

## Report to Cabinet

Cabinet Meeting 23<sup>rd</sup> July 2020

By the Cabinet Member for Community Matters and Wellbeing

### DECISION REQUIRED



Not Exempt

## Approval of Business Cases for Horsham District Homes for affordable homes in Spring Lane, Slinfold

### Executive Summary

On 21<sup>st</sup> March 2019, Cabinet approved the creation of two companies for the purpose of providing affordable rental housing in the District. Horsham District Homes Limited (HDH), which will undertake development and Horsham District Homes (Holdings) Limited (HDHH) which manages and owns the completed properties.

Horsham District Council is the sole shareholder of HDH. The shareholder agreement for HDH reserves certain matters for Cabinet approval, including the approval of business cases for projects and approval of any loans to be made by the Council to the companies.

The Directors of HDH have prepared a business case setting out an opportunity they wish to pursue, which requires the approval of Cabinet. The opportunity consist of the purchase of four flats being developed by a third party developer in Spring Lane, Slinfold. The details of the transaction are set out in the body of this report and in appendix 1. A summary of the financials is set out below:

Purchase consideration for four flats*	£560,000
Acquisition fees	£ 20,000
Gross purchase price	£580,000
Net rental income	c£26,925
Yield	4.6%
Market value of the homes	£865,000
Ratio of transfer value to market value	65%

\*to be financed with s106 commuted sums

The properties being purchased are the affordable housing allocation for the Spring Lane development. The properties were widely marketed but are not of interest to the registered provider sector because this is a small lot size. If HDHH does not buy the property the developer will most likely apply for shared ownership use, meaning that the property is lost to the affordable rental market.

Cabinet is recommended to approve the business cases in accordance with the shareholder agreement and for the purchase to be financed with s106 commuted funds which are provided by developers of other sites for the delivery of affordable housing.

## **Recommendations**

That the Cabinet is recommended:

- i) To approve the business case for the purchase of the affordable rental homes in Slinfold by Horsham District Homes (Holdings).
- ii) To recommend to Council the transfer of s106 funds to Horsham District Homes (Holdings) for the purchase of the homes.

## **Reasons for Recommendations**

Approval of the recommendations will deliver four affordable rental homes for the benefit of households on the housing list.

## **Appendix 1**

Business case for the acquisition of four affordable homes at Spring Lane, Slinfold

## **Background Papers**

Business case

**Wards affected:** All

**Contact:** Brian Elliott: Head of Property and Facilities 01403 215328

NB Brian Elliott has been appointed by the Council as a Director of HDH and HDHH

## **Background Information**

### **1 Introduction and Background**

- 1.1 Horsham District Homes Limited (HDH) is a company owned and controlled by Horsham District Council which has been established for the purpose of delivering affordable rented accommodation in Horsham District. The objectives of the company, as detailed in the business case, are to (a) increase delivery of affordable housing (b) make the best use of s106 Commuted Sums and (c) provide a financial return to the Council to reinvest in the District. The proposed purchase meets these criteria.
- 1.2 The Shareholders Agreement for HDH set out a number of shareholder consents, which are used to control the activities of HDH. These consents include the approval of business cases for projects to be delivered by HDH and the approval of s106 grant funding.
- 1.3 The directors of HDH are seeking Cabinet approval to undertake the purchase as detailed in the business case set out in Appendix 1 and the purpose of this report is to recommend consent to this proposal.

### **2 Relevant Council policy**

- 2.1 The 2019 to 2023 Corporate Plan sets out the Council's strategic objectives and includes creating great places for people to live and work and creating a strong safe and healthy community. Paragraph 3.2.2 of the corporate plan states the objective of using the Council's affordable housing company to build affordable homes in areas of high demand.

### **3 Details**

- 3.1 The details of the proposal are set out in Appendix 1.
- 3.2 The business case for the establishment of HDH focused on direct development as the primary delivery mechanism for affordable housing on low cost/no cost land owned by the Council. The business case also referenced that opportunities may arise for HDH to purchase affordable rental housing from developers, where these homes are not of interest to registered providers, which is the case at Spring Lane Slinfold. The original business case for HDH included financial illustrations that suggested a yield of 5% on net rental income and a transfer value of c55% of open market value. These were optimum targets and returns will vary between projects and over time. It is therefore to be expected that transactions may deliver higher or lower returns depending on the circumstances and it may be that 4.5% is a more realistic target in today's low interest rate environment. The level of return for this purchase is 4.6% net of management costs, which is considered reasonable and appropriate.
- 3.3 The opportunity at Spring Lane is a purchase of a property to be developed by a developer as part of their on site s106 obligations. The financial details of the acquisition are set out below

- 3.4 **Spring Lane, Slinfold.** The opportunity at Spring Lane is for HDHH to acquire from a developer four 1 bedroom flats. The original business case for creating the companies anticipated this type of opportunity. The driver for the proposal is that this is a small block of flats that form part of the affordable housing allocation for the Spring Lane scheme. Three of the homes are allocated as affordable rental and one as shared ownership. HDHH will only use the properties for affordable rental. The opportunity was offered to the Registered Provider market but is not of interest to that sector because it is a small development. If HDHH does not purchase the property, it is likely that the developer will seek a change of use of all of the properties to shared ownership, which would deliver a higher return to the developer and would mean that the property is lost to the affordable rental sector and unavailable to households on the Council's housing list.
- 3.5 As the property is being developed by a third party developer there is no development risk. It is therefore intended to transfer the asset directly into HDHH limited as a completed property.
- 3.6 The agreed purchase price for the property is £560,000, which gross of acquisition fees will be c£580,000. The Local Housing Allowance rate for a one-bedroom unit is £172.59 per week, or £8,975 per annum. The total rent for all four units, net of management costs, is £26,925 per annum, which represents a yield of 4.6% on purchase costs and a transfer value of c65% of market value.
- 3.7 The unrestricted market value of the flats is £865,000, equivalent to £215,000 per unit. The purchase price of £560,000 equates to £140,000 per unit.
- 3.8 As at 1<sup>st</sup> July 2020, there are 722 households on the housing list. Of these, 137 have highlighted Slinfold as an area of choice for permanent accommodation, including 64 households who are seeking one bedroom accommodation. Therefore there is a clear demand for these type of properties.
- 3.9 All properties will be developed to a minimum B Energy Performance Certificate (EPC) rating. At a national level 81% of new homes achieve an EPC B rating (just 1% are A rating) and B rated homes comprise just 2% of the existing housing stock at a national level.

## **4 Next Steps**

- 4.1 To proceed to legal formalities. The properties will be developed over the coming year and are expected to be available for occupation in November 2021.

## **5 Views of the Policy Development Advisory Group and Outcome of Consultations**

- 5.1 The proposal has been considered by the Community and Culture PDAG and member's comments have been incorporated in this report.
- 5.2 The Council's Chief Finance Officer and Monitoring Officer were consulted. These officers do not have roles within either housing company.

## **6 Other Courses of Action Considered but Rejected**

6.1 Not applicable

## **7 Resource Consequences**

7.1 The purchase will be funded through s106 commuted sums. Housing services will manage the units, paid for by HDH through the resourcing contract with the Council.

7.2 The Council may also benefit in the future from dividend payments once the housing companies have grown sufficiently to generate dividend payments. This is likely to be towards the end of the current medium term financial plan.

## **8 Legal Consequences**

8.1 The Council has incorporated an affordable housing company and the reserved matters are included in the shareholder agreement.

8.2 Section 95 of the Local Government Act 2003 authorises the Council to do for a commercial purpose anything which it is authorised to do for carrying on any of its ordinary functions.

8.3 Section 1(1) of the Localism Act 2011 introduced the “general power of competence” for local authorities, defined as “the power to do anything that individuals generally may do” and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area.

8.4 Section 4(2) of the Localism Act 2011 provides that where, in exercise of the general power, a local authority does things for a commercial purpose the authority must do them through a company.

8.5 Section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any other of its functions, whether involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.

8.6 Section 17 of the Housing Act 1985 empowers the Council to acquire land as a site for erection of houses or to acquire houses, or buildings which may be made suitable as houses, together with any land occupied with the land or buildings.

## **9 Risk Assessment**

9.1 Normal risks associated with property development including budgets being exceeded and programme not being met. These will be mitigated by the employment of suitably qualified external professionals and procurement of contractors through the normal procurement processes.

## **10 Other Considerations**

10.1 None