, people are able to provide services for themselves that otherwise would be difficult and more expensive to obtain. (When one cooperatively organized venture is successful it often becomes clear that people can be successful in another area as well).
- Provide a degree of community control, as mutual owners, member residents frequently participate at various levels in the decision-making process of a community.
- Offer the potential to reduce vandalism and improve neighbourhood security as co-op members have a shared security goal to protect their investment.

4.0 GELLIDEG HOUSING COOPERATIVE MODEL

- 4.1 Whilst it is intended that the co-operative model under development for Merthyr Tydfil will eventually become 'grant free', an ownership co-operative in Gellideg will be difficult to kick-start without a degree of public support, as all housing schemes, including co-ops require a level of start-up capital to purchase equity or land.
- 4.2 The Gellideg co-operative is no different and poses two significant challenges in this respect. Firstly, there will be difficulty in obtaining the starting capital as the area is currently in very low demand with low property and land values. Any investor would be concerned about a return on their investment including potential co-op members investing their own money or a funder lending to the co-operative. Secondly, new co-operatives have found it almost impossible to borrow from the market without the support of Government grants, as the new organisations have no assets and no track record of financial sustainability.
- 4.3 The potential solution therefore is to create a leasehold co-op. The cooperative would lease the property from another investor (often a not for profit corporation that is set up specifically for this purpose – a Special Purpose Vehicle).
- 4.4 In this model (as illustrated in the diagram below) it is proposed to create a Special Purpose Vehicle (SPV) jointly owned by Merthyr Tydfil County Borough Council and Merthyr Valleys Homes (MVH). The proposal is for MVH to transfer the ownership of these assets to the SPV and for the Council to lend the initial investment capital required to the SPV via the Council's access to the Public Works Loans Board facility.



4.5 Under this model, the leasehold co-operative would have an agreement with the SPV to occupy the properties for an agreed fee that covers the full costs of the SPV loan and disbursements.

5.0 NEXT STEPS: ESTABLISHING THE SPECIAL PURPOSE VEHICLE

- 5.1 Merthyr Valleys Homes have taken advice on the proposed legal structures from Morgan Cole, who advised that MVH and MTCBC enter into a preliminary agreement to agree roles and responsibilities as the project is developed and progresses to delivery stage.
- 5.2 Details of the preliminary agreement and proposed operating model for the Special Purpose Vehicle are set out at Appendix 1; further reports will be brought to Cabinet and/or Council as the project progresses.

6.0 LEGAL IMPLICATIONS

- 6.1 An overview of the legal structures and proposed operating model are set out at Appendix 1.
- 6.2 Under Sections 1 and 12 respectively of the Local Government Act 2003, local authorities have the power to borrow and invest for (a) any purpose relevant to their functions, and (b) the purpose of the prudential management of their financial affairs.
- 6.3 The prudential system for local authority capital finance was introduced on 1 April 2004 and enables local authorities to decide for themselves how much they can afford to borrow based on a prudent assessment of their capital needs. The duty to determine the level of affordable borrowing places reliance on self-regulation under professional codes of practice including the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- 6.4 Capital expenditure funded by borrowing (and all other forms of credit) is controlled through the issue by the Welsh Government of credit approvals, i.e. authorities are only able to borrow to the extent authorised by the Welsh Government. Any borrowing needs a revenue resource to pay for it over the period of the loan so without extra revenue to fund the costs of borrowing (for instance through tax raising) scarce revenue resources will be used up.

7.0 FINANCIAL IMPLICATION(S)

- 7.1 It is proposed that Merthyr Tydfil County Borough Council enters into a 25 year loan agreement for £510,000 with the Public Works Loan Board, this would result in repayments due from the SPV to Merthyr Tydfil County Borough Council as follows:
- £1,317 in 2014/15
 - £35,904 in 2015/16 and each year thereafter until the 25 year period has come to an end.
- 7.2 The financial risks to Merthyr Tydfil CBC are limited, as should the co-operative housing model fail to attract sufficient occupancy to generate returns on investment long-term, the project would be returned into use as renovated, social housing stock to ensure repayment of the debt owed to the Public Works Loans Board.
- 7.3 The loan will continue to be repaid during void periods.

8.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

- 8.1 A Single Integrated Plan Sustainability Assessment has been completed. There are no negative outcomes and several positive impacts. This assessment is available on request. The positive outcomes are listed below:

- People in Merthyr Tydfil have the opportunity and aspiration to learn and develop their skills to maximise their potential.
- People in Merthyr Tydfil benefit from a strong, sustainable and diverse economy.
- People, who live and work in Merthyr Tydfil are supported to enjoy a healthier and better quality of life.
- People enjoy a vibrant, attractive, safe and sustainable place in which to live, work, play and visit.
- Prevention and Early Intervention - in order to break cycles of dependency and prevent the persistence of poor outcomes from one generation to the next.
- Sustainable Development - enhancing the economic, social and environmental wellbeing of people and communities, achieving a better quality of life for our own and future generations.
- Poverty - preventing poverty, helping people out of poverty and mitigating the impact of poverty.
- Working with Communities - The role of communities working in partnership to help to deliver the Vision and Priority Outcomes for Merthyr Tydfil.
- United Nations Convention on the Rights of the Child - empowering children's, young people's and their parents' / carers' to participate in the decision making process on services that affect their lives.
- Equal Opportunities – ending discrimination, ensuring equality of opportunity and that all parts of our population can live together, where every person has an equal chance to participate and has equal access to services.
- Social Inclusion - ensuring that no-one is disadvantaged because of poverty, geography or access to services.

9.0 EQUALITY IMPACT ASSESSMENT

- 9.1 An Equality Impact Assessment (EqIA) screening form has been prepared for the purpose of this report. It has been found that a full report is not required at this time. The screening form can be accessed on the Council's website/intranet via the 'Equality Impact Assessment' link.

10.0 RECOMMENDATION(S) that

- 10.1 The development of the Gellideg Cooperative Project in partnership with Merthyr Valleys Homes be approved; and
- 10.2 The use of the Public Works Loans Board to finance the project as set out at paragraph 7.1 be approved.

ELLIS COOPER
DIRECTOR OF CUSTOMER SERVICES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Cooperative Housing Guidance	Various	Housing Department

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.