

Briefing Paper

Council and Community Owned (CoCo) Housing

October 2011

Council and Community Owned (CoCo) Housing is a new option for social housing that is currently being considered by government, the national federation of ALMOs and by some local authorities. It may become the government's preferred model for future housing stock transfers. However, the first CoCo has yet to be established.

In June 2011 the National Federation of ALMOs published a report '*Building on the potential of ALMOs to invest in local communities*'. This report considered three options for the future of ALMOs of which the 'CoCo' was one. The report examined the viability and business case for each model concluding that ALMOs that require significant further investment to develop their communities would be most suited to the 'CoCo' option.

'CoCo' means a Community and Council-owned Organisation that is jointly-owned by the Council, tenants and independents and is set up to receive a transfer of housing stock from the Council.

With this option, the Arms Length Management Organisation would become a 'CoCo' and would take over the ownership of the Council's homes. The 'CoCo' would be jointly owned by the community (two thirds) and the Council (one third) so the Council would retain ownership of a third of the housing stock.

The Council would retain the housing debt that was agreed under the reform of the council housing funding system. The 'CoCo' would make payments from its income to cover that debt. This would mean that the new CoCo would still have strong financial ties with the Council.

Therefore, the 'CoCo' would not be a conventional stock transfer because the new body would retain a financial relationship with the Council. It would do this through a covenant to meet the council's interest and repayment obligations on its HRA loans.

The 'CoCo' model is intended to provide a much greater role for tenants in the running of their estates whilst being attractive to private lenders. However this option would require government approval before it could take place as under the current financial regime, ALMOs are unable to access private finance.

Rents would increase at the same rate as they would if the Council continued to manage the homes. Tenants would still be able to claim housing benefit from the Council in the same way.

Because the homes would no longer be owned by the Council, this option would allow the 'CoCo' to borrow more, outside the rules that restrict public sector borrowing. But - unlike a traditional stock transfer to a housing association - the Council and the 'CoCo' would have strong ongoing financial ties.

This option would represent significant change for the ALMO - but would potentially bring in additional funding especially for capital investment.

This is a new concept that, unlike traditional stock transfer has not yet been implemented anywhere in the country.

The key features of the 'CoCo' model include:

- The Council transfers its stock to the ALMO, which would be restructured into a Community and Council-owned Organisation (CoCo).
- The CoCo covenants (i.e. makes a binding agreement) to service the Council's housing debt (pay off the loans and interest as it falls due) that the Council retains after the stock transfer. This enables the CoCo to take advantage of the Council's borrowing rates and avoids the need for it to raise the money to repay that debt. Of course, the need to service the debt reduces the opportunity for the 'CoCo' to raise additional money itself.
- The 'CoCo' would service the Council's housing debt (pay off the loans and interest as it falls due), from its rental income.
- Unlike Council borrowing, the 'CoCo' borrowing would be classified as private sector borrowing, so it would not be subject to public sector borrowing restrictions imposed by the Government.
- In its business plan the 'CoCo' would aim through efficiencies to generate enough surplus rental income to borrow from a private lender to invest in the stock.
- The Council would have a financial relationship with the 'CoCo' through the covenant. It would retain an interest in the stock although it would not be able to interfere in the 'CoCo' operational work.
- The 'CoCo' would have the 'standard' ALMO current board composition (i.e. one-third Council board membership).
- General membership (i.e. ownership) of the 'CoCo' would change to include tenants and independents from the community with relevant expertise. There would be a one-third Council, two-thirds community (i.e. tenants and independents) split in ownership – or an even greater proportion of tenant board and general membership if this is preferred.
- The change in landlord (from Council to 'CoCo') means a tenant ballot would be required to demonstrate tenant support. Assuming the ALMO has been a successful organisation, tenants may feel reassured that the proposed transfer is to an organisation that they are familiar with (albeit with a change in its general membership).
- No (or very few) staff would transfer from the Council to the 'CoCo' because most, if not all, of the housing staff required to run the housing service were transferred to the ALMO when it was set up. Changing the governance structure of the ALMO into the 'CoCo' does not require a transfer of staff.

The proposals for self-financing in the housing revenue account that were originally put forward by the previous Labour government and which are now being implemented by the Conservative-led coalition government create a 'level playing field' between stock retention and stock transfer. This led to speculation that the government would take an initiative on stock transfer following the implementation of self-financing. It now appears likely that this initiative will be to promote the 'CoCo'.

The self-financed systems will include a 'borrowing cap' in the housing revenue account that will prevent authorities from borrowing money to meet the decent homes standard or to fund new build. A 'CoCo' would not be constrained by the borrowing cap.

Grant Shapps MP, the Housing Minister, represents Welwyn-Hatfield in Parliament. Welwyn-Hatfield Council, with the support of its local MP, recently established an ALMO even though it had not applied for ALMO funding. This could be seen as a first step towards establishing a 'CoCo'!

And another Conservative local authority, Gloucester City Council, has recently resolved 'that a Council and Community Owned (CoCo) model be adopted as the best option and that further work be undertaken with Government to establish, in detail, whether the necessary support for a CoCo would be given'. The 'CoCo' option is also under consideration at a number of other authorities of different political persuasions.

Whether the government would be prepared to give any additional financial support to an authority that establishes a 'CoCo' remains to be seen.

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