

Meeting: Cabinet/Council

Date: 19/20 September 2023

Wards affected: All

Report Title: Future options for the structure and operation of TorVista Homes

When does the decision need to be implemented? Initial decisions by the end of September 2023 with subsequent decisions to be implemented in December 2023

Cabinet Member Contact Details: Alan Tyerman, Cabinet Member for Finance and Corporate Services

Director/Divisional Director Contact Details: Malcolm Coe, Director of Finance

1. Purpose of Report

- 1.1 TorVista Homes is a subsidiary of Torbay Economic Development Company which in turn is a wholly owned company of Torbay Council which was established in 2019.
- 1.2 The original objective of the company, as stated to Council in September 2016, was '**to develop and own homes with the overarching aim of maximising income back to the Council**'. A secondary objective was to help the Council deliver against its Housing Strategy. This was updated in a Full Council report in December 2018 which included the recommendation '**that in principle there appear to be clear benefits in merging the Housing Rental Company (RentCo) into the TDA, or a subsidiary of the TDA to enable relevant affordable housing schemes to be delivered at pace**'. However, for a number of reasons including changing market conditions, escalating construction costs and the Covid pandemic these objectives have not been realised.
- 1.3 As part of the original set up, TorVista was able to access drawdown of a 'working capital' loan from the Council in order to cover its operating costs until it achieved a critical mass of properties to fund a sustainable operating model. The intention behind this loan was that the company would ultimately payback the loan to the Council, in its entirety, through generating surplus from the holding of housing stock. However, this has not materialised and, as at September 2023, TorVista has fully drawn down the loan facility available and is continuing to incur significant annual operational costs with no identified funding source.

Ultimately, as a wholly owned company, this financial liability will fall back on Torbay Council to address.

- 1.4 This report details the current status of TorVista, including assets owned and loans owed, and recommends the direction for the wholly owned company moving forwards.

2. Reason for Proposal and its benefits

- 2.1 The establishment of TorVista directly links to the Council ambition for the Bay to:

- be a place where we have turned the tide on poverty and tackled inequalities; where our children and older people will have high aspirations and where there are quality jobs, good pay and affordable housing for our residents.

With further links to the corporate themes of:

- thriving people, thriving economy;
- a Council fit for the future and;
- tackling poverty, deprivation and vulnerability

- 2.2 This report is aligned to the “Future Options on the structure and operations of Torbay Economic Development Company” which is intended to accelerate delivery. In the case of TorVista however, with the assets and liabilities of TorVista being underwritten by the Council, with an accrued loan debt of £1.5m and on-going operational costs of £370k per annum, the Council need to determine whether:

(a) it can afford to maintain the existing structure and operational arrangements of TorVista within the context of the wider Council budget and

(b) whether the annual costs incurred by TorVista represent Value for Money from public sector funding when considering the outcomes delivered to date and those forecasted over future years.

3. Recommendation(s) / Proposed Decision

Recommendations to Cabinet:

That, subject to the Council’s approval of recommendations 6 and 7, the following be implemented:

1. TorVista be instructed to progress the current projects of St Kilda and Torre Marine, subject to viable business cases, as directed by the Director of Adult and Community Services;

2. TorVista be instructed to refrain from taking on any new development work, or projects, until further notice unless requested to do so, in writing, by the Council's Chief Executive or formal decision from Council;
3. TorVista be instructed to reduce operating costs from £370,000 per annum to a maximum of £223,700 per annum through removing all functions, and associated costs, other than those required to provide a landlord service for the current 32 Units within their ownership;
4. Torbay Council set up a 'Torbay Council Strategic Holding Company' and, subject to ensuring compliance with the Regulator of Social Housing, move the wholly owned company of TorVista from Torbay Economic Development Company to become a wholly owned sub company of the Council 'Strategic Holding Company' and the Chief Executive, in consultation with the Leader of the Council and Cabinet Member for Finance and Corporate Services, be given delegated authority to establish all governance arrangements for the Strategic Holding Company;
5. That further work is undertaken by the Director of Finance with regards to the future management and operation of the 32 units currently owned by TorVista, (plus any subsequent units that might arise through either St Kilda and/or Torre Marine), to drive down operational costs which, subject to the compliance with the Regulator of Social Housing, might include:
 - (a) Transferring the residential assets to alternative Residential Providers and the land assets back to Torbay Council; and / or
 - (b) Integrating the TorVista landlord function with the management and maintenance of other Council owned assets such as temporary accommodation properties; and

The outcome of this work be reported to the Cabinet to enable it to make recommendations to the Council meeting on 7 December 2023, (as part of, and to inform, the budget setting process), on whether it wishes to continue to fund TorVista to develop, and deliver, specialist housing schemes which link directly to the Council's Community and Corporate Plan and Housing Strategy priorities which could include:

- Extra Care Housing;
- Supported Living;
- Care leaver accommodation;
- Temporary Accommodation

Recommendations to Council:

That Cabinet recommends to Council:

6. The Director of Finance be instructed to write off the 'working capital' loan of £1.5m, accrued by TorVista as at September 2023, to be funded through a strategic review of Council Reserves;
7. that Council Minute 67(v) of 20 July 2017 be rescinded, thereby removing any approval of prudential borrowing to facilitate further schemes by TorVista; and
8. The Council approve revenue funding of £115,000 for maintaining TorVista operations for the six-month period from October 2023 to March 2024.

Appendices

None

Background Documents

Details of previous decisions:

- (a) Council September 2016: approved in principle, the creation of a Housing Company with the objective of income generation;
- (b) Council December 2018: accepted in principle the benefits of TDA creating a Housing Company to enable relevant affordable housing schemes to be delivered at pace;
- (c) Cabinet July 2019: approved £25 million of Prudential Borrowing, in principle, to facilitate the work of the Housing Company, in the form of a loan for a capital purpose.
- (d) Council July 2019: approved a loan of up to £1 million to TDA, if required, to allow access to the necessary working capital required to set up the Housing Company with the terms of the loan delegated to the Chief Finance Officer to agree, in consultation with the Cabinet Member for Finance;
- (e) Council October 2022: approved an extension to the 'working capital' loan facility from £1m to £1.5m.

1. Introduction

- 1.1 TorVista Homes was set up as a wholly owned company of Torbay Council, reporting into Torbay Economic Development Company in 2019. The initial objectives of the company, as reported in September 2016, was to **develop and own homes with the overarching aim of maximising income back to the Council**.
- 1.2 A secondary objective was to help the Council deliver against its Housing Strategy. This was reaffirmed in a Full Council report in December 2018 which included the recommendation **'that in principle there appear to be clear benefits in merging the Housing Rental Company (RentCo) into the TDA, or a subsidiary of the TDA to enable relevant affordable housing schemes to be delivered at pace'**.
- 1.3 In July 2017, Council approved a loan facility of up to £25m to develop, and deliver, specific housing schemes subject to individual business cases to be submitted and approved by the Council's Section 151 Officer (in consultation with Cabinet member). However, whilst planning permissions have been achieved at Preston Down Road, Crossways, Torre Marine, St Kildas, and Totnes Road for circa 300 homes, as at 31 August 2023, only business cases, and subsequent loans, amounting to £3.2m have been approved as detailed in *Figure 1*:

Figure 1: Loans drawn by TorVista and Units held by the company

Development	Loan £000s	No. of Units
Next Steps (inc 4 Bishops Place Units)	882	14
Bishops Place (excluding Next Steps)	885	9
Totnes Road	1,456	9
	3,223	32

- 1.4 The total cost of the 32 units, as at 31 August 2023, is stated as being £5.285m of which £2.526m is Freehold and £2.762 is Leasehold. In addition to Council loans, £1.92m has been obtained, across the stock, as grant funding from Homes England.
- 1.5 The individual site business case process considers the rental income achievable from the completed development and accounts for repayment of loan drawdown, with accompanying interest, as part of the cost appraisal underpinning the case. Thereby each business case should achieve at least a cost neutral position, including the on-going maintenance and

management of the completed asset, with the added objective of providing a contribution to TorVista to partially cover the operational cost of the company.

- 1.6 The Business model of TorVista was based on the premise of accumulating a critical mass of developments, and subsequent ownership of assets, that would cover the entire operational cost of running the company with the intention that, ultimately, TorVista would generate an on-going revenue surplus in line with the September 2016 report. However, as detailed in *Figure 1*, the company currently owns, and manages, just 32 units.
- 1.7 When setting up TorVista, it was recognised that there would be a need to ‘pump prime’ the operational costs of the company whilst assets were being developed and accumulated. In July 2019 the Council approved ***that a loan of up to £1 million be approved to TDA, if required, to allow access to the necessary working capital required to set up the Housing Company with the terms of the loan delegated to the Chief Finance Officer to agree, in consultation with the Cabinet Member for Finance.*** This was subsequently increased to £1.5m as approved in October 2022. It was intended that this working capital loan would be repaid to the Council, by TorVista, when the level of rental income received was sufficient enough to generate a surplus position. However, the full £1.5m has now been drawdown, and spent, by the company with on-going net costs, (accounting for existing rental income), of circa £370k per annum.
- 1.8 Whilst there is value in the assets held by TDA, without an achievable route through to a substantial critical mass, these costs will ultimately fall back on Torbay Council and will need to be accounted for within the Council’s budget and financial framework. Bearing in mind the extent of loan exhausted and significant on-going deficit:
- It is recommended that:*
- (a) *The Council write-off the £1.5m TorVista working capital loan (to be funded through Council Reserves);*
- (b) *The Council make revenue budget provision of £115,000 for the remainder of the 2023/24 financial year whilst further cost reduction measures are progressed.*
- 1.9 The ability for TorVista to increase the supply of affordable housing and help the Council meet the needs to those most vulnerable client groups has been significantly negatively impacted by the increases in construction prices over the last 18 months and rising interest rates which, even factoring in the use of Homes England grant funding, makes viability of site development of what were already complex projects, extremely challenging.
- 1.10 Recognising the significant one off, and on-going, costs to the Council, and current status of the company, immediate action needs to be taken to reduce spend where possible. The essential costs of maintaining the existing estate can be reduced from £370k per annum to £223.7k per annum as detailed in *Figure 2*:

Figure 2: Revised TorVista operational budget (pending further Council decision)

Budget / Spend Area	(Income) / Cost £000	Comment
Income from Rent	(195.9)	Income received from 32x units
Housing Company Directors	18.1	Legislative requirement
Housing staff employed	93.0	2x FTE employees
Torbay Economic Development Company recharges	79.7	Will be influenced by TDA decision
Property Related Payments	81.0	Mainly service charge and maintenance
Administrative costs	31.0	Including audit, bank and ICT costs
Loans repayment and interest	116.8	Based on £3.2m loan drawdown
Revised on-going costs	223.7	Further work needed to drive down costs

- 1.11 In order to exert greater Council control and influence over these costs moving forwards, it is recommended that the wholly owned company of TorVista is moved from its existing reporting line of Torbay Economic Development Company , to report directly into a Torbay Council Strategic Holding Company. Upon setting up such a company, and reporting arrangements, the Council can directly make further decisions as to the strategic direction, priorities and operation of TorVista over the coming months to ensure financial sustainability. It should be noted however, if the Council is to keep and utilise the stock and not increase the quantum of stock to create efficiencies then there will an on-going cost to the Council.
- 1.12 Outside of operational costs, TorVista are currently developing 23 units of age restricted properties at St Kildas (Brixham) and a further 74 units of Extra Care at Torre Marine (Torquay). It is proposed that these schemes continue to be developed, (subject to viable business cases), but with clear direction and authority to incur further material spend, directed through the Council’s Director for Adults and Community Services with project oversight provided by the Council’s Capital and Growth Board.
- 1.13 No further new developments should be pursued by TorVista unless explicitly requested to do so, in writing, by the Council’s Chief Executive or as directed through a formal Council decision and corresponding minute.

2. Options under consideration

2.1 The £223.7k operational costs, as detailed in Figure 2, reflects the costs of TorVista in managing and maintaining the existing stock as currently held and in line with the requirements of the Regulator for social housing and the conditions as set out in the grant agreements. To make further significant cost reductions would require the company to either:

- (a) Discharge ownership of all assets to alternative Residential Providers and cease trading;
- (b) Continue to acquire (targeted) additional stock and assets thus reducing operational costs through economies of scale; and/or
- (c) Take on additional, conducive, Council functions such as the management of Temporary Accommodation stock

Option A: Cease Trading

2.2 Cease trading and winding up of TorVista could, ultimately, save the Council the full £370k per annum that is currently being incurred on the operational running of the company. However, a number of factors would need to be considered and all would require the involvement of the Regulator of Social Housing:

- i. The existing stock would need to be sold / transferred to an alternative provider(s);
- ii. Any outstanding loans to Torbay Council will need to be factored into any sale / transfer of assets;
- iii. Any conditions surrounding the £1.9m of Homes England Grant, as secured against the 32 units, would need to be complied with to mitigate any risk of repayment;
- iv. There is no guarantee that there is a reliable market that would take on the existing TorVista stock on terms acceptable to the Council and this would need to be tested;
- v. The Council will lose the direct access it currently has to place clients through not maintaining any physical stock.

It is understood that as the Council is a 'Registered Provider' in its own right, then Homes England Grant funding can continue to be attracted for Council led initiatives without the need for a TorVista model. However, this will need to be formally tested and confirmed.

Option B: Maintain trading and continue to acquire new stock

- 2.3 For this option, the Council will need to continue to fund £223k per annum whilst work is undertaken to identify any potential further efficiencies. Consideration will need to be given to:
- i. The significant affordable housing shortages that are being faced in the Bay and the ability, if any, for TorVista to have a material impact on addressing affordable housing and social rented needs;
 - ii. Viability challenges that have been, and will be, faced due to increased construction costs and high interest rates;
 - iii. A more focussed housing development company focussing solely on specific council priority needs such as extra care housing, supported living, care leavers and key worker accommodation which is not currently addressed through the local market. Should this option of only targeting the direct delivery of specialist housing be pursued, the Council will need to recognise an on-going revenue cost of maintaining the company as the 'critical mass' required to break even will take decades to achieve.

Option C: Expand the remit / responsibilities of TorVista

- 2.4 There is limited opportunity under this option. An obvious correlation is the landlord and maintenance function of the recently acquired, and pending, temporary accommodation stock which has been commissioned through the Phi contract. There are currently 32x such properties which are either owned by the Council or currently in the pipeline. A short term contract of six months has been engaged for initial management. Whether utilising TorVista or not, the Council should avoid duplication through commissioning and operating two separate landlords for a combined stock of 64 properties.

Decisions regarding future options

- 2.5 Recommendations are made within this report for immediate action to be taken with regards to the current arrangements of TorVista Homes. Options detailed in this section of the report will require further work leading up to a separate Council decision(s) to be made in December 2023 and will need to involve the Regulator of Social Housing.
- 2.6 When considering these options, it is worth referring back to the anticipated benefits of creating TorVista such as providing the Council with direct access to affordable housing stock that should be flexible to be able to meet the most pressing need at the time the property becomes available. The Council will have very little opportunity to place vulnerable clients within other RP stock to meet specific needs.

- 2.7 Having a direct delivery vehicle gives the Council a partner/landlord to be involved in any brownfield regeneration project that may be accommodation led. This allows real time appraisals and viability assessments without the need to undertake formal procurement to select another partner.

3. Financial Opportunities and Implications

- 3.1 Doing nothing would result in additional costs being incurred by TorVista which, ultimately, would need to be met by Torbay Council. At the time of writing this report, there is an unfunded 'working capital' loan of £1.5m which has been exhausted, and needs to be funded, and continuing on-going costs of £370k per year being incurred which are currently unbudgeted. This report seeks a formal Council decision to address these costs and recommends future actions moving forwards.
- 3.2 The immediate recommendations within this report reduce the on-going financial liability to the council to £223k per annum and proposes options to further mitigate future costs.
- 3.3 TorVista has successfully accrued 32 housing units, with a value of £5.2m, and continue to develop the sites of Torre Marine and St Kilda. However, with the recommendation to cease any further development opportunities, there will be no additional funding source for the £1.5m Working Capital loan. As such, it is recommended that this loan is written off, to be funded through Council Reserves. The Council's Section 151 Officer has confirmed that there are sufficient (one off) reserves to meet these costs.
- 3.4 Moving forwards, the revised running costs of TorVista should be treated as a revenue cost to the council as opposed to extending the unfunded TorVista loan facility.

4. Legal Implications

- 4.1 Legal advice has been sought in developing the recommendations and options within this report. The Council would need to set up a 'Strategic Holding Company' for TorVista to move under (from the current arrangement of reporting into Torbay Economic Development Company)
- 4.2 A Board of Directors of TorVista would still need to be maintained as required by legislation.

5. Engagement and Consultation

- 5.1 Consultation has taken place with the Managing Director and Head of Finance for the Torbay Economic Development Company / TorVista when developing the recommendations within this report. Costing information has been shared and verified through this consultation.
- 5.2 Cabinet members and Directors have been fully engaged throughout the development of the options and recommendations within the report.

6. Tackling Climate Change

- 6.1 Energy efficiency is considered within the business cases for all Council led housing developments with strategic direction outlined within the Local Planning Framework.

7. Associated Risks

- 7.1 There is a potential reputational risk with Homes England with regards to managing any transition from existing arrangements to any alternative models decided by the Council.
- 7.2 There is a risk that, should the Council no longer wish to manage its own Housing Stock, there might not be a sufficient Registered Provider market to sell / transfer stock to.
- 7.3 There is a financial liability risk to the Council through doing nothing. There is an accrued, unfunded, working capital loan of £1.5m which needs resourcing with further on-going revenue costs being incurred.

8. Equality Impacts - Identify the potential positive and negative impacts on specific groups

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people		Should TorVista not continue to trade, the Council will lose influence on specific developments such as extra care.	

		Alternative delivery will be explored.	
People with caring Responsibilities			X
People with a disability		Should TorVista not continue to trade, the Council will lose influence on specific developments. Alternative delivery will be explored.	
Women or men			X
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			X
Religion or belief (including lack of belief)			X
People who are lesbian, gay or bisexual			X
People who are transgendered			X
People who are in a marriage or civil partnership			X
Women who are pregnant / on maternity leave			X
Socio-economic impacts (Including impact on child poverty issues and deprivation)	Consideration will need to be given as to how the Council can influence the local housing market to increase the delivery of affordable housing (including increasing the volume of social rent housing)		
Public Health impacts (How will your proposal impact on the general	Consideration will need to be given as to how the Council		

health of the population of Torbay)	can influence the local housing market to increase the delivery of affordable housing (including increasing the volume of social rent housing)		
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