

Body: Cabinet

Date: 13th July 2016

Subject: Housing and Economic Development Programme - Acquisition of housing by Eastbourne Housing Investment Company Ltd

Report Of: Ian Fitzpatrick, Senior Head of Community

Ward(s) All

Purpose This report sets out proposals for the Council's recently established asset holding company (Eastbourne Housing Investment Co Ltd) to purchase residential properties to provide accommodation to assist the Council meet its strategic housing agenda.

Decision Type: Key decision.

Recommendations: **(1) To agree that the Council makes a loan facility available of up to £5m on market terms to Eastbourne Housing Investment Company Ltd (EHICL) for the purpose of enabling the company to purchase residential accommodation.**

(2) To delegate authority to the Snr Head of Community in consultation with the Cabinet Portfolio Holders for Community and Finance to agree the whole scheme lending parameters for purchases, to include types of property and financial viability.

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1.0 Background

- 1.1 In October 2014 Cabinet approved the establishment of a new asset holding company to help maintain progress on housing and economic development.
- 1.2 The Cabinet considered that setting up a new Asset Holding Company (AHC) would provide opportunities to sustain the Council's strategic housing aims including regeneration, economic development, and employment ambitions.
- 1.3 In approving the establishment of the new AHC Cabinet noted that this would create capacity to hold some of the Council's property portfolio in a separate vehicle and thereby differentiate between its general needs stock and other forms of housing and tenures. The AHC was incorporated as a wholly owned subsidiary of the Council on 1st May 2015 trading as Eastbourne Housing

Investment Company Ltd (EHICL).

- 1.4 The proposed purchase of a portfolio of residential property follows the arrangements envisaged in October 2014 in that EHICL would take direct ownership of property on completion using funds loaned by EBC.
- 1.5 As an asset holding vehicle EHICL was not granted delegated authority to undertake property purchases or carry out developments. Such authority remains with EBC via Cabinet approval.
- 1.6 This report seeks approval for a loan facility up to £5m for EHICL to allow the acquisition of individual residential properties.
- 1.7 The loan facility would allow EHICL to purchase properties on the open market and Council homes sold as part of the future High Value Assets disposal programme being introduced under the Housing and Planning Act.

2.0 Meeting Strategic Housing aims - Housing demand, temporary accommodation and quality

- 2.1 The Council has a statutory duty to provide advice and assistance to households in housing need. Over the past year the demand for accommodation has increased and placements in temporary accommodation have risen.
- 2.2 In addition to an increased demand for accommodation, officers report that it is becoming increasingly difficult to help households secure accommodation. Social housing (Council housing managed by Eastbourne Homes Ltd and housing managed by Registered Providers) is under significant pressure and locally the number of homes becoming vacant has reduced. In addition, officers report that the securing private rented accommodation is becoming significantly more difficult, particularly for those on benefits.
- 2.3 As noted above, the Council has a duty to provide advice and assistance to households that are facing housing difficulty. In certain circumstances this duty may extend to providing emergency or temporary accommodation. Recent changes to benefit regulation mean that the Council is unable to recover all of the costs of arranging accommodation for households that are placed in emergency accommodation.
- 2.4 The purchase of suitable residential properties by EHICL for rental (at market levels) will help assist households to secure accommodation and reduce costs to the Council's housing team by providing throughput to suitable rented accommodation.
- 2.5 Housing provided by EHICL will also assist the Council meet its wider economic and regeneration aims by ensuring that accommodation is kept in good condition. In addition, in certain circumstances it may support the purchase of accommodation in areas of deprivation or decline requiring investment through cross subsidy within the wider company property portfolio.

3.0 Viability for residential property purchases

- 3.1 Modelling has been completed on a series of theoretical properties to assess the viability of purchases. This has been done across a range of property types and values using Local Housing Allowance (LHA) for the area as a rental benchmark.

3.2 Property viability has been financially appraised using the following assumptions:

- To model acquisitions, and for simplicity, all capital costs have been assumed in Year 1.
- Long term interest rate at 4.5%
- Management fee allowance £350 per unit per annum
- Maintenance allowance of £450 per unit per annum
- Two week void and bad debt allowance
- Rental income from the residential units at Local Housing Allowance levels

3.3 Each prospective acquisition will be assessed as a stand-alone project i.e. it is not reliant on any other financial factors such as grant. The following provides an example of a purchase:

2 bedroom flat	
Purchase price	£95,000
Works and purchase costs (Stamp duty/Legal/fees etc)	£5,000
Total Purchase cost	£100,000
Interest on loan @ 4.5%	£4,500
Management/ Maintenance	£800
Voids & bad debts	£300
Total rent (using guide Local Housing Allowance (LHA) rate of £151pw)	£7,852
Annual Surplus	£2,252

3.4 Using the above example, EHICL would make a surplus of £2,252 per annum on the purchase. At this stage, this report seeks approval for a maximum loan facility of £5m which would allow purchase of circa 30-40 properties.

6.0 Key Risks

6.1 Under this proposal the Council would lend EHICL funds to purchase properties within set parameters to be defined by the Council as set out with the report recommendation. The Council's key risk relates to EHICL's ability to meet the loan payment.

6.2 Key risk for EHICL include:

- a) Rent collection
- b) Ability to let properties
- c) Management operating within the viability assumptions – i.e. repairs level, bad debt, and management costs as assumed

6.3 As noted above, demand for accommodation is strong. Rent levels, management and maintenance and void times will be set using local knowledge and experience obtained in managing the Council's housing stock. Each risk will be fully assessed as part of the finalisation of the lending parameters.

7.0 Staffing and resources

7.1 There are no staff implications. Acquisition and future management of property will be within current resources. A fee is built into the financial modelling to meet management costs.

8.0 Environmental, Community Safety, Human Rights, Youth, Anti-Poverty.

8.1 Acquisition of properties will give the Council greater ability to deliver its wider role of community wellbeing and promote a supply of good quality well managed accommodation. It will help address the low wage economy and the wider economy by encouraging investment in new businesses, homes and the environment.

9.0 Legal

9.1 The proposal is that the Council makes a loan to the company so that the company can make the purchase of suitable properties direct. Section 1 of the Localism Act 2011 (the general power of competence) is sufficient to allow the Council to make such a loan. However, such loan must be made on market terms and comply with the Market Economy Investor Principle so as not to infringe State Aid Rules. (The Market Economy Principle is more fully explained in the Cabinet report dated 22 October 2014. Para 4.4.8)

9.2 In the same way that the Council has to resolve to make a loan, then the company, as a separate legal entity and acting through its Board of Directors, will need to resolve to take the loan and to use it to purchase properties. There will need to be a loan agreement between the Council and the company formalising the terms of the advance and repayment of funds.

9.3 Should suitable vacant properties be identified from within the Council housing stock for sale as part of disposal under the High Value Asset programme, approval to sell to EHICL would require Secretary of State approval.

10.0 Financial Implication

10.1 Loans to EHICL are secured on the assets acquired and are at a commercial rate. This considerably exceeds the rates available to the Council in respect of cash deposits and benchmark PWLB rates.

10.2 Robust appraisals in respect of the company's individual asset purchases and continuous monitoring of demand for housing need is essential to mitigate voids and/or capital losses.

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